

Audit and Pensions Committee

Agenda

Thursday 22 September 2011

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

Administration:	Opposition	Co-optees
Councillor Michael Adam (Chairman) Councillor Nicholas Botterill Councillor Marcus Ginn Councillor Robert Iggulden	Councillor Michael Cartwright (Vice-Chairman) Councillor PJ Murphy	Eugenie White

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<http://www.lbhf.gov.uk/Directory/Council and Democracy>

Members of the public are welcome to attend. A loop system for hearing impairment is provided, along with disabled access to the building.

Date Issued: 14 September 2011

Audit and Pensions Committee Agenda

22 September 2011

<u>Item</u>		<u>Pages</u>
1. MINUTES OF THE PREVIOUS MEETING		1 - 11
	(a) To approve as an accurate record and the Chairman to sign the minutes of the meeting of the Pension and Audit Committee	
	(b) To note the outstanding actions.	
2. APOLOGIES FOR ABSENCE		
3. DECLARATIONS OF INTEREST		
	If a Councillor has any prejudicial or personal interest in a particular item, they should declare the existence and nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.	
	At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a prejudicial interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken, unless a dispensation has been obtained from the Standards Committee.	
	Where Members of the public are not allowed to be in attendance, then the Councillor with a prejudicial interest should withdraw from the meeting whilst the matter is under consideration unless the disability has been removed by the Standards Committee.	
4. PENSION VALUE AND INVESTMENT PERFORMANCE		12 - 29
	This report prepared by P-Solve, provides details of the performance and the market value of the Council's pension fund investments for the quarter ending 30 th June 2011.	
5. TREASURY MANAGEMENT UPDATE		30 - 38
	This report provides information on the Council's debt, borrowing and investment activity for the financial year ending 31 st March 2011	
6. LONDON BOROUGH OF HAMMERSMITH AND FULHAM STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND FOR 2010/11		39 - 90
	This report gives a brief review of the Council's annual Statement of Accounts and the Council's Pension Fund Accounts for 2010/11. It also provides an overview of the issues arising from the audit of the accounts prior to the publication of the Audit Commission's formal opinion on those accounts. These issues are identified in the Audit Commission's Annual Governance Reports 2010/11, which are attached, with the	

revised Statement of Accounts, which will follow.

- 7. ANNUAL GOVERNANCE STATEMENT** 91 - 99

This report contains the Council's Annual Governance Statement 2011.
- 8. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT** 100 - 106

This report updates the Committee of the risks, controls, assurances and management action orientated to manage organisational level risks.
- 9. H & F DIRECT LEAN PATHFINDER PROJECT** 107 - 111

At its meeting on the 30th June 2011, the Committee discussed the performance of the Housing Benefit Service. This report updates the Committee on the H & F Direct Lean Pathfinder Project, which aims to apply Lean Systems principles to the Service.
- 10. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL TO 30 JUNE 2011** 112 - 123

This report summarises internal audit activity in respect of audit reports issued during the period to 30 June 2011, as well as reporting on the performance of the Internal Audit service.
- 11. EXCLUSION OF THE PUBLIC AND PRESS**

The Committee is invited to resolve, 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 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.
- 12. EXEMPT MINUTES OF THE MEETING HELD ON 30 JUNE 2011**

Agenda Item 1



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 17th 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

Minutes are subject to confirmation at the next meeting as a correct record of the proceedings and any amendments arising will be recorded in the minutes of that subsequent meeting.

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 17th 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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AUDIT AND PENSIONS COMMITTEE

22nd September 2011

CONTRIBUTORS

PENSION FUND VALUE AND INVESTMENT PERFORMANCE

**WARDS
All**

DF

This report prepared by P-Solve, provides details of the performance and the market value of the Council's pension fund investments for the quarter ending 30th June 2011.

RECOMMENDATION:

1. To note the report.

**LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS**

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	P-Solve quarterly fund manager reports	P.Gough Extn 2542	FCS, Room 42, Town Hall



London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 2 2011

August 2011



CAMRADATA
Pension Reporting

Summary

The assets of the Scheme are considered in terms of four equally weighted sections: UK Equities, Overseas Equities, Dynamic Asset Allocation Mandates and the Matching Fund.

The UK Equities are managed by Majedie and the Overseas Equities by MFS. There are two Dynamic Asset Allocation managers, Barings and Ruffer, managing three quarters and one quarter of this section respectively. The Matching Fund is split equally between a global bond mandate managed by Goldman Sachs and a Liability Driven Investment (LDI) fund managed by Legal & General. With the exception of the LDI fund, all others are actively managed by fund managers who aim to meet or exceed their stated benchmark.

Liability Benchmark (LB)

To match the predicted growth in the liabilities, the Total Fund return needs to meet a return equivalent to the Liability Benchmark plus 1.75% p.a. (net of fees). The Total Fund strategy aims to exceed this and targets a return 2.5% p.a. (net of fees) in excess of the Liability Benchmark. Within this, the Matching Fund is targeting a return of 1% p.a. in excess of the Liability Benchmark.

The liabilities move in accordance with changes in relevant gilt yields. For this reason, the benchmark used to measure the estimated movement in liabilities, the "Liability Benchmark" is calculated based on the movement of a selection of Index-Linked gilts, in the following proportions:

27% Index-linked Treasury Stock 2½% 2024, 63% Index-linked Treasury Gilt 1¼% 2027, 10% Index-linked Treasury Gilt 1¼% 2055

This Liability Benchmark was last reviewed in September 2008.

Manager Benchmarks

Each Investment Manager has a benchmark which they are monitored against on an ongoing basis. These are:

Majedie	<i>FTSE All Share + 2% p.a. over three year rolling periods</i>
MFS	<i>FTSE World ex UK + 2% p.a. over three year rolling periods</i>
Barings	<i>3 month Sterling LIBOR + 4% p.a.</i>
Ruffer	<i>3 month Sterling LIBOR + 4% p.a.</i>
Goldman Sachs	<i>3 month Sterling LIBOR + 2% p.a.</i>
Legal & General	<i>2 x FTSE + 15yr Index Linked Gilts - LIBOR p.a.</i>

Private Equity

Additionally, the Panel has agreed to invest up to £15 million in four private equity fund of funds. Two managed by Invesco, which has approximately 75% invested in the United States and 25% in Europe, and the other two by Unigestion which is invested almost entirely in Europe.

Breakdown of Scheme Performance by Manager as at 30th June 2011

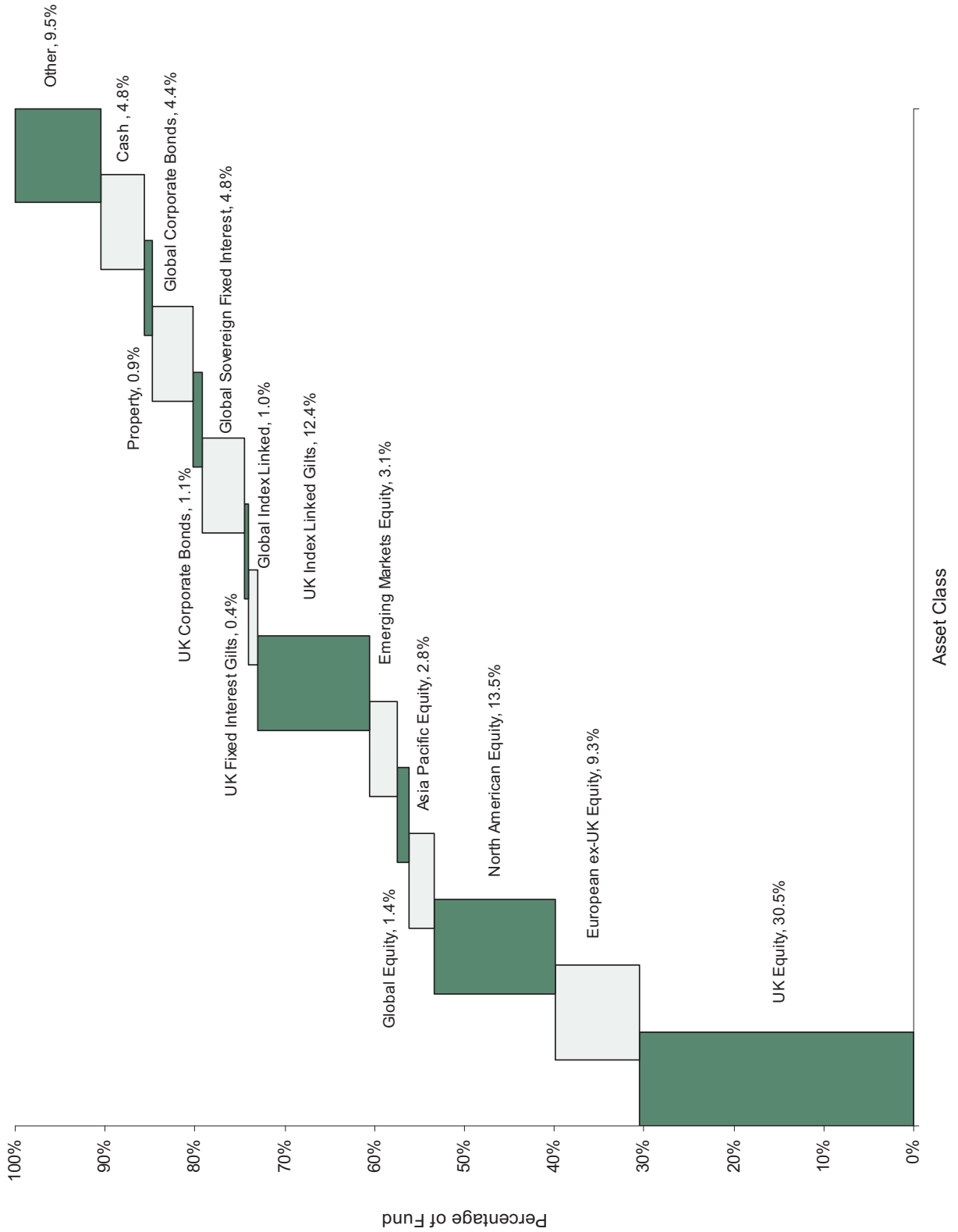
Fund Manager	Market Value (£000)	% of Total Fund	Target % of Total Fund	3 month return (%)	1 year return (%)	2 year return (%) p.a.	3 year return (%) p.a.
Total Fund	594,581	100.0	100.0	2.3	16.2	16.7	10.2
<i>Liability Benchmark + 1.75% p.a.</i>				4.1	10.8	11.1	3.9
<i>Difference</i>				(1.8)	5.4	5.6	6.3
UK Equities	159,060	26.8	25.0				
Majedie				2.3	24.2	21.4	11.0
<i>FTSE All Share + 2% p.a.</i>				2.4	28.1	25.8	8.7
<i>Difference</i>				(0.1)	(3.9)	(4.4)	2.3
Overseas Equities	160,836	27.1	25.0				
MFS				2.7	22.9	24.7	13.4
<i>FTSE World ex UK + 2% p.a.</i>				0.9	21.6	23.6	10.8
<i>Difference</i>				1.8	1.3	1.1	2.6
Dynamic Asset Allocation Mandates	148,374	25.0	25.0	1.2	10.8	14.3	-
Barings (note 2)	110,201	18.5	18.8	1.2	11.4	13.9	-
<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	4.8	4.8	-
<i>Difference</i>				0.0	6.6	9.1	-
Ruffer (note 2)	38,173	6.4	6.2	1.1	9.0	15.5	-
<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	4.8	4.8	-
<i>Difference</i>				(0.1)	4.2	10.7	-
Matching Fund	126,311	21.2	25.0	2.9	6.4	6.2	-
<i>Liability Benchmark + 1% p.a.</i>				3.9	10.0	10.3	-
<i>Difference</i>				(1.0)	(3.6)	(4.1)	-
Goldman Sachs	59,102	9.9	12.5	(0.3)	1.7	4.0	1.7
<i>3 month Sterling LIBOR + 2% p.a.</i>				0.7	2.8	2.7	0.0
<i>Difference</i>				(1.0)	(1.1)	1.3	1.7
Legal & General (note 3)	67,209	11.3	12.5	5.9	10.9	8.2	6.0
<i>2 x FTSE + 15yr IL Gilts - LIBOR p.a.</i>				9.6	19.2	14.8	4.0
<i>Difference</i>				(3.7)	(8.3)	(6.6)	2.0

Notes:

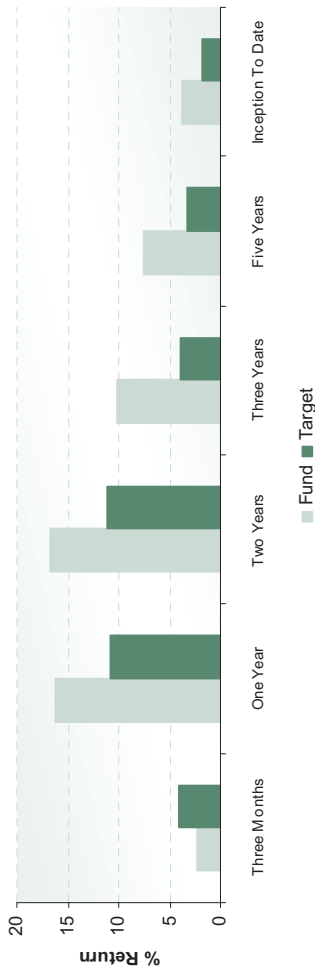
- 1) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.
- 2) Performance for Ruffer and Barings is for less than 3 years. Date of inception for Ruffer is 7th August 2008. Date of inception for Barings is 19th August 2008.
- 3) At the time of reporting, the Legal & General mandate consisted of index-linked gilts, the first step of the new LDI mandate. The longer term benchmark consists of a blend of benchmarks, reflective of Legal & General's previous holdings.
- 4) Two year fund and benchmark returns are calculated as the geometric average of the year to 30 June 2010 and year to 30 June 2011 figures as published by Northern Trust.

Fund	Manager	Closing Market Value as at 31st March 2011 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 30th June 2011 £000	% of Total Fund	Target % of Total Fund
Total Fund		581,414	100	(22)	10,419	2,770	(22)	594,581	100.0	100.0
UK Equities	Majedie	155,429	26.7	-	2,388	1,243	-	159,060	26.8	25.0
Overseas Equities	MFS	156,583	26.9	(22)	2,985	1,290	(22)	160,836	27.1	25.0
Dynamic Asset Allocation Mandates		146,646	25.2	-	1,491	237	-	148,374	25.0	25.0
	Barings	108,900	18.7	-	1,274	27	-	110,201	18.5	18.75
	Ruffer	37,746	6.5	-	217	210	-	38,173	6.4	6.25
Matching Fund		122,756	21.1	-	3,555	-	-	126,311	21.2	25.0
	Goldman Sachs	59,262	10.2	-	(160)	0	-	59,102	9.9	12.5
	Legal & General	63,494	10.9	-	3,715	-	-	67,209	11.3	12.5

Asset Class Breakdown as at 30 June 2011



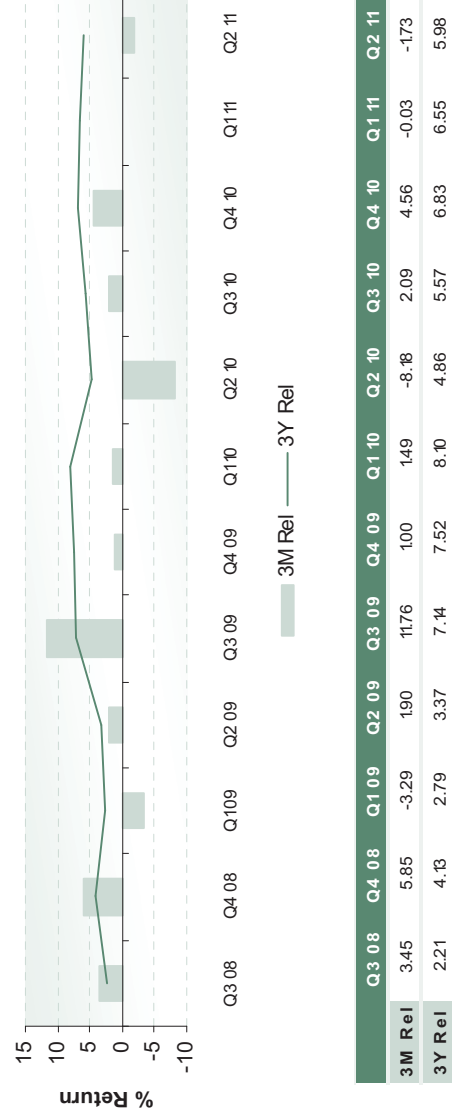
Historical Plan Performance



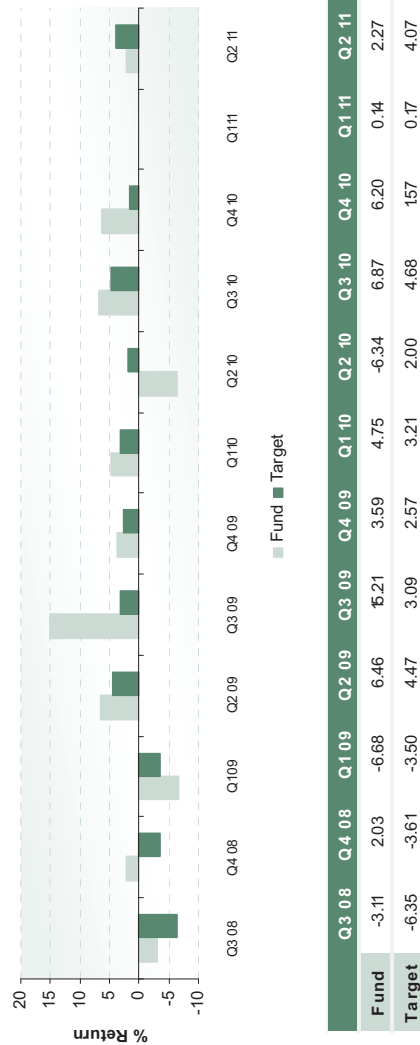
	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
Fund	2.27	6.24	6.67	10.16	7.51	3.76
Target	4.07	10.83	11.07	3.94	3.35	1.81

The Fund underperformed its liability benchmark by 1.80% over the quarter, returning 2.27% compared to the target of 4.07%. The relative underperformance was driven, in the main, by sluggish performance of the Dynamic Asset Allocation group and the negative performance of the Goldman Sachs portfolio. The Fund's performance of 16.24% over the year was ahead of its target by 5.41%, as it was boosted by strong global equity returns over the period. Overall the Fund has performed well over all longer periods.

Three Years Rolling Relative Returns



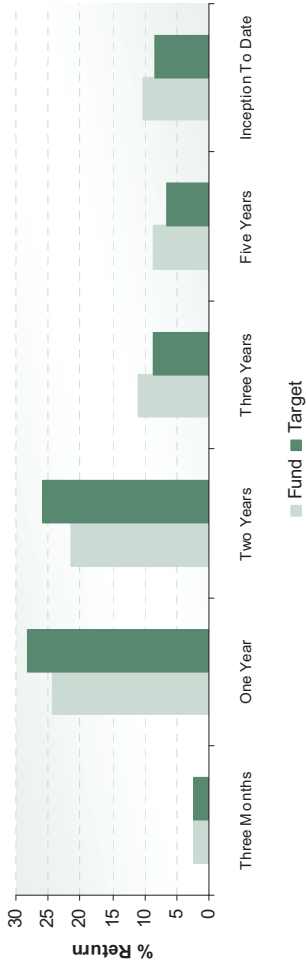
Three Years Rolling Quarterly Returns



Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

Majedie are a small boutique specialist active UK Equity manager with a flexible investment approach. Their approach to investment is mainly as stock pickers. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

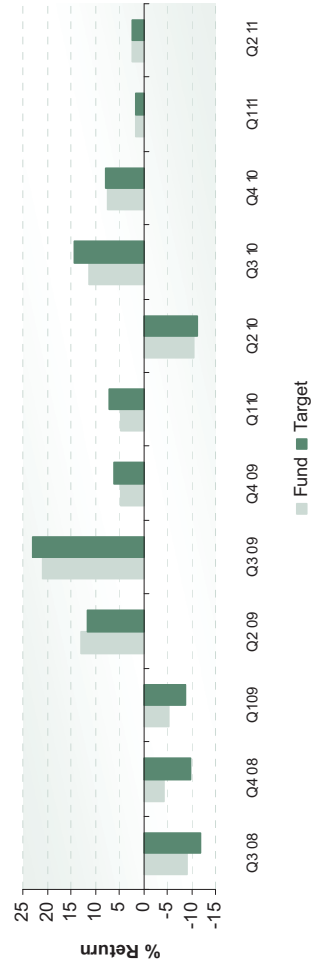
Historical Plan Performance



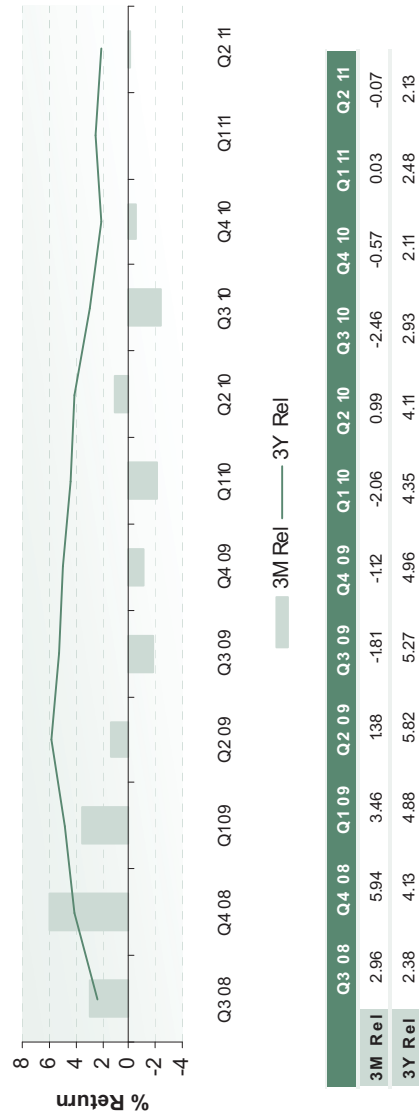
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 2.34% over the quarter, 0.07% behind its target. Over 12 months, the portfolio was 3.91% below its target. The portfolio's long position in the pharmaceutical shares GlaxoSmithKline, buoyed by good progress on its new drug pipeline and regulatory approval of world beating drugs, and Sanofi, boosted by the buy-out of its US competitor Genzyme, aided performance over the quarter. The short positions on Land Securities, who announced stronger than expected growth, and Aggreko, who supply temporary large power generation equipment and saw a strengthening share price in the wake of the Japanese earthquake, were detrimental to overall performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



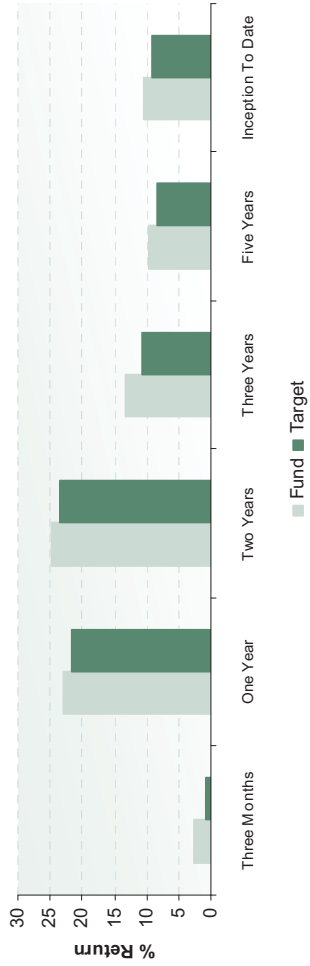
Three Years Rolling Relative Returns



Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

MFS are owned by Sun Life Financial based in Boston. Their investment philosophy is to select the best investment opportunities across regions and sectors. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

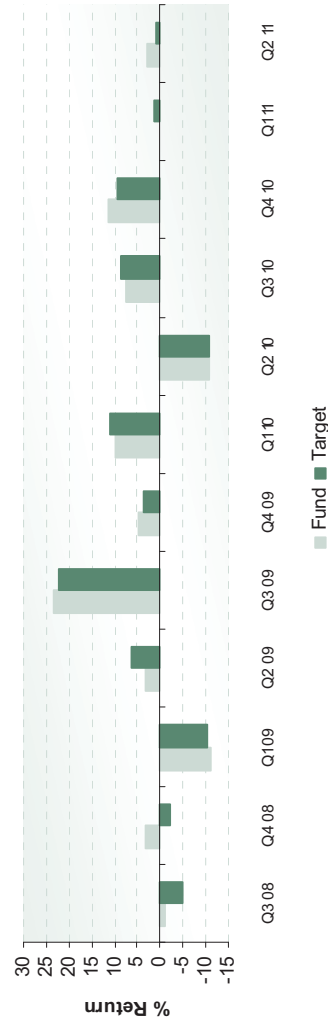
Historical Plan Performance



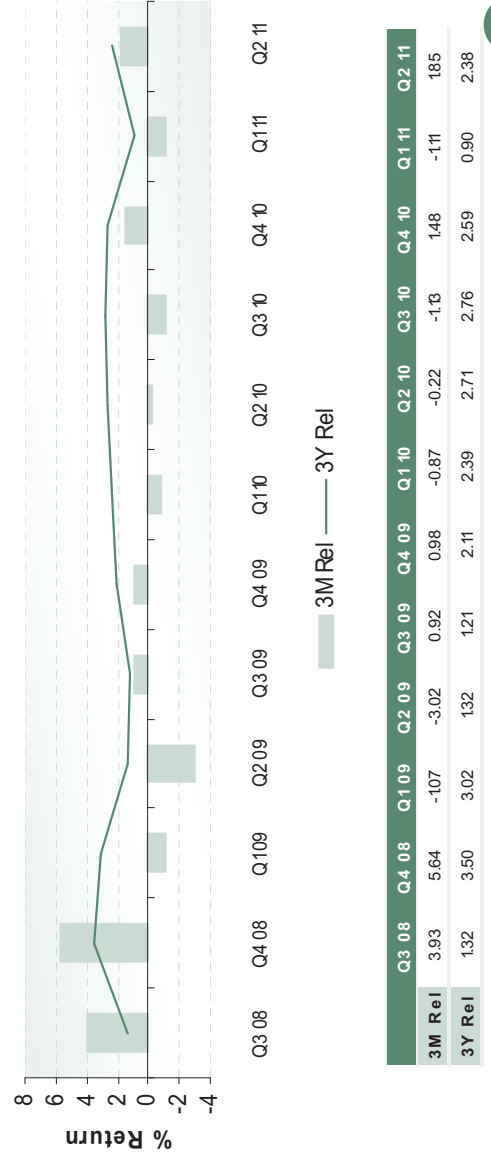
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The performance over the quarter was 2.73%, 1.87% ahead of the target. Over 12 months, the fund was 1.29% ahead of its target. Stock selection in basic materials and industrial goods & services we well was stock selection and overweight holdings in health care and consumer staples aided performance as did individual stock holdings in LVMH, Nike, Inditex and Lojas Renner. Stock selection in financial services and leisure as well as underweight positions in autos & housing and leisure was detrimental to performance. Individual holdings of ASML Holdings, Li & Fung, Hess and Inpex also detracted from performance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns

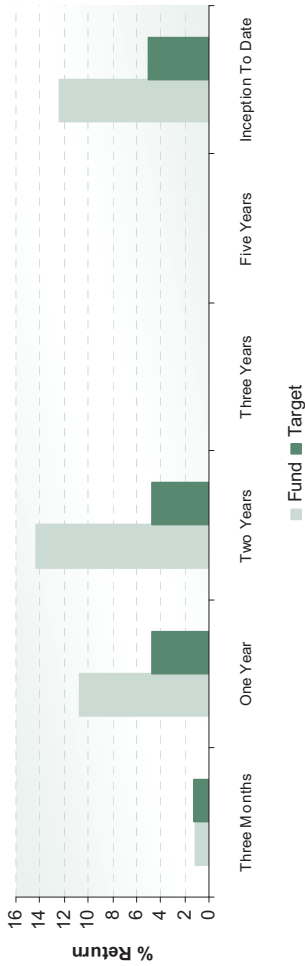


Three Years Rolling Relative Returns



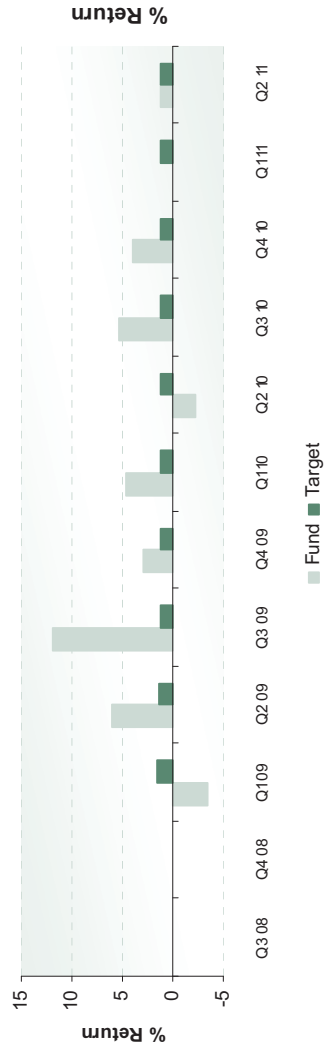
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
Fund	1.8	10.77	14.29	-	-	12.39
Target	1.9	4.80	4.75	-	-	4.96

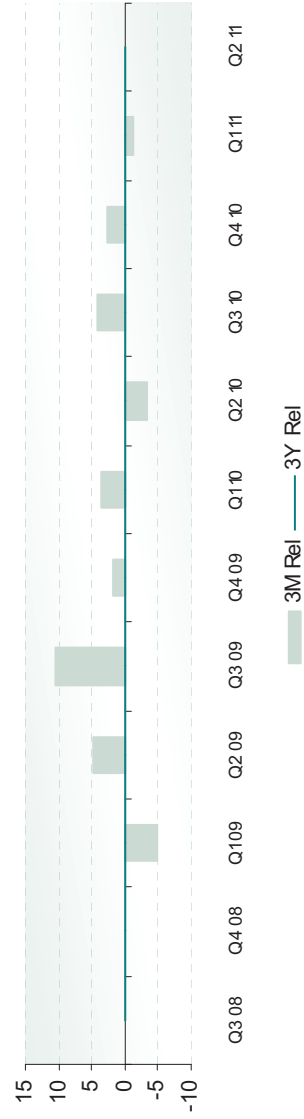
Three Years Rolling Quarterly Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Fund	-	-	-3.38	6.10	1182	2.99	4.73	-2.22	5.32	3.94	0.01	1.8
Target	-	-	150	133	119	14	14	16	17	17	18	18

The performance of the group over the quarter was 1.18%, the LIBOR-based target returned 1.19%, Ruffer underperformed the target whereas Barings performed in-line with the target. Over the past 12 months, performance has been 5.97% above target, as both managers (particularly Barings) have outperformed the target.

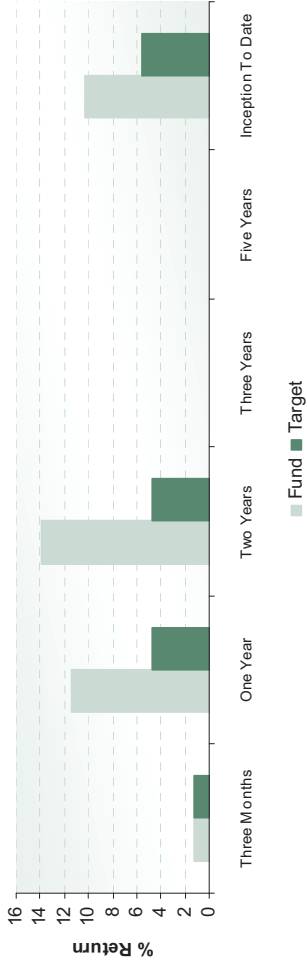
Three Years Rolling Relative Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
3M Rel	-	-	-4.81	4.71	10.51	183	3.54	-3.34	4.10	2.74	-1.16	-0.01
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

Barings are a large UK based investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
Fund	1.19	4.80	13.88	-	-	10.26
Target	1.19	4.75	4.75	-	-	5.52

Quarterly Manager update

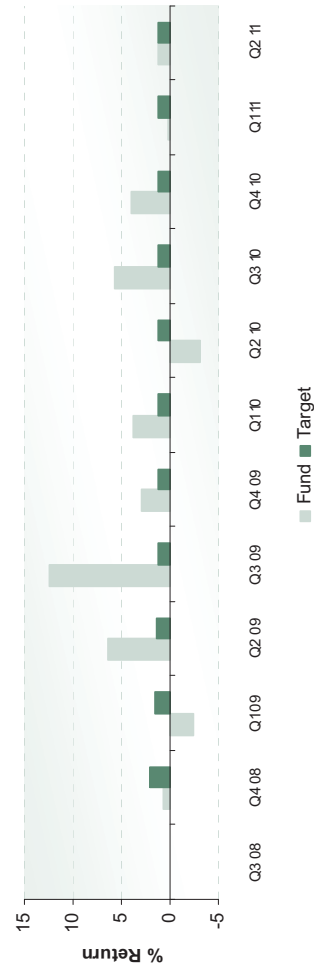
Organisation No significant changes over the quarter.

Product Toby Nangle and James Codrington, both members of the DAA team, have decided to leave. Barings plan to replace them with three senior hires, to facilitate an overall expansion of the multi-asset team. P-Solve believe that there is no action required at this time. The team members have a notice period of 6 months and P-Solve will work closely with Barings to ensure they are comfortable with the ongoing strength of the DAA team. The two key decision makers, Percival Stanion and Andrew Cole, will remain in place supported by 4 other portfolio managers and 3 analysts.

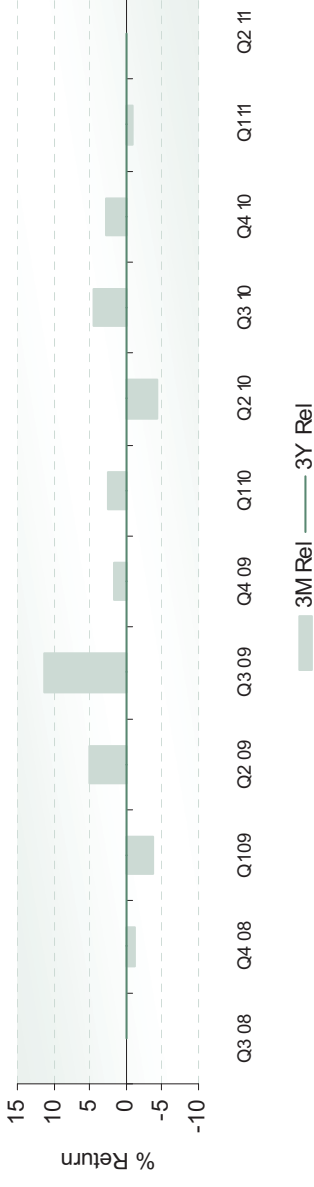
Performance The fund performance was 1.19% over the quarter, in-line with its target. Over 12 months, the fund is 6.59% ahead of target. The biggest contribution over the quarter came from foreign government bonds, mainly in Australia and the US. The portfolios direct gold exposure also benefitted performance. Stock selection in UK equities and the portfolio's general overseas equity exposure negated some of the gains made.

Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns

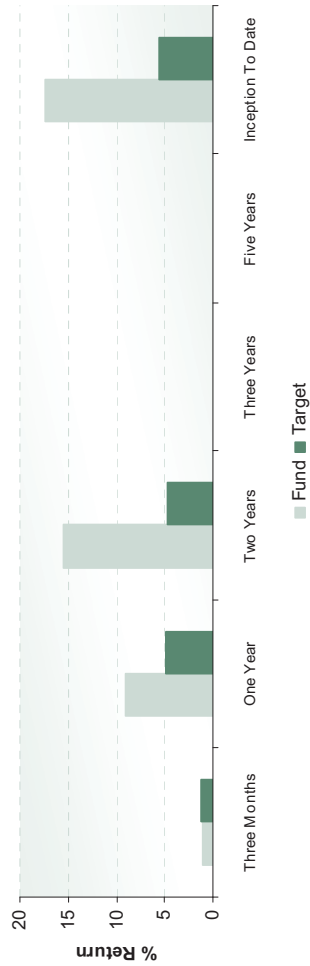


	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Fund	-	0.67	-2.42	6.42	12.50	2.94	3.77	-3.12	5.73	3.88	0.22	1.8
Target	-	2.01	1.50	1.33	1.9	1.4	1.14	1.6	1.7	1.7	1.8	1.8

Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

Ruffer are a small boutique investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

Historical Plan Performance

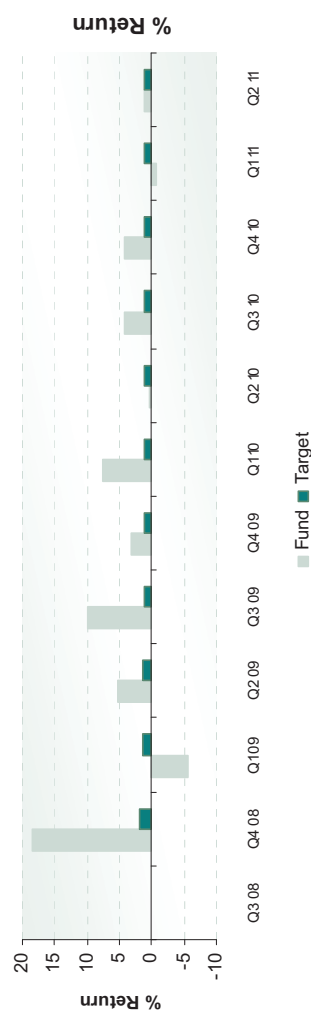


	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
Fund	1.3	8.96	15.48	-	-	17.33
Target	1.9	4.80	4.75	-	-	5.52

Quarterly Manager update

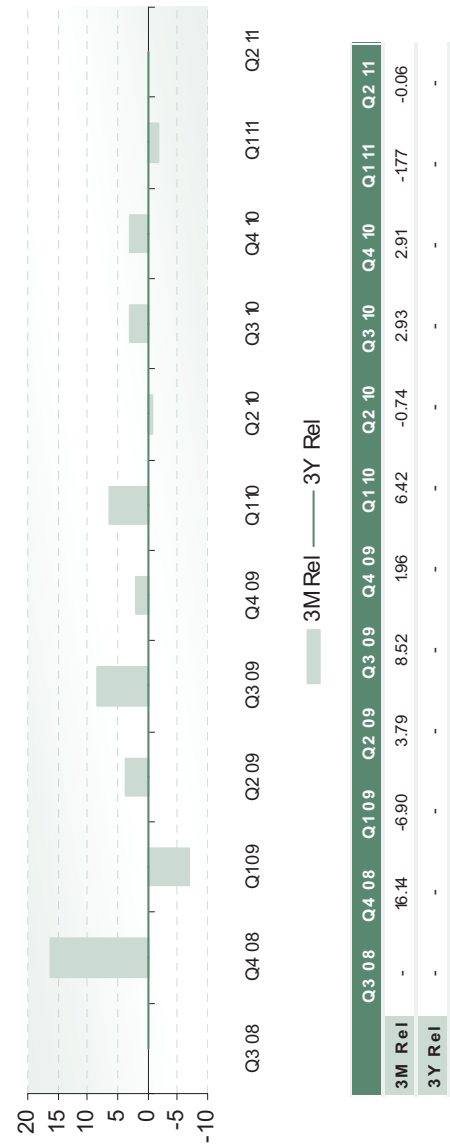
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 1.13% over the quarter, 0.06% behind its target. Over 12 months, the fund was 4.16% ahead of target. Performance was harmed by gold equities, falling on the back of rising energy costs despite continually increasing gold prices. Put warrants, held in anticipation of sharp equity drop offs, and the portfolios holding in Sony, who suffered from a hacking attack, were also detrimental to performance. However, this was in part offset by the holding in index-linked bonds, aiding by the rising expectations of future inflation, and developed market defensive equities, as risk-appetite waned.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



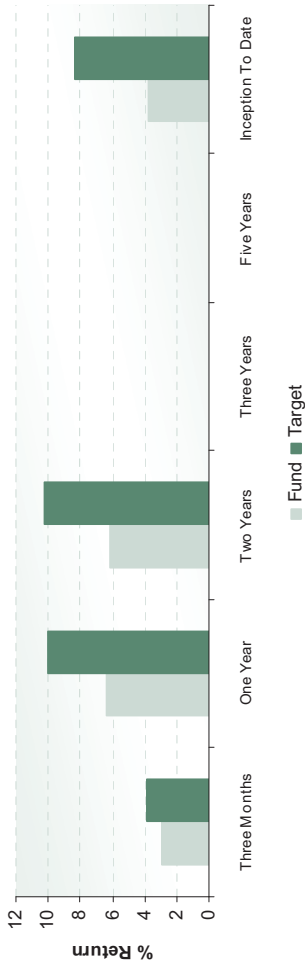
	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Fund	-	16.74	-	-	8.52	1.96	6.42	-0.74	2.93	2.91	-	-
Target	-	-	-	-	-	-	-	-	-	-	-	-

Three Years Rolling Relative Returns



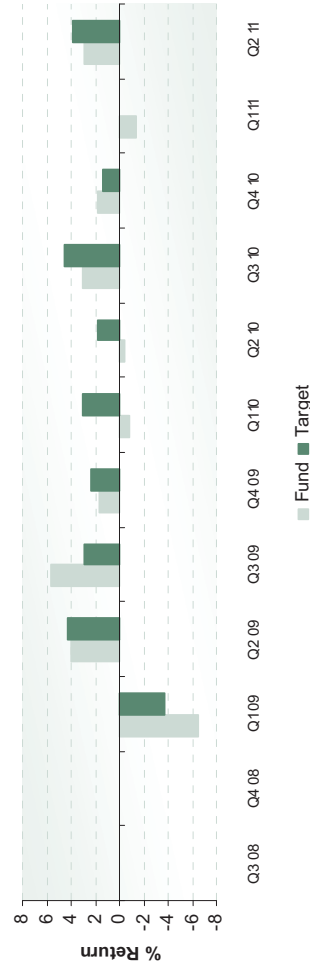
	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
3M Rel	-	16.74	-	-	8.52	1.96	6.42	-0.74	2.93	2.91	-1.77	-0.06
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
Fund	2.90	6.39	6.17	-	-	3.78
Target	3.88	10.02	10.26	-	-	8.32

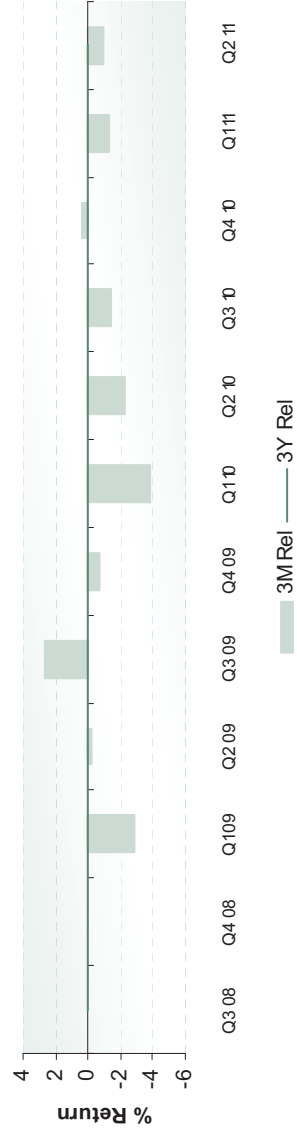
Three Years Rolling Quarterly Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Fund	-	-	-6.45	4.04	5.66	1.67	-0.88	-0.48	2.98	1.75	-1.32	2.90
Target	-	-	-3.68	4.28	2.90	2.38	3.02	1.81	4.49	1.38	-0.01	3.88

The performance of the Matching Fund over the quarter of 2.90% is 0.98% below its gilts-based liability benchmark. This can be attributed negative return achieved by the Goldman Sachs portfolio over the period . The Matching Fund return of 6.39% over the year was 3.63% below target, this was also due to the relative underperformance the Goldman Sachs mandate.

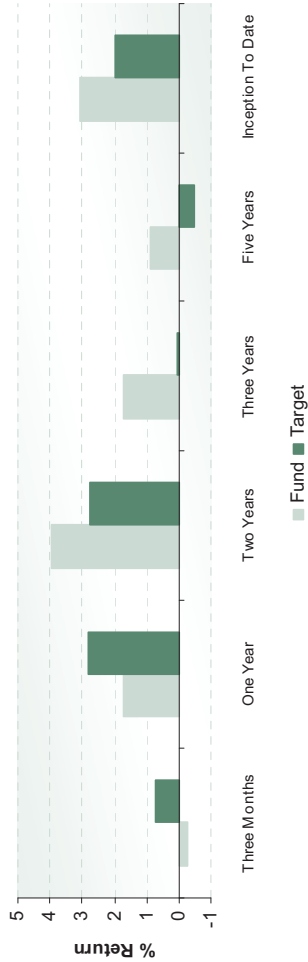
Three Years Rolling Relative Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
3M Rel	-	-	-2.87	-0.23	2.68	-0.69	-3.79	-2.25	-1.45	0.36	-1.31	-0.94
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-

Goldman Sachs are a very large American investment bank who were first appointed in 1999 following a tender process. They have managed both equities and bonds on an active basis and since February 2009 manage an active bond fund.

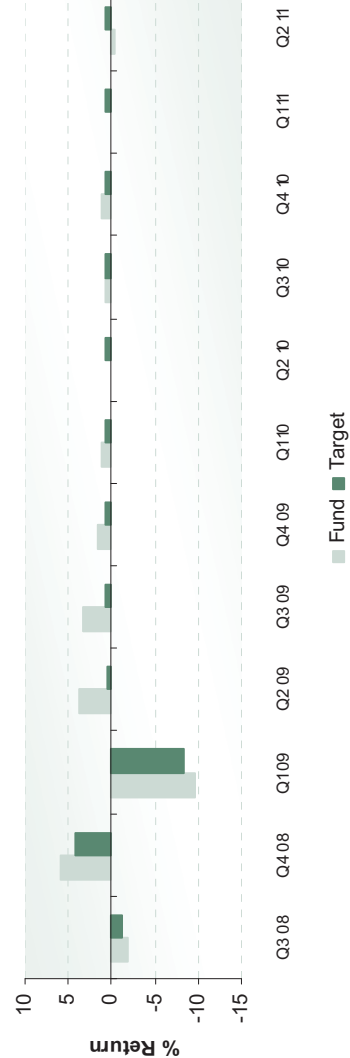
Historical Plan Performance



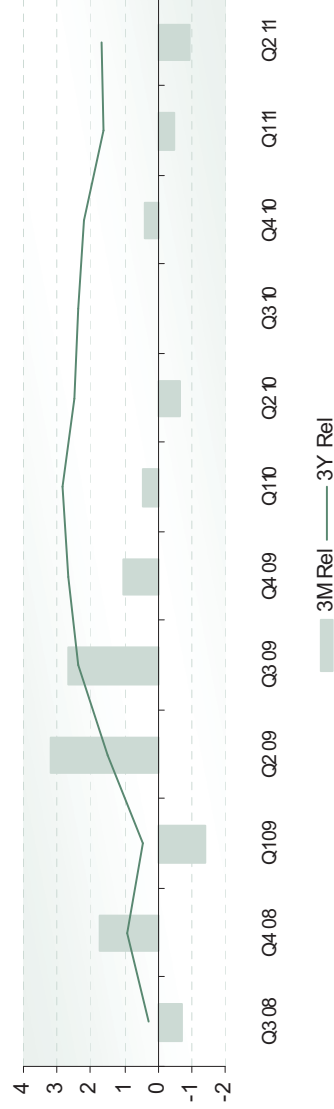
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -0.27% over the quarter, 0.97% behind its target. Over 12 months, performance was 1.09% below the target. The fund's duration and cross-sector strategies were the main sources of underperformance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



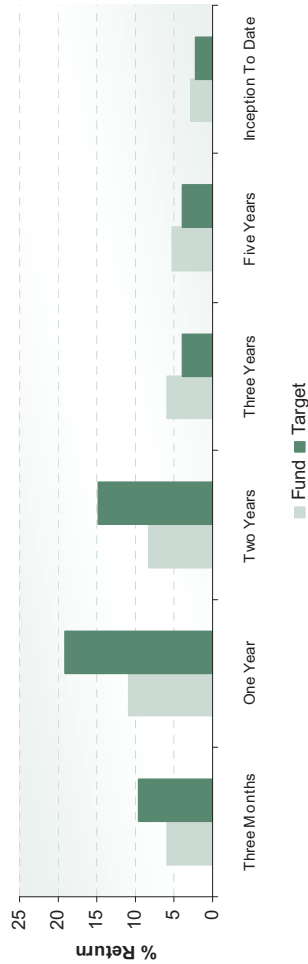
	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Fund	-1.86	5.86	-9.70	3.78	3.36	1.66	1.10	0.03	0.68	1.10	0.18	-0.27
Target	-1.12	4.09	-8.39	0.56	0.70	0.65	0.65	0.67	0.68	0.68	0.69	0.70

	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
3M Rel	-0.74	1.70	-1.43	3.20	2.64	1.01	0.44	-0.64	0.00	0.42	-0.51	-0.96
3Y Rel	0.27	0.90	0.47	1.48	2.37	2.68	2.86	2.51	2.37	2.19	1.60	1.68

Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

Legal & General are a very large manager of indexed funds. They were first appointed to manage investments for the fund in 1993. They have managed both equities and bonds on an indexed basis. Their current investment mandate started in July 2009 following the investment structure review.

Historical Plan Performance

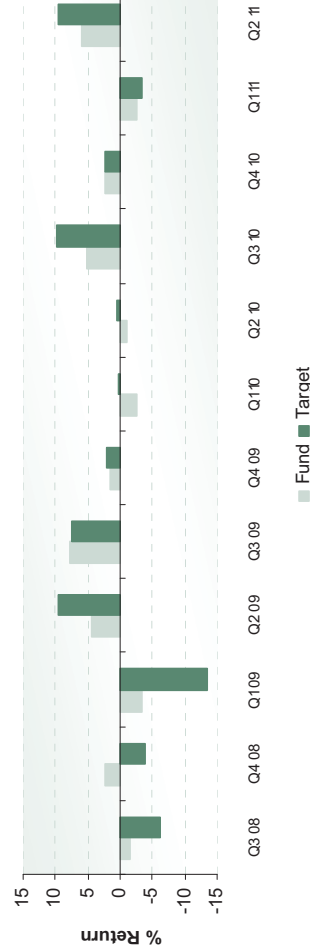


	Three Months	One Year	Two Years	Three Years	Five Years	Inception To Date
Fund	5.85	10.88	8.25	5.96	5.23	2.84
Target	9.60	14.80	14.80	3.99	3.83	2.12

Quarterly Manager update

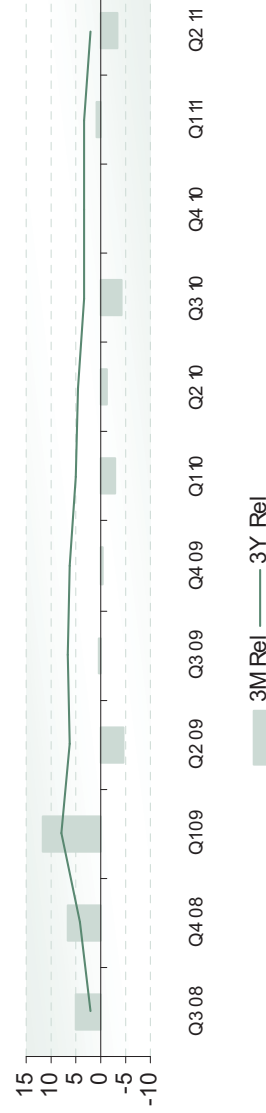
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 5.85% over the quarter, 3.75% behind its target. Over 12 months, performance is 8.35% behind target. The fund, which is invested in the 2055 Index-Linked Gilt, has again broadly tracked its market benchmark over the quarter and has continued to track its market benchmark since inception.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
Fund	-1.60	2.34	-3.32	4.29	7.85	1.68	-2.69	-0.96	5.18	2.34	-2.69	5.85
Target	-6.25	-3.90	-13.51	9.52	7.48	2.08	0.36	0.39	9.89	2.38	-3.30	9.60

Three Years Rolling Relative Returns



	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11
3M Rel	4.97	6.49	1178	-4.77	0.34	-0.40	-3.03	-1.34	-4.29	-0.04	0.63	-3.42
3Y Rel	2.03	4.16	8.07	6.34	6.46	6.29	5.20	4.71	3.23	3.22	3.37	1.89

The second quarter of 2011 was again turbulent as the Greek sovereign debt crisis heightened and fears surrounding the sustainability of the current debt structure in the US began to surface. Despite this, the majority of asset classes made ground over the quarter, although equities outside Europe were generally down.

The FTSE All-Share rose by 1.9% over the period. April showed an improvement on the high street driven by the hot weather and royal wedding, although in contrast May's figures showed a drop of 1.4%. May also saw the long-awaited review of the banking industry, the Vickers report, published. The report outlined recommendations that banks ring-fence their retail businesses from their riskier investment banking arms and increase the amount of core tier one capital they hold. Late June brought about a rally in prices as the Greek Parliament approved austerity measures, increasing the possibility of a second bailout helping a late push of the FTSE100 index back towards the 6,000 mark.

News in the Eurozone was unsurprisingly dominated by the Greek crisis, although equities in the region proved resilient, returning 1.1% over the quarter for Euro investors. The gains were driven by a pick-up in mergers and acquisitions activity and strong corporate results. A mid quarter lull mirrored the experience within the UK but this was in part offset by stronger than expected retail sales and the actions taken by the Greek Parliament.

In contrast to the marginal growth in equity values in Europe, the rest of the world's equity markets tended to decline.

In the US, performance was affected by disappointing employment, housing and consumer spending figures which resulted in growth expectations being downgraded. Weakening retail sales in May also

indicated growing caution amongst consumers; this was exacerbated by the ongoing supply issues following the Japanese earthquake in the first quarter of the year. An increase in US factory orders, boosted by strong export demands, gave some hope. However, the subsequent doubts surrounding the current US debt ceiling continues to cast a shadow over the US economy.

Japanese markets also lost ground with the FTSE All-World Japan falling by 2.2% over the quarter. The small rise in prices came off the back of encouraging news regarding the country's recovery from the Tsunami earlier in the year and increased manufacturing output. However, TEPCO (Tokyo Electric Power Company) continued to face difficulties following the nuclear disaster, though the market reacted well to the Cabinet's passing of a draft bill to allow TEPCO to pay compensation and remain solvent.

Rising inflation expectations, interest rates and a general slowdown in the rest of the Asia Pacific region, particularly in China and India, proved detrimental to investment returns. India was badly affected as manufacturing grew at its slowest pace for nine months. China also showed a general slowdown with its non-manufacturing industries expanding at their slowest pace in four months. This increased speculation that the government may ease monetary tightening policies aimed at taming inflation.

In the wider emerging markets, Latin America lost ground compared to other regions. Brazil dragged down the index as its central bank increased interest rates to 12% in April to combat rising inflation expectations. However, credit rating agency Fitch, increased the country's rating following a successful handover of presidential power to Dilma Rouseff and an improving fiscal position and sustained growth rate. Elsewhere, Russia, which has recently been benefiting from an

energy resource driven windfall, was hit by a fall in oil prices over the quarter.

In sovereign debt markets, a general trend towards risk-aversion driven by growing investor concerns caused a flight to safer assets. For UK Gilts this meant a gradual fall in yields with fixed interest gilts returning 2.5% over the quarter while rising inflation expectations lead to a 4.0% return on index-linked Gilts. Conversely, in peripheral countries where questions remain regarding the security of sovereign debt, yields tended to rise.

The Bank of England's base rate continued to remain on hold at 0.5%, with the Monetary Policy Committee's minutes of the June meetings showing a 7-2 split on the decision. The minutes also suggested that the Committee believe that above target inflation is being driven by temporary factors, including weak Sterling, commodity prices remaining relatively high and a VAT increase in January. This could imply that any increase in the base rate would be delayed until 2012 at the earliest.

Corporate bonds produced returns at a slightly lower level to sovereign debt, with UK corporate bonds returning 1.9% over the quarter. The gains came off the general feeling of risk aversion in the market, driving investors to the fixed interest markets, with investment grade credit producing slightly higher returns than high yield bonds.

The UK commercial property market remains quiet with valuations flat in most regions and only central London making positive ground. Returns were positive however with the IPD All Property Monthly Index returning 2.1%, but again gains were primarily driven by strong income streams instead of capital growth.

Commodities performed particularly poorly over the period with the Goldman Sachs Commodity Total Return Index contracting by 7.9% over the quarter. This was driven in part by the International Energy Agency, who released 60 million barrels of oil onto the market driving down the price of crude oil. The relative slowdown in China was also a contributing factor with the value of base metals and soft commodities also down. The value of Gold did however manage to buck this trend on its way to an all time high at the start of July.

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Datasource: Data has been sourced from the Custodian, Northern Trust, and the Managers.

IMPORTANT INFORMATION

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AUDIT AND PENSIONS COMMITTEE

22 September 2011

CONTRIBUTORS

DFCS

TREASURY MANAGEMENT OUTTURN REPORT

WARDS All

This report provides information on the Council's debt, borrowing and investment activity for the financial year ending 31st March 2011

RECOMMENDATION:

RECOMMENDATIONS:

- 1) To note that the Council has not undertaken any borrowing for the period 1st April 2010 to 31st March 2011.
- 2) To note the investment activity for the period 1st April 2010 to 31st March 2011.

LOCAL GOVERNMENT ACT 2000 - BACKGROUND PAPERS

No.	Brief Description of Background Papers	Name/Ext. of holder of file/copy	Department/Location
1.	Loans and Investments Ledger	Rosie Watson Ext: 2563	Room 42, Ground Floor, Town Hall
2.	CIPFA Treasury Management Code of Practice	Rosie Watson Ext: 2563	Room 42, Ground Floor, Town Hall

1. Introduction and Background

- 1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2010/11. This report meets the requirements of both CIPFA Code of Practice on Treasury Management (the Code).
- 1.2 During 2010/11 the minimum reporting requirements were that the full Council should receive the following reports:
 - An annual treasury strategy in advance of the year.
 - A mid year treasury update report.
 - An annual report following the year describing the activity compared to the strategy report.
- 1.3 Recent changes in regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 1.4 The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit and Pensions Committee before they are reported to the full Council. Member training on treasury management issues was undertaken during the year on 8th February 2011 in order to support Members' scrutiny role.

2. This annual report covers:

- The Council's treasury position as at 31 March 2011 (Para. 3)
- Economic review (Para.4)
- Borrowing rates (Para. 5)
- Investment rates (Para.6)
- Investment outturn for 2010/11 (Para. 7)
- Compliance with treasury limits and Prudential Indicators (Para. 8)

3. Treasury Position as at 31st March 2011

- 3.1 The Council's debt and investment position is organised in order to ensure adequate liquidity for revenue and capital activities, security for investments and management of risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the beginning and the end of 2010/11 the Council's treasury position was as follows:

Table 1 – Outstanding Debt

	31 March 2010		31 March 2011	
	Principal	Average Rate	Principal	Average Rate
	£000's		£000's	
Fixed Rate - PWLB	475,520		475,520	
Variable Rate - PWLB	Nil		Nil	
Market & Temporary Loans	Nil		Nil	
Total	475,520	5.93%	475,520	5.75%
Total Investments	137,000	1.24%	70,400	1.05%

- 3.2 Debt Performance - As shown in Table 1 the average debt portfolio rate has reduced over the course of the year from 5.93 to 5.75%.
- 3.3 The General Fund Capital Finance Requirement (CFR) is £122 million as at 31/03/11 compared to £133 million as 31/03/10 a reduction of £11 million. The HRA CFR is £414 million as at 31/03/11 compared to £404 million as at 31/03/10 an increase of £10 million.
- 3.4 The reduction to the General Fund CFR has partly been achieved by using £5 million of the Decent Neighbourhood cash surplus of £8.7 million for 2010/11 towards the debt reduction programme. This is on the understanding that the decent neighbourhoods pot is reimbursed from general fund resources in future years. By applying the surplus cash in this way results in a saving to the General Fund.
- 3.5 The CFR represents the underlying borrowing need of the HRA and General Fund. The reason why actual borrowing is lower than the CFR is because the Council has effectively borrowed from its internal resources.

4. Economic Review and Interest Rates

- 4.1 2010/11 proved to be another watershed year for financial markets. Rather than a focus on individual institutions, market fears moved to sovereign debt issues, particularly in the peripheral Euro zone countries. Local authorities were also presented with changed circumstances following the unexpected change of policy on Public Works Loan Board (PWLB) lending arrangements in October 2010. This resulted in an increase in new borrowing rates of 0.75% - 0.85%, without an associated increase in early redemption rates. This made new borrowing more expensive and repayment relatively less attractive.
- 4.2 UK growth proved mixed over the year. The first half of the year saw the economy outperform expectations, although the economy slipped into negative territory in the final quarter of 2010 due to inclement weather conditions. The year finished with prospects for the UK economy being

decidedly downbeat over the short to medium term while the Japanese disasters in March, and the Arab Spring, especially the crisis in Libya, caused an increase in world oil prices, which all combined to dampen international economic growth prospects.

- 4.3 Gilt yields fell for much of the first half of the year as financial markets drew considerable reassurance from the Government's debt reduction plans, especially in the light of Euro zone sovereign debt concerns. Expectations of further quantitative easing also helped to push yields to historic lows. However, this positive performance was mostly reversed in the closing months of 2010 as sentiment changed due to sharply rising inflation pressures. These were also expected (during February/March 2011) to cause the Monetary Policy Committee to start raising Bank Rates earlier than previously expected.
- 4.4 The developing Euro zone peripheral sovereign debt crisis caused considerable concerns in financial markets. First Greece (May), then Ireland (December), were forced to accept assistance from a combined EU/IMF rescue package. Subsequently, fears steadily grew about Portugal, although it managed to put off accepting assistance till after the year end. These worries caused international investors to seek safe havens in investing in non-Euro zone government bonds.
- 4.5 Deposit rates picked up modestly in the second half of the year as rising inflationary concerns, and strong first half growth, fed through to prospects of an earlier start to increases in Bank Rate. However, in March 2011, slowing actual growth, together with weak growth prospects, saw consensus expectations of the first UK rate rise move back from May to August 2011 despite high inflation. However, the disparity of expectations on domestic economic growth and inflation encouraged a wide range of views on the timing of the start of increases in Bank Rate in a band from May 2011 through to early 2013. This sharp disparity was also seen in MPC voting which, by year-end, had three members voting for a rise while others preferred to continue maintaining rates at ultra low levels.
- 4.6 Risk premiums were also a constant factor in raising money market deposit rates beyond 3 months. Although market sentiment has improved, continued Euro zone concerns, and the significant funding issues still faced by many financial institutions, mean that investors remain cautious of longer term commitment. The European Commission did try to address market concerns through a stress test of major financial institutions in July 2010. Although only a small minority of banks "failed" the test, investors were highly skeptical as to the robustness of the tests, as they also are over further tests now taking place with results due in mid 2011.

5. Borrowing Rates 2010/11

- 5.1 PWLB borrowing rates – the table for PWLB maturity rates below shows a selection of maturity periods, the range (high and low points) in rates, the average and individual rates at the start and the end of the financial year.

5.2 Variations in most PWLB rates have been distorted by the October 2010 decision by the PWLB to raise its borrowing rates by about 0.75 -0.85% e.g. if it had not been for this change, the 25 year PWLB at 31st March 2011 (5.32%) would have been only marginally higher than the position at 1st April 2010.

PWLB BORROWING RATES 2010/11 FOR 1 TO 50 YEARS

Years	1	1.5- 2	2.5-3	3.5-4	4.5-5	9.5-10	24.5-25	49.5-50	1mth variable
01/04/10	0.81%	1.37%	1.91%	2.4%	2.84%	4.14%	4.62%	4.65%	0.65%
31/03/11	1.87%	2.34%	2.79%	3.21%	3.57%	4.71%	5.32%	5.25%	1.57%
High	1.99%	2.10%	3.00%	3.44%	3.83%	4.99%	5.55%	5.48%	1.57%
Low	0.60%	0.88%	1.18%	1.50%	1.82%	3.60%	3.93%	3.93%	0.65%
Average	1.77%	1.59%	2.009%	2.413%	2.788%	4.05%	4.771%	4.756%	1.052%
Spread	1.39%	1.63%	1.82%	1.94%	2.01%	1.93%	1.63%	1.55%	0.92%
High Date	07/02/11	07/02/11	07/02/11	01/02/11	09/02/11	09/02/11	09/02/11	09/02/11	07/03/11
Low Date	15/06/10	12/10/10	12/10/10	12/10/10	12/10/10	31/08/10	31/08/10	31/08/10	01/04/10

5.3 Debt Performance - As shown in Table 1 the average debt portfolio rate has reduced over the course of the year from 5.93 to 5.75%.

5.4 An analysis of the Council's long term (PWLB) borrowings by maturity (i.e. date of repayment) is as follows:

PWLB	31 March 2010 £000s	31 March 2011 £000s
Up to One year	0	16,000
One to two years	16,000	175
Between two and five years	25,533	52,881
Between five and ten years	77,923	70,400
More than ten years	<u>356,064</u>	<u>336,064</u>
Total	<u>475,520</u>	<u>475,520</u>

- 5.5 An analysis of movements on loans and investments during the period is shown below:

	Balance 31.03.10 £000s	Loans/Invs Raised £000s	Loans/Invs Repaid £000s	Balance 31.03.11 £000s
PWLB	475,520	0	0	475,520
Temporary loans	0	0	0	0
Total debt	<u>475,520</u>	<u>0</u>	<u>0</u>	<u>475,520</u>
Investments	<u>137,000</u>	<u>854,850</u>	<u>921,450</u>	<u>70,400</u>

6. Investment Rates in 2010/11

- 6.1 The tight monetary conditions following the 2008 financial crisis continued through 2010/11 with little material movement in the shorter term deposit rates. Bank rate remained at its historical low of 0.5% throughout the year, although growing market expectations of the imminence of the start of monetary tightening saw 6 and 12 month rates picking up.
- 6.2 Overlaying the relatively poor investment returns was the continued counterparty concerns, most evident in the Euro zone sovereign debt crisis which resulted in rescue packages for Greece, Ireland and latterly Portugal. Concerns extended to the European banking industry with an initial stress testing of banks failing to calm counterparty fears, resulting in a second round of testing currently reviewed. This highlighted the ongoing need for caution in treasury investment activity.

LIBID RATES 2010-11

	Overnight	7 day	1 month	3 months	6 months	1 year
01/04/10	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
31/03/11	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
High	0.44%	0.46%	0.50%	0.69%	1.00%	1.47%
Low	0.41%	0.41%	0.42%	0.52%	0.76%	1.19%
Average	0.43%	0.43%	0.45%	0.61%	0.90%	1.35%
Spread	0.03%	0.04%	0.07%	0.17%	0.24%	0.28%
High Date	31/12/10	30/03/11	31/03/11	31/03/11	31/03/11	31/03/11
Low Date	01/04/10	01/04/10	01/04/10	01/04/10	01/04/10	01/04/10

6.3 At the start of 2010/11, investment rates (LIBID) were at their lowest and gradually increased to finish at their highest levels at the end of the financial year. The longer the period of investment the greater the increase in rate.

- **Overnight rate:** this varied little during the year within a range of 0.41 – 0.44%.
- **1 month rate:** from a low point for the year of 0.52% on 01/4/10, the rate gradually reached a high of 0.69% at the end of the financial year 31/03/11.
- **12 month rate:** this started the year at 1.19% and finished the year with a high of 1.47% and a spread of 0.28%.

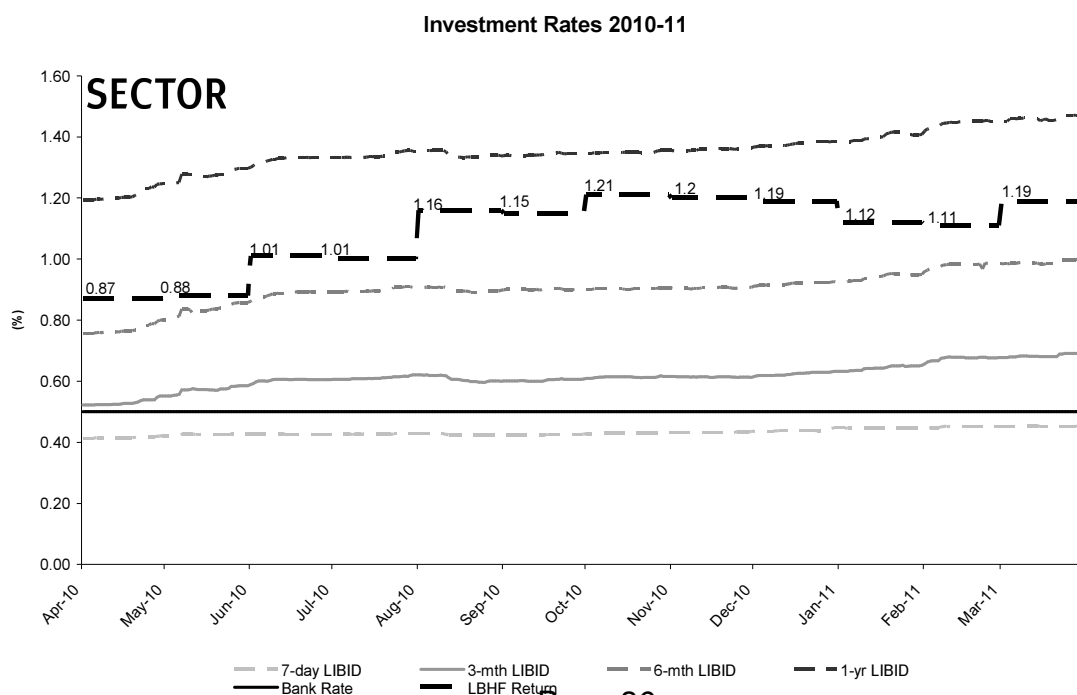
7. Investment Outturn for 2010/11

7.1 Investment Policy – the Council’s investment policy is governed by CLG guidance, which was implemented in the annual investment strategy approved by the Council on 27th February 2010. The policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices).

7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.3 The table below shows Hammersmith & Council investment performance against 7 day, 3 months, 6 months and 1 year LIBID.

7.4 The table shows that the Council’s investments have out performed 7 day, 3 months and 6 months LIBID but not the 1 year LIBID rate. This is because the Council has take a very prudent approach to it’s investments both to the counterparties we use and the duration of the investments.



8. List of Investment held at 31st August 2011

All investments have been carried out in accordance with the Council approved strategy.

Money Fund	Market	Principal £'m	Interest Rate	Start Date	Maturity Date
Blackrock		10	0.60%		Call
Insight Investments		9	0.63%		Call
*Primerate Capital		10	0.79%		Call
Banks					
NatWest Bank		20	0.87%		Call
Lloyds Bank		5	1.25%	20/07/11	20/10/11
Barclays Bank		5	1.06%	20/04/11	20/10/11
Lloyds Bank		5	1.90%	19/11/10	18/11/11
Lloyds Bank		5	1.45%	20/07/11	20/01/12
NatWest Bank		5	1.21%	01/08/11	01/05/12
NatWest Bank		5	1.28%	19/05/11	20/02/12
Lloyds Bank		5	2.65%	02/06/11	27/07/12
Lloyds Bank		5	2.65%	19/05/11	27/07/12
NatWest Bank		5	1.42%	01/08/11	30/07/12
Lloyds Bank		5	2.10%	03/08/11	01/08/12
Total Investments		99			

8.1 *Prime Rate capital Management is the first independent, specialist provider of Money Market Funds serving the corporate and institutional market. (A Money Market Fund is a pooled short-term investment vehicle whose Assets are comprised of cash type instruments such as certificate of deposits, short dated bonds, commercial paper and cash deposits). The funds we use are all AAA rated, are liquid (we have daily access).

9. Compliance with Treasury Limits and Prudential Indicators

During the financial year the Council operated within its treasury limits and Prudential Indicators as set out in the Council's Treasury Strategy Report.

10. Comments of the Director of Finance and Corporate Services

The comments of the Director of Finance and Corporate Services are contained within this report.

11. Comments of the Head of Legal Services

There are no direct legal implications for the purpose of this report.

12. Equalities Statement

As per the Equality Act 2010, the Council must consider its obligations with regard to the Public Sector Equality Duty (PSED). It must carry out its functions (as defined by the Human Rights Act 1998) with due regard to the duty and its effect on the protected characteristics (below) in relevant and proportionate a way. The duty came into effect on 5th April 2011. The protected characteristics are:

- Age
- Disability
- Gender reassignment
- Marriage and civil partnership
- Pregnancy and maternity
- Race
- Religion/belief (including non-belief)
- Sex
- Sexual orientation

In this case, none of the protected characteristics is relevant and none will be impacted by the proposals.

13. Recommendations

- 13.1 To note that the Council has not undertaken any borrowing for the period 1st April 2010 to 31st March 2011
- 13.2 To note the investment activity for the period 1st April 2010 to 31st March 2011.

LOCAL GOVERNMENT ACT 2000 - BACKGROUND PAPERS

No.	Brief Description of Background Papers	Name/Ext. of holder of file/copy	Department/Location
1.	Loans and Investments Ledger	Rosie Watson Ext: 2563	Room 42, Ground Floor, Town Hall
2.	CIPFA Treasury Management Code of Practice	Rosie Watson Ext: 2563	Room 42, Ground Floor, Town Hall



AUDIT & PENSIONS COMMITTEE

22 SEPTEMBER 2011

London Borough of Hammersmith and Fulham
Statement of Accounts, including Pension
Fund for 2010/11

WARDS
All

Summary

This report gives a brief review of the Council's annual Statement of Accounts and the Council's Pension Fund Accounts for 2010/11. It also provides an overview of the issues arising from the audit of the accounts prior to the publication of the Audit Commission's formal opinion on those accounts. These issues are identified in the Audit Commission's Annual Governance Reports 2010/11, which are attached, with the revised Statement of Accounts which will follow.

CONTRIBUTORS

FCS
All Departments

Recommendations

The Committee is asked to;

- 1 To note the content of the Auditor's Annual Governance Reports stating that the accounts will receive an unqualified opinion, are free from material error and that the Council has a adequate internal control environment.
- 2 To note the Council's response to the Annual Governance Reports,
- 3 To approve the management representation letter.
- 4 To approve the Statement of Accounts for 2010/11.

CONTACT

Jane West
Director of Finance &
Corporate Services,
Hammersmith Town
Hall.
Tel: 020 8753 1900

1 Introduction

1.1 In accordance with the Accounts and Audit Regulations, the Council's audited year end Statement of Accounts must be published before the end of September. The Audit Commission is required to report the findings from their audit in an Annual Governance Report to a properly constituted governance body of the Council before their opinion on the accounts is issued. The Audit and Pensions Committee fulfils this role for Hammersmith and Fulham.

1.2 The Audit Commission's Annual Governance Report (AGR) for Hammersmith and Fulham 2010/11 Audit is attached to this report (Appendix 1). It sets out the Audit Commission's findings from this year's audit relating to two main areas:

- Financial Statements
- Value for Money

1.3 This report gives a brief overview of the key points arising from the Statement of Accounts and summarises the issues included in the Annual Governance Report, and sets out the Council's response to the recommendations made therein. Attached as Appendix 3 is the revised Statement of Accounts for approval by the Audit and Pensions Committee.

1.4 The Audit Commission produce a separate Annual Governance Report for the Pension Fund (Appendix 2). This is discussed in paragraph 6 of this report.

2. Impact of International Financial Reporting Standards

2.1 2010/11 is the first year that the Statement of Accounts have had to be produced in accordance with International Financial Reporting Standards (IFRS). This huge transition has been completed without employing additional resources. This has resulted in changes both to the format of the accounts and to the treatment of items in the accounts. In terms of accounts format the primary changes are the replacement of the Income and Expenditure account with a Consolidated Income and Expenditure Statement (CIES) which now shows all the movement in the Council's net worth and the introduction of a Movement in Reserves Statement (MiRS) replacing the Statement of Movements. The MiRS gives a more comprehensive view of the movements and is supported by Note 7 to the accounts which gives further detail.

2.2 The changes in treatment impact on a number of categories of spending and income including the treatment of leases, grants and other contributions, the classification of fixed assets and staff leave entitlements. With respect to leases there is a more comprehensive analysis of all leasing and implied leasing (contractual service arrangements which effectively require the use of specific assets) arrangements. The impact is to identify more leasing arrangements for the Council, both as Lessor and Lessee, as being Finance leases which require the value of the assets subject to the lease to be reflected in the Council's accounts. The changes in respect of grants and contributions is to change the timing of when the income is recognised, to ensure that all such income even if of a capital nature is shown within the CIES and to change the classification of

unspent funds within the accounts. The changes affecting the classification of fixed assets included a reclassification of what constitutes an investment asset and the movement of assets that are surplus and expected to be sold in the next year out of fixed assets and into a current asset entitled 'Assets Held for Sale'. The change in accounting for staff leave entitlements require the Council to accrue for any leave not taken but carried forward into the new financial year.

2.3 Not only do the IFRS changes impact on 2010/11 accounts but also the Council is require to restate the 2009/10 accounts to show the impact on the comparative figures. Although the IFRS adjustments have no impact on the level of available resources or on tax payers the impact of these changes on the published accounts can be gauged by the analysis of the impact on the comparative figures shown in Note 43 to the accounts. These show a movement of nearly £10m in net cost of services for 2009/10 and over £100m in the stated net worth of the Council.

3. Statement of Accounts 2010/11

3.1 The Explanatory Foreword which starts on Page 5 of the Statement of Accounts gives an outline of the Council's financial activity during 2010/11. In summary the General Fund revenue account show an underspend of £3.3m on budgeted net service expenditure of £209m which after increased contributions to earmarked reserves enabled the General Fund balances to be increased by £1.07m to just over £16m. The largest single cause of the underspend was a one-off better than expected recovery of old parking debts amounting to £2.5m.

3.2 The Housing Revenue Account recorded a net deficit of £0.123m on turnover of £84m. This has left a HRA balance of £3.1m at year end which is approximately £1.1m higher than expected at the start of the year. Total Capital expenditure in year was £91.6m compared to a budget of £98.8m. The Collection Fund showed a deficit of £0.271m, an improvement from the £1.482m deficit in 09/10. The Council's share of the 10/11 deficit which is £0.201m will be taken into account in setting Hammersmith & Fulham's Council Tax in 2012/13. Further details on the financial performance of all these elements can be found within the Statement of Accounts.

3.3 Apart from the routine items of revenue and capital expenditure there are two items that have had a material impact on the Statement of Accounts for 2010/11. One is a credit of £88.7m in past service pension costs. This represents a reduction in the estimated future costs of accrued pension entitlements arising from the Government's intention to switch the indexation of pensions from the Retail Price Index (RPI) to the Consumer Price Index (CPI). This has been recognised in the CIES under Non Distributed Costs – General and in the Balance Sheet by a reduction of the debit balance in the Pensions Reserve. It has no effect on the General Fund balance.

3.4 Also within the CIES is an impairment charge of £465m against the Local Authority Housing (HRA). This comes about from the full revaluation of the Council's housing dwelling stock which occurred during the year. Of this charge £352m (75%) was a result of the Government changing the adjustment factor applied to the gross valuation of the stock to derive the Existing Use Value –

Social Housing used in the Council's accounts. This item has no impact on HRA balances or rent levels but does reduce the value of assets in the Balance Sheet.

4. Annual Governance Report

4.1 The Annual Governance Report (Appendix 1) summarises the findings from the Audit Commission's 2010/11 audit. Although there are a few areas to be completed the District Auditor states that he plans to issue an unqualified opinion on the audit statement. The auditor is required to identify specific risks and areas of judgment that he considered as part of the audit. The risks and the auditor's findings are listed on Page 7 of the AGR. The areas of improvements that the audit has found are identified on pages 8 and 9 together with the auditor's recommendations. All the recommendations together with the Council's comments are brought together in Appendix 5 of the AGR.

4.2 There were some amendments required to the original draft statement of accounts and these have been agreed with the auditor and incorporated in the Statement of Accounts attached as Appendix 3 to this report.

4.3 The District Auditor also asks the Committee and management for written representations about the financial statements and governance arrangements. To that end Members are asked to consider and approve the draft letter of representation included as Appendix 3 of the AGR.

5. Value for Money

5.1 The District Auditor intends to issue an unqualified conclusion stating that the Council has proper arrangements to secure value for money. He comments on Page 10 of the AGR that the Council has robust systems and processes in place to manage effectively financial risks and opportunities and that the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

6. Pension Fund Annual Governance Report

6.1 The Audit Commission is obliged to submit a separate Annual Governance Report for the Pension Fund. This is attached as Appendix 2. The District Auditor states he intends to issue an unqualified opinion. There was only one non trivial error found which has been corrected and there is one recommendation regarding administration reconciliations which has already been acted upon. The Pension Fund accounts are included in the overall Statement of Accounts from Page 84 onwards.

7 List of Appendices

Appendix 1 – Audit Commission Annual Governance Report (Main Financial Statements)

Appendix 2 – Audit Commission Annual Governance Report
(Pension Fund)
Appendix 3 – Annual Statement of Accounts (including Pension
Fund)- to follow

Annual governance report

London Borough of Hammersmith & Fulham

Audit 2010/11



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London Borough of Hammersmith & Fulham - Audit for the year ended 31 March 201117

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Traffic light explanation

Red ■ Amber ◆ Green ●

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements and the results of the work I have undertaken to assess your arrangements to secure value for money in your use of resources.

	Our findings
Unqualified audit opinion	●
Proper arrangements to secure value for money	●

Value for money

I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Audit opinion and financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I identified one instance where the perception of a conflict of interest relating to a member of the audit team could arise. This related to the Audit Manager who previously employed as a contract worker someone who is now working for the Council finance team on a fixed term contract. Appropriate safeguards have been established to mitigate any perceived threat to my independence. These safeguards include my review of any working papers prepared by this person and the work of the Audit Manager. The Audit Manager dealt with the Corporate Services Accountancy Manager as the primary contact for the audit, as in previous years and other members of my team attended any meetings that were needed with the person in question.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2010/11.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation, provided alongside this report, on behalf of the Council Trust before I issue my opinion and conclusion; and
- agree your response to the proposed action plan (Appendix 5).

Audit opinion and financial statements

The Council’s financial statements and annual governance statement are important means by which the Council accounts for its stewardship of public funds. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements and the annual governance statement.

Opinion on the financial statements

Subject to satisfactory clearance of outstanding matters, I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report. The following work is not yet complete:

- Cash flow statement;
- Collection fund; and
- Government Grants.

Errors in the financial statements

The Council has adjusted for all non-trivial errors identified in the audit. Appendix 2 summarises the gross amount of these adjustments.

Audit risks and our findings

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Audit risks and our findings

Audit risk	Finding
<p>2010/11 is the first year that accounts are prepared in accordance with International Financial Reporting Standards.</p> <p>The Council have a new income receipting system. Auditing standards require auditors to gain an understanding of information systems relevant to financial reporting.</p> <p>The Council does not prepare group accounts as they are not judged as material to the user.</p> <p>The valuation methodology for Council dwellings had changed in 2010/11 as the discount factor for London used to calculate the balance sheet value has changed from 37 per cent to 25 per cent.</p> <p>The factor for uplifting pensions has changed from RPI to CPI. This should significantly reduce pensions liabilities.</p> <p>Our interim audit identified that the accounts payable and payroll reconciliations could be strengthened.</p>	<p>I have tested the restated accounts, including comparators. My work has focused on the main changes from moving to International Financial Reporting Standards:</p> <ul style="list-style-type: none">■ Disclosure requirements.■ Accounting for components of Property, Plant and Equipment.■ Non-current assets held for sale.■ Leases.■ Government Grants.■ Segmental Reporting.■ Investment properties.■ Short term accumulated absences.■ Group accounts. <p>Findings from this work are set out in other parts of this report.</p>
<p>The Council have a new income receipting system. Auditing standards require auditors to gain an understanding of information systems relevant to financial reporting.</p>	<p>I have documented and walked through the new system to gain an understanding, as required by International Standard on Auditing 315.</p>
<p>The Council does not prepare group accounts as they are not judged as material to the user.</p>	<p>I have re-considered the Council's argument for not preparing group accounts and am not minded to challenge it.</p>
<p>The valuation methodology for Council dwellings had changed in 2010/11 as the discount factor for London used to calculate the balance sheet value has changed from 37 per cent to 25 per cent.</p>	<p>The Council has agreed to include an additional disclosure note on the reduction in value of Council dwellings to aid users' understanding of the accounts.</p>
<p>The factor for uplifting pensions has changed from RPI to CPI. This should significantly reduce pensions liabilities.</p>	<p>The Council has agreed to include an additional disclosure note on the changed method of calculating pension liabilities to aid users' understanding of the accounts.</p>
<p>Our interim audit identified that the accounts payable and payroll reconciliations could be strengthened.</p>	<p>I have reviewed the relevant system reconciliations and confirmed they are now fully reconciled.</p>

Significant weaknesses in internal control

I am only required to report on weaknesses I identified during the course of the audit that are relevant to preparing the financial statements. I am not expressing an opinion on the overall effectiveness of internal control. I did not identify any weaknesses that would have a material impact on the financial statements. The following matters represent opportunities to improve control.

Valuation of Property, Plant and Equipment

The introduction of International Financial Reporting Standards has resulted in more complex guidance concerning when re-valuations of assets are required. During our audit we identified some assets where the valuation had not been undertaken as required, though we do not view the impact as material to the accounts. If valuations are not undertaken when required it could lead to material misstatement in Property, Plant and Equipment.

Fixed Asset Register

During the audit we identified one asset with a value of £2.7 million which had been disposed of but still appeared on the fixed asset register. We are satisfied that this is an isolated error. If the fixed asset register is not maintained accurately it could lead to material misstatement of the balance sheet, particularly given the large value of Property, Plant and Equipment.

School bank accounts

Controls concerning bank accounts require strengthening. The bank confirmed four bank accounts that were in existence but which had been excluded from the balance sheet. The bank accounts did not contain a large amount (approximately £26,000). Strong controls are required over school bank accounts to ensure the balance sheet is complete and to deter fraud.

Partnership working with the PCT

Note 40 to the accounts discloses the Council's partnership arrangement for Learning Disabilities. During the year the arrangement was changed from a pooled budget to lead commissioning, with the Council leading on the commissioning of services on behalf of the PCT. However, the contract with the PCT has not been revised and at the time of the audit had not been signed. This leaves the Council at risk of meeting an overspend should the PCT refuse to reimburse services commissioned.

Recommendations

- R1** Establish a comprehensive procedure note outlining when all assets require revaluation.
- R2** Review procedures for maintaining the fixed asset register to ensure it is accurate.
- R3** Review procedures for the management of bank accounts to ensure the Council has a complete list of the accounts that should appear on the Council balance sheet.
- R4** Revise the contract with the PCT for Learning Disabilities Services and ensure it is signed by both parties.

Quality of your financial statements

The accounts presented to audit by the statutory deadline of 30 June 2011 required some re-working during the audit. In particular, work on leases had not been reflected in the accounts, and the Movement in Reserves Statement, Government Grants notes and Cash Flow Statement were not provided until late in the audit. The change from preparing accounts under IFRS to UK GAAP was a factor in this delay, but it is important that in future years arrangements are in place to ensure the draft accounts provided to audit by 30 June are complete.

Recommendation

- R5** Ensure closedown arrangements are in place to provide a complete set of financial statements to external audit by the end of June 2012.

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 details the draft letter of representation.

Value for money

I am required to conclude whether the Council put in place proper corporate arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the value for money conclusion.

I assess your arrangements to secure economy, efficiency and effectiveness in your use of resources against two criteria specified by the Audit Commission. My conclusion on each of the two areas is set out below. I intend to issue an unqualified conclusion stating that the Council had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.

Value for money criteria and our findings

Criterion	Findings
1. Financial resilience The organisation has proper arrangements in place to secure financial resilience.	The organisation has robust systems and processes to manage effectively financial risks and opportunities, and to secure a stable financial position that enables it to continue to operate for the foreseeable future.
2. Securing economy efficiency and effectiveness The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.	<p>The organisation is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.</p> <p>The Council has approved ambitious proposals for sharing services, premises and management capacity in partnership with the Royal Borough of Kensington & Chelsea and City of Westminster Council. I have reviewed initial proposals and there is no impact on my 2010/11 conclusion. The effectiveness of the proposals will be reviewed further as part of the 2011/12 conclusion in the context of:</p> <ul style="list-style-type: none">■ short and medium-term financial planning (including savings projections) and supporting budgetary processes;

Criterion

Findings

- the methodology for the attribution of costs and savings; and
- governance arrangements to support the joint management of services.

Appendix 1 – Draft audit report

Independent auditor’s report to the members of London Borough of Hammersmith & Fulham

Opinion on the Authority accounting statements

I have audited the accounting statements of London Borough of Hammersmith & Fulham for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance and Corporate Services is responsible for the preparation of the Authority’s Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice’s Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of London Borough of Hammersmith & Fulham's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance and Corporate Services is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, London Borough of Hammersmith & Fulham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of London Borough of Hammersmith & Fulham and Hammersmith & Fulham Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jon Hayes
District Auditor

Audit Commission, 1st Floor, Millbank Tower, London, SW1P 4HQ

September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

	Amendments	
	Dr £000s	Cr £000s
	21,135	21,135

The total value of adjustments made to the primary statements.

The biggest single amendment was a £5 million adjustment to account for leases. There was also a £3 million adjustment as the disposal of an asset was not accounted for correctly and £3 million adjustment in relation to the pension liability where income was coded to expenditure. The total value of adjustments is inflated by the fact that a number of the adjustments made impact the statements in a number of places.

In addition, a number of statements and notes were significantly revised from the draft accounts provided to audit, including:

- Cash flow statement;
- Note 7: Adjustments between Accounting Basis and Funding Basis under Regulations;
- Note 14 (iv) Revaluation;
- Note 14 (v): Capital Commitments;
- Note 18: Leases;
- Note 26: Financial Instruments;
- Note 36: Grant Income; and
- Note 43: Transition to IFRS.

Appendix 3 – Draft letter of representation

To:

Jon Hayes, District Auditor
1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ

London Borough of Hammersmith & Fulham - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of London Borough of Hammersmith & Fulham, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of London Borough of Hammersmith & Fulham related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of London Borough of Hammersmith & Fulham

I confirm that the this letter has been discussed and agreed by the Council on [date]

Signed

Name

Position

Date

Appendix 4 – Glossary

Annual governance statement

A statement of internal control prepared by an audited body and published with the financial statements.

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

'Significance' applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Value for money conclusion

The auditor's conclusion on whether the audited body has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources based on criteria specified by the Audit Commission.

The Code of Audit Practice defines proper arrangements as corporate performance management and financial management arrangements that form a key part of the system of internal control. These comprise the arrangements for:

- planning finances effectively to deliver strategic priorities and secure sound financial health;
- having a sound understanding of costs and performance and achieving efficiencies in activities;
- reliable and timely financial reporting that meets the needs of internal users, stakeholders and local people;
- commissioning and buying quality services and supplies that are tailored to local needs and deliver sustainable outcomes and value for money;
- producing relevant and reliable data and information to support decision making and manage performance;
- promoting and displaying the principles and values of good governance;
- managing risks and maintaining a sound system of internal control;
- making effective use of natural resources;
- managing assets effectively to help deliver strategic priorities and service needs; and
- planning, organising and developing the workforce effectively to support the achievement of strategic priorities.

If I find that the audited body had adequate arrangements, I issue an unqualified conclusion. If I find that it did not, I issue a qualified conclusion.

Appendix 5 – Action Plan

Recommendations

Recommendation 1

Establish a comprehensive procedure note outlining when all assets require revaluation.

Responsibility	Head of Corporate Accountancy & Capital
Priority	Medium
Date	September 2011
Comments	Procedure note will be drafted and passed to Audit Commission and Valuation Services for comment/action by the end of this month.

Recommendation 2

Review procedures for maintaining the fixed asset register to ensure it is accurate.

Responsibility	Capital Finance Manager
Priority	Medium
Date	December 2011
Comments	Work has already begun with Valuation Services to review the fixed assets register against the Valuers' CAMSYS records. This will be completed and an amended procedure note drawn up before the end of the calendar year

Recommendation 3

Review procedures for the management of bank accounts to ensure the Council has a complete list of the accounts that should appear on the Council balance sheet.

Responsibility	Assistant Director (Business Support)
Priority	High
Date	September 2011
Comments	Procedure for ensuring all Bank Accounts activity and balances are attributed to the financial accounts has been put in place.

Recommendation 4

Revise the contract with the PCT for Learning Disabilities Services and ensure it is signed by both parties.

Responsibility	Assistant Director Resources (Community Services Department)
Priority	High
Date	September 2011
Comments	Signed agreement will be in place.

Recommendation 5

Ensure closedown arrangements are in place to provide a complete set of financial statements to external audit by the end of June 2012.

Responsibility	Head of Corporate Accountancy & Capital
Priority	High
Date	February 2012
Comments	The problems this year were to a large part caused by the major changes to the accounts completion process caused by the move to IFRS. New manager with extensive experience in producing accounting statements will be in post from October 2011. Lessons learned from this year will also be incorporated into improved procedures. Lastly as there are relatively few changes to the accounting code compared to those faced in 2010/11 there will be less in the way of technical challenges.

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0844 798 7070

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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.



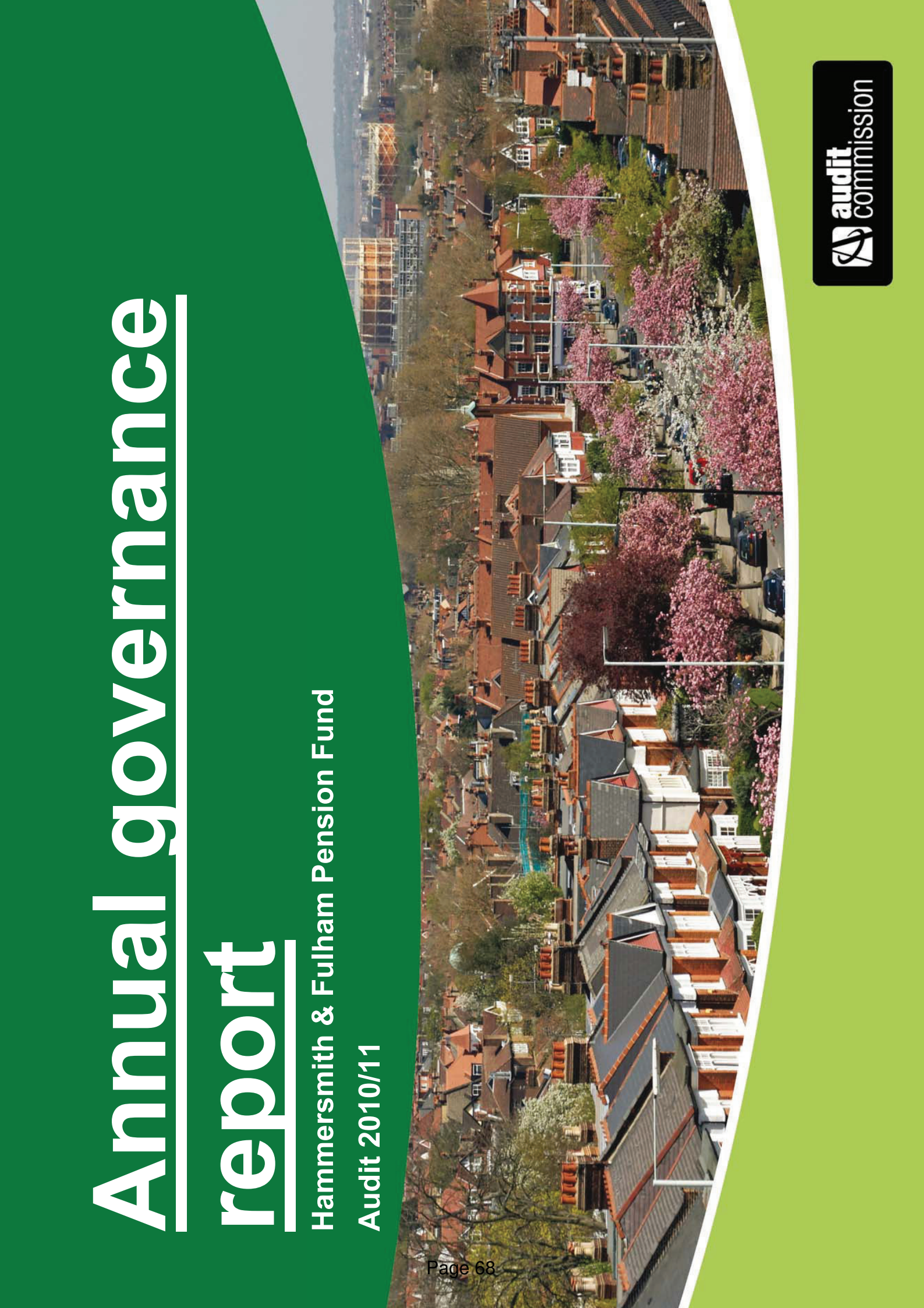
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September 2011

Annual governance report

Hammersmith & Fulham Pension Fund

Audit 2010/11



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Traffic light explanation

Red 

Amber 

Green 

Key messages

This report summarises the findings from the 2010/11 audit which is substantially complete. It includes the messages arising from my audit of your financial statements.

Our findings

Unqualified audit opinion



Audit opinion and financial statements

I intend to issue an unqualified opinion on the Pension Fund financial statements.

Before I complete my audit

I confirm to you

My report includes only matters of governance interest that have come to my attention in performing my audit. My audit is not designed to identify all matters that might be relevant to you.

Independence

I can confirm that I have complied with the Auditing Practices Board's ethical standards for auditors, including ES 1 (revised) - Integrity, Objectivity and Independence. I identified one instance where the perception of a conflict of interest relating to a member of the audit team could arise. This related to the Audit Manager who previously employed as a contract worker someone who is now working for the Council finance team on a fixed term contract. Appropriate safeguards have been established to mitigate any perceived threat to my independence. These safeguards include my review of any working papers prepared by this person and the work of the Audit Manager. The Audit Manager dealt with the Corporate Services Accountancy Manager as the primary contact for the audit, as in previous years and other members of my team attended any meetings that were needed with the person in question.

The Audit Commission's Audit Practice has not undertaken any non-audit work for the Pension Fund during 2010/11.

I ask you to confirm to me

I ask the audit committee to:

- take note of the adjustments to the financial statements which are set out in this report (Appendix 2);
- approve the letter of representation, provided alongside this report, on behalf of the Council before I issue my opinion and conclusion (Appendix 3); and
- agree your response to the proposed action plan (Appendix 5).

Financial statements

Opinion on the financial statements

I plan to issue an audit report including an unqualified opinion on the financial statements. Appendix 1 contains a copy of my draft report.

Errors in the financial statements

There was one error in the draft accounts which has been corrected. Appendix 2 summarises the error.

There are no uncorrected errors.

Financial statements

The Pension Fund’s financial statement is an important means by which the Council accounts for its stewardship of the fund. As Council members you have final responsibility for these statements. It is important that you consider my findings before you adopt the financial statements.

In planning my audit I identified specific risks and areas of judgement that I have considered as part of my audit.

Key audit risk and our findings

Key audit risk

In the 2009/10 audit there were variances between the accounts and LPFA records. Employer and employee contributions in the accounts varied from the detailed breakdowns provided by the London Pension Fund Authority (LPFA). The statistics in the draft accounts for members, pensioners and deferred pensioners, provided by the LPFA, did not reconcile to Pension Fund records.

The Pension Fund has established a separate bank account in line with guidance from the Department for Communities and Local Government. Previously, Pension Fund cash was held in the Council bank account.

Pension Fund accounts are prepared under International Financial Reporting Standards for the first time in 2010/11.

Finding

I identified further discrepancies between the pension fund membership numbers reported in the draft financial statements and supporting working papers. The implication of this is discussed further in the following section, ‘*Significant weaknesses in internal control*’.

We reviewed arrangements for establishment of a separate bank account. The Pension Fund has established a separate account with the custodian, Northern Trust, and has therefore complied with the relevant regulations.

We have reviewed the accounts and confirmed they have been prepared in a manner compliant with International Financial Reporting Standards.

Financial statements

Significant weaknesses in internal control

Reconciliations of the figures in the accounts to supporting working papers remain an area which requires improvement. Although the investment reconciliations had been completed satisfactorily, and I did not identify any material errors in the accounts, there were minor errors or issues in relation to membership statistics, employers and employees contributions, transfers-in and lump sum retirement benefits. The potential effect of not performing regular reconciliations is that a large error is overlooked and that the audit is delayed as variances are investigated

Recommendation

R1 Strengthen the administration reconciliations that underpin the Pension Fund financial statements. These should be carried out on a regular basis and reviewed by an appropriate senior officer.

Financial statements

Quality of your financial statements

I consider aspects of your accounting practices, accounting policies, accounting estimates and financial statements disclosures. There are no matters I wish to bring to your attention.

Financial statements

Letter of representation

Before I issue my opinion, auditing standards require me to ask you and management for written representations about your financial statements and governance arrangements. Appendix 3 details the draft letter of representation.

Appendix 1 – Draft audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LONDON BOROUGH OF HAMMERSMITH & FULHAM

Opinion on the Authority accounting statements

I have audited the accounting statements of London Borough of Hammersmith & Fulham for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account and Collection Fund and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance and Corporate Services is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Authority; and the overall presentation of the accounting statements. I read all the information in the

explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of London Borough of Hammersmith & Fulham's affairs as at 31 March 2011 and of its income and expenditure for the year then ended; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

Opinion on the pension fund accounting statements

I have audited the pension fund accounting statements for the year ended 31 March 2011 under the Audit Commission Act 1998. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of London Borough of Hammersmith & Fulham in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Director of Finance and Corporate Services and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Director of Finance and Corporate Services is responsible for the preparation of the pension fund's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the fund; and the overall presentation of the accounting statements. I read all the information in the explanatory foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on accounting statements

In my opinion the pension fund's accounting statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2011 and the amount and disposition of the fund's assets and liabilities as at 31 March 2011; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, London Borough of Hammersmith & Fulham put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts of London Borough of Hammersmith & Fulham and Hammersmith & Fulham Pension Fund in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Jon Hayes
District Auditor

Audit Commission, 1st Floor, Millbank Tower, London, SW1P 4HQ

September 2011

Appendix 2 – Amendments to the draft financial statements

I identified the following misstatements during my audit and management have adjusted the financial statements. I bring them to your attention to aid you in fulfilling your governance responsibilities.

	Comprehensive income and expenditure statement		Balance sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Adjusted misstatement				
Understatement of 'Individual Transfers In from other Pension Funds' and 'Cash Balances'.		122	122	

Appendix 3 – Draft letter of representation

To:

Jon Hayes, District Auditor
1st Floor, Millbank Tower, Millbank, London, SW1P 4HQ

London Borough of Hammersmith & Fulham - Audit for the year ended 31 March 2011

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of London Borough of Hammersmith & Fulham, the following representations given to you in connection with your audit of the Council's financial statements for the year ended 31 March 2011. All representations cover the Council's accounts and Pension Fund accounts included within the financial statements.

Compliance with the statutory authorities

I have fulfilled my responsibility under the relevant statutory authorities for preparing the financial statements in accordance with the Code of Practice for Local Authority Accounting in the United Kingdom which give a true and fair view of the financial position and financial performance of the Council, for the completeness of the information provided to you, and for making accurate representations to you.

Supporting records

All relevant information and access to persons within the entity has been made available to you for the purpose of your audit, and all the transactions undertaken by the Council have been properly reflected and recorded in the financial statements.

Irregularities

I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.

I also confirm that I have disclosed:

- my knowledge of fraud, or suspected fraud, involving either management, employees who have significant roles in internal control or others where fraud could have a material effect on the financial statements;
- my knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others; and
- the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Law, regulations, contractual arrangements and codes of practice

I have disclosed to you all known instances of non-compliance, or suspected non-compliance with laws, regulations and codes of practice, whose effects should be considered when preparing financial statements.

Transactions and events have been carried out in accordance with law, regulation or other authority. The Council has complied with all aspects of contractual arrangements that could have a material effect on the financial statements in the event of non-compliance.

All known actual or possible litigation and claims, whose effects should be considered when preparing the financial statements, have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

Accounting estimates including fair values

I confirm the reasonableness of the significant assumptions used in making the accounting estimates, including those measured at fair value.

Related party transactions

I confirm that I have disclosed the identity of London Borough of Hammersmith & Fulham related parties and all the related party relationships and transactions of which I am aware. I have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirement of the framework.

Subsequent events

All events subsequent to the date of the financial statements, which would require additional adjustment or disclosure in the financial statements, have been adjusted or disclosed.

Signed on behalf of London Borough of Hammersmith & Fulham

I confirm that the this letter has been discussed and agreed by the Council on *[date]*

Signed
Name
Position
Date

Appendix 4 – Glossary

Audit closure certificate

A certificate that I have completed the audit following statutory requirements. This marks the point when I have completed my responsibilities for the audit of the period covered by the financial statements.

Audit opinion

On completion of the audit of the financial statements, I must give my opinion on the financial statements, including:

- whether they give a true and fair view of the financial position of the audited body and its spending and income for the year in question; and
- whether they have been prepared properly, following the relevant accounting rules.

Opinion

If I agree that the financial statements give a true and fair view, I issue an unqualified opinion. I issue a qualified opinion if:

- I find the statements do not give a true and fair view; or
- I cannot confirm that the statements give a true and fair view.

Materiality and significance

The Auditing Practices Board (APB) defines this concept as ‘an expression of the relative significance or importance of a particular matter for the financial statements as a whole. A matter is material if its omission would reasonably influence users of the financial statements, such as the addressees of the auditor’s report; also a misstatement is material if it would have a similar influence. Materiality may also be considered for any individual primary statement within the financial statements or of individual items included in them. We cannot define materiality mathematically, as it has both numerical and non-numerical aspects’.

The term ‘materiality’ applies only to the financial statements. Auditors appointed by the Commission have responsibilities and duties under statute, as well as their responsibility to give an opinion on the financial statements, which do not necessarily affect their opinion on the financial statements.

‘Significance’ applies to these wider responsibilities and auditors adopt a level of significance that may differ from the materiality level applied to their audit in relation to the financial statements. Significance has both qualitative and quantitative aspects.

Weaknesses in internal control

A weakness in internal control exists when:

- a control is designed, set up or used in such a way that it is unable to prevent, or detect and correct, misstatements in the financial statements quickly; or
- a control necessary to prevent, or detect and correct, misstatements in the financial statements quickly is missing.

An important weakness in internal control is a weakness, or a combination of weaknesses that, in my professional judgement, are important enough that I should report them to you.

Appendix 5 – Action plan

Recommendations

Recommendation 1

Strengthen the administration reconciliations that underpin the Pension Fund financial statements. These should be carried out on a regular basis and reviewed by an appropriate senior officer.

Responsibility	Assistant Director, Human Resources; Assistant Director, Business Support
Priority	Medium
Date	6 September 2011
Comments	Reconciliations are now taking place every month. Periods 1 to 4 for the current year have been completed and are currently being audited to check their completeness and ensure a clean cut off ready for the move of the pensions administration contract to Capita. All the reconciliations will be signed off by the Assistant Director each month.

If you require a copy of this document in an alternative format or in a language other than English, please call:
0844 798 7070

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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.



www.audit-commission.gov.uk

September 2011



AUDIT AND PENSIONS COMMITTEE

22 September 2011

CONTRIBUTORS

Chief Internal Auditor
Risk Management
Consultant

Annual Governance Statement 2011

This report contains the Council's Annual
Governance Statement 2011

WARDS
All

RECOMMENDATION:

To note the contents of this statement

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/ Copy	Department/ Location
1.	Long and short list of potential significant risks, supporting assurance statements, other support papers to produce the statement.	Geoff Drake Ext. 2529	Finance and corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

Hammersmith & Fulham Council (“the Council”) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has an approved and adopted code of corporate governance embedded in its Financial Regulations, which is consistent with the principles of the CIPFA/SOLACE *Framework Delivering Good Governance in Local Government*. A copy of the code and Financial Regulations is contained in the Councils constitution and is available on the Council website. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) [England] Regulations 2011 in relation to the publication of a statement of internal control.

The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31st March 2011 and up to the date of approval of the annual report and statement of accounts.

The governance framework

The key elements of the systems and processes that comprise the authority's governance arrangements are:

- ◆ Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

The Council approves its objectives and strategy through its executive (known as the Cabinet) and through decisions of the full Council in respect of certain defined matters such as the Council's budget. The meetings are open to the public except where personal, confidential or exempt matters (within a limited number of categories set out in legislation) are being discussed.

The principal publicly available documents setting out the Council's key objectives are the Borough's Community Strategy, the Council's Corporate Plan, and these can be accessed via the Council website.

- ◆ reviewing the authority's vision and its implications for the authority's governance arrangements

A review of the Council's constitution takes place each year at the Annual Council meeting. Amendments that arise in-year based on any change in focus to the Council's vision or where change in legislation affects existing governance arrangements are presented to the Executive Management Team, Cabinet, and Full Council for approval as required.

- ◆ measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources

The authority continues to produce a range of national and operational performance indicators. These are reported to senior management as well as appropriate Member committees for review, which makes the information available to the general public.

- ◆ defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

The Council's constitution clearly documents the roles, functions, responsibilities and delegated powers of the Cabinet and Cabinet Members, Chief Officers, the scrutiny process, and of its "Key" decisions process (those which involve significant savings or expenditure or which have a significant impact). Key decisions are set out in a Forward Plan, which documents decisions likely to be taken in the next four months, and

decisions are taken in public unless certain statutory 'exempt' items are taken to members for decision. Occasionally a situation will arise where a decision will need to be taken quickly, in which case it will form a Leader's Urgent Decision, reported at the next Cabinet meeting. Decisions, which are not classified as key, are taken either by Cabinet members or by officers using the delegated powers set out in the constitution. Cabinet Members' decisions are set out in a report signed by the relevant cabinet member and are available to the public. Certain matters e.g. planning, licensing and senior appointments must be dealt with by either a Committee that reflects the political balance of the council or officers as set out in the Constitution. All Key Decisions are accompanied by an Equality Impact Analysis and/or Equality Statement.

Policies other than those decided by the full Council under the Budget and Policy Framework are decided by the Cabinet. The Cabinet is responsible for all executive functions. Non-executive functions which are set out in regulations must be dealt with by committees of members or individual officers e.g. planning applications.

- ◆ developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

As required under the Local Government Act 2000, the Council has adopted a constitution, which is reviewed and re-published every year at the end of May. This sets out how the Council operates, how decisions are made, and contains procedures which ensure that these are efficient, transparent and accountable to local people. The Constitution includes a code of conduct for members (a national code, overseen by the Standards Board for England and the Council's own Standards Committee) and various additional local protocols governing Members and officers.

The Council has an approved Anti-Fraud and Corruption Strategy that incorporates a Code of Conduct for Members and Officers. The strategy incorporates appropriate reporting procedures. Staff are provided with a copy of the officers' code of conduct upon taking up post with the council. Standards of conduct of councillors are overseen by the Standards Committee.

- ◆ reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

Standing Orders and Standing Financial Instructions form part of the Constitution. As such they are reviewed and approved annually. There is a framework of regular financial management information and reporting to all levels of management and to Members. In addition there are Financial Regulations and financial procedures in place, which are regularly reviewed, including the Contracts Standing Orders and a structure of

Financial Delegations. These include appropriate checks and management monitoring to help ensure compliance.

- ◆ undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

The Council has an established Audit & Pension Committee for the purposes of approving its accounts and considering audit and risk management matters generally. Its terms of reference form part of the Council's overall constitution. These are fully compliant with the CIPFA guidance.

- ◆ ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

Regular reports are produced by the authority in compliance with current initiatives and external requirements

Services are delivered by suitably experienced staff. All posts have a detailed job description, and professionally qualified finance staff are employed in key roles throughout the organisation. There is an internal audit service that undertakes reviews of and reports on the adequacy and effectiveness of internal control. This includes an annual, independent assurance statement by the Chief Internal Auditor giving their opinion on the authority's overall system of internal control. The Internal Audit Service has been subject to an independent annual review since financial year 2006/7.

All Cabinet reports are cleared by the Assistant Director (Legal & Democratic Services) and by the Director of Finance & Corporate Services. The council has corporate boards, including scrutiny committees and partnership boards, whose role is to approve plans and monitor performance.

The Council has an established Standards Committee. The Standards Committee comprises 10 members (5 Councilor members and 5 independent persons drawn from outside the Council). The Committee will always be chaired by one of the independent members, and oversee the Council's ethical framework of codes and processes designed to ensure policy probity and high standards of conduct in respect of councillors. This committee meets regularly although meetings will be less frequent given the proposed abolition of the statutory regime.

- ◆ whistle-blowing and for receiving and investigating complaints from the public

The Council has a whistle blowing (confidential reporting) procedure in place and this has been communicated to all staff via the corporate Intranet. It has recently been reviewed, revised and republished.

Complaints procedures are clearly signposted on the Council's internet site. This 3 step protocol is managed by the Corporate Complaints Officer based in the Finance and Corporate Services Department.

The Council also has a Monitoring Officer whose role and responsibilities are clearly defined in legislation and in the Council's constitution. This officer is ably supported by the authority's Legal Services Division.

- ◆ identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

All members are offered training on the members' code of conduct and must sign a declaration that they will be bound by it. Members who are to sit on the planning and licensing committees are required to undertake specialist training before they are allowed to sit. Additional directed training is provided to Cabinet and Committee members as needed, as an example the Audit & Pensions Committee receives regular training eg in interpreting accounts and different pension investment fund vehicles. The Leader undertakes appraisal meetings with cabinet Members annually from which additional training programmes may arise.

- ◆ establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

Many forms of consultation take place across the Council, as appropriate to the circumstances, aims of the exercise, and need to consult. For example, consultation exercises may be conducted when revisiting or determining new policy, or reconfiguring or ending service provision. For these kinds of exercises, the Council uses a variety of methods such as open sessions for the public, sessions for service users and groups with an interest in our proposals, and a web based consultation package, Citizen Space. Each year a Borough Residents' Survey takes place that acts as a test of satisfaction in relation to the council's overall performance. The Council uses an internal challenge process for budget setting, and conducts Equality Impact Analyses when changes are to be implemented. The Council produces performance and finance related material that is available in both hard copy and electronic format available either centrally, on request or through release at local libraries.

Where services have been delivered through significant partners such as the Primary Care Trust, H & F Bridge Partnership for Information and communication technology, or H & F Homes for Housing services, performance monitoring arrangements are in place and assurances of their internal governance arrangements have been reviewed.

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. A review of the main elements of the Council's entire governance framework has been completed and no significant issues found which is to be reported to the Council's Executive Management Team.

Control Assurances

The Council has reviewed in detail the control assurances across the authority and of its significant partners. The results of the review of the effectiveness of the Internal Control environment has been reported to the Audit & Pension Committee along with a plan to address weaknesses and ensure continuous improvement of the system is in place. In completing this review the following governance issues were identified:

1. Budget Management

Corporate Capital and Revenue monitoring during the 2009/10 year identified variances to budgets in leaseholders Insurance and H & F Direct projected savings. These were brought to the attention of the council's Financial Strategy Board as part of the standard monitoring process. Consequently departmental procedures have been strengthened for 2010/11 through more explicit standard setting by Corporate Finance complimented with written guidance. Financial Regulations were updated and republished in 2009. Therefore this issue is considered closed.

2. Reconciliation of financial systems

The Council has progressed well in redeveloping financial systems and processes over the past few years through the journey to World Class Financial Management (which strengthens the resource dedicated to this area) and the adoption of International Financial Reporting Standards. While External Audit note the improvement made over recent years further improvement is still needed.

3. Business Continuity IT

The implementation of a Business Continuity project to increase IT resilience has taken some time to implement and has progressed sufficiently to put in place robust arrangements to deal an IT service interruption. Due to the progress already made this is no longer considered a significant control issue.

4. Frameworki

Control issues emerging from the use of the Frameworki system were reported to Cabinet and the position updated in January 2010. The update highlighted concerns in the performance, reporting, reliability and output of data from the system mirroring issues nationally with the system. A major project was undertaken to support improvements in the software and re-training staff in using the system to best effect. This is no longer considered a significant control issue.

5. Contract Management

The use of consultants was raised in the Annual Governance Statement last year. While some improvement has been made there continue to be weaknesses in managing contracts for consultants. This has been subject to a recent audit and the report is awaited.

6. Information requests

The provision of information in compliance with the Freedom of Information Act has been the subject of a review from the Office of the Information Commissioner who has sought a written undertaking from the council to improve the responsiveness to Information requests. In response the council has increased the resource, training and support in this area.

7. Health and Safety

Substantial progress has achieved in the delivery of a reasonable Health & Safety environment. This has included the training, support, resource and guidance provided by the Corporate Safety Team. Issues remain in relation to the management and control of gas safety certification for temporary accommodation and that of departmental wide risk assessment as a counter-balance to newly emerging areas of risk. There continues to be a focus on addressing these issues.

The Council propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:.....

Chief Executive

Signed:.....

Leading Member

On behalf of Hammersmith & Fulham Council

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/ Copy	Department/ Location
1.	Long and short list of potential significant risks, supporting assurance statements , other support papers to produce the statement.	Geoff Drake Ext. 2529	Finance and corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU



AUDIT AND PENSIONS COMMITTEE

22 September 2011

CONTRIBUTORS

All departments

**COMBINED RISK MANAGEMENT HIGHLIGHT
REPORT**

This report updates the Committee of the risks, controls, assurances and management action orientated to manage organisational level risks.

**WARDS
All**

RECOMMENDATION:

That the committee consider the current Strategic, Programme and Operational risk position as outlined in the report.

1. PURPOSE

- 1.1.** This report updates Members on the highlight risk management issues identified across council services and follows changes in the reporting process to Committee expressed at its September 2010 meeting. Effective risk management continues to help the council to achieve its objectives by 'getting things right first time' and is a key indicator of the 'Corporate Health' of the council.

2. BACKGROUND

- 2.1.** The Finance and Corporate Services Department acts as the lead Department on risk management supported by the Principal Consultant Risk Management. Departmental Directors act as Risk Champions in their own service areas to support the process across all levels of the authority. Risk Management is critical to both the value for money assessment and provision of annual assurance that form part of the annual accounts.

3. Strategic risks update

- 3.1.** The Corporate Risk and Assurance Register has been reviewed by the Council's Executive Management Team. The full version accompanies this paper for Members information at **Appendix 1**.

3.2. Revision highlights include;

3.3. Corporate risk number 1. - Business Continuity - Medium risk - Improving

- 3.3.1.** As services are redesigned within the TriBorough working programme consideration is being given to ensure service continuity is maintained throughout the process. The issue of service continuity has been raised and discussed at the councils competition board where protocols for TriBorough Procurement are being discussed by the respective Heads of Procurement. This ensures that services consider continuity matters at the planning stage. In addition the councils business continuity manager has recently undertaken a training session of the councils contract managers and is contributing to the preparation of a standardised pre-qualification questionnaire to promote a Leaner and more efficient procurement service.

3.4. Corporate risk number 2. – Managing Projects – Low risk – Stable

- 3.4.1.** Members of the Internal Audit Unit have met with the Portfolio holders in the Organisational Development and Transformation Team and together have initiated a refresh of risk management in

this area. This will cover risk identification, reporting, escalation and communication. The Portfolio Managers will be supported throughout the period and provide advice on governance, risk, counter fraud and in partnership with the Portfolio Managers arrange a risk workshop for Project Managers.

3.5. Corporate risk number 3 – Managing Statutory Duty – Medium risk – Improving

- 3.5.1.** In April, Corporate Safety audited the gas safety management arrangements for Housing and Regeneration (H&R) in accordance with the corporate policy. A number of minor recommendations, with regard to the council's own housing stock, were identified to improve system robustness. One key area of concern, however, highlighted during this process, is the absence of a suitable and sufficient safety management system for fire, asbestos and legionella in the Housing Options premise portfolio, which as of April came under the auspices of the Housing and Regeneration Department. An internal health and safety project paper, for Housing Options, submitted to their DMT in June 2011 set out a framework to address this shortfall with a proposed project completion date of March 2012.
- 3.5.2.** Agreement has been given by the Childrens Services Department to commence asbestos surveys across the community school portfolio; prioritised based on known risk. It should be noted that currently insufficient funds are available to meet the programme in its entirety.
- 3.5.3.** The asbestos strategy for the organisation now has a number of fundamental measures in place to provide short, medium and long term assurance. Two key components that remain outstanding to achieve legal compliance, for all departments, is a fit for purpose web-based 'Asbestos Register' that aligns with the corporate asset management system and a nominated 'competent (legally)' person to manage the arrangements for Building Property Management, Housing and Children's Service. Talks regarding a suitable system for registering asbestos are on-going and the outcome looks positive. Discussions regarding the 'competent' person, in line with the introduction of a new corporate asbestos policy/procedure, have commenced.
- 3.5.4.** The responsibility for ensuring safety arrangements with regard to premise management, maintenance and construction projects sit outside of Building Property Management's (BPM) direct control in a number of areas, for example housing or schools, although BPM

may be commissioned to undertake these functions. The new corporate suite of procedures identifies a specific Assistant Director in each department, the Responsible Person, who will ensure the corporate safety arrangements are applied. Corporate Safety will advise, guide, identify gaps, monitor and support this process.

- 3.5.5.** A number of enforcement and deficiency notices with regard to fire safety have been served on the organisation. A programme of risk assessment continues to be rolled out and this has been extended to consider any omissions from the stock portfolio. The fire safety policy/procedure is currently under review and an audit of the arrangements is to commence shortly.
- 3.5.6.** Proactive inspection of higher risk premises and activities continues against a set programme. Departmental audits, sample of sections, should commence from September.
- 3.5.7.** A desktop Health & Safety E-Learning course is now available for new and existing staff, via the recently refreshed website. This is a more efficient and cost effective way to manage the training requirement for this area.
- 3.5.8.** The Housing and Regeneration department have rolled out personal safety training to over 130 staff through the Suzy Lamplugh Trust Training. There are a number of spaces available that have been offered to departments through the Corporate Safety Committee.

3.6. Corporate risk number 5 Managing budgets - Low risk – Improving

- 3.6.1.** Controls in this area have been improved through the Introduction and roll out of the collaborative planning software as part of the World Class Financial Management Programme that, with supported training, provides direct access to budget holders on budgeting and budget monitoring module.
- 3.6.2.** Finance Training for Service Managers from the E-Learning software resource has also been introduced and the revenue outturn for 2010/11 shows an underspend on net operating expenditure of £3.313m mainly accounted for better than expected recovery of income on the Controlled Parking Account. The favourable revenue outturn has allowed the council to make transfers to its general and earmarked reserves providing some additional security against the significant financial challenges ahead.

3.7. Corporate risk number 7. – Maintaining reputation and service standards - Low risk – Stable

3.7.1. This entry has been updated to reflect the Annual Complaints Review report submitted in July to the Overview and Scrutiny Board , (**Appendix 2**).The report covers the performance of the Council in respect of complaints received between 01st April 2010 and 31st March 2011 and also enquiries received from the Local Government Ombudsman during the same period. The report indicates that over the period iCasework, the software system used to log, track and categorise customer complaints, registered the top ten customer complaints, issue and outcomes.

3.7.2. In addition the entry reflects the updated position following the Information Management Teams highlight report on IT security incidents across the council. The report, attached as (**Appendix 3**) identifies the top five current Information Management risks, statistical summary of incidents, and an update on the Government Connect Project. Also highlighted is the new Information Security Incident procedure and toolkit which is now available on the intranet.

3.8. Opportunity risk number 2. – Tri Borough, Merging of services with Westminster and the Royal Borough of Kensington & Chelsea.– Low risk of realisation– Stable

3.8.1. An update on Tri Borough working was issued for general consumption on the 12th July. This also contained reference to a number of risks associated with the move to shared service provision and approval of the business cases at the three cabinets.

3.9. Opportunity risk number 5. - Re-integration of H & F Homes.– Low risk of realisation– Stable

3.9.1. A meeting with the department has established the need to conduct a fundamental review of the risk & assurance profile in order that it complies with the councils agreed risk management standard. To that extent the Housing and Regeneration Department Management Team have been alerted to produce a revised and refreshed risk and assurance register and its first iteration is due to be delivered in August.

3.10. Detailed information on controls and assurances is contained in the fabric of the corporate risk register, project tracking record and contract and market testing schedules. Work is in progress to mitigate these risks. The exposure rating of corporate risks has not proven to be volatile indicating a reasonable and consistent level of Internal Control.

4. Programme and projects

4.1. The Transformation Office is refreshing their risk management arrangements. Reports on risk will be produced by exception to the Programme Transformation Board on each respective Portfolio of work. This will cover Transforming the Way we do Business,

5. Operational highlights

5.1. Following a period of review and consultation with the Corporate Anti Fraud Team corporate fraud risks are to be integrated into risk & assurance registers. The process is to be piloted over August using output from fraud investigations. This should provide managers with improved quality registers that consolidate recommendations and actions through one point.

5.2. An audit of Childrens Services Risk & Assurance registers has commenced to take account of the results of the recent inspections from Ofsted and to also map where alternate sources of controls assurance can be relied on. An assurance map of the department will be compiled following the review and the Childrens Services Risk & Assurance register will be updated to reflect any findings or recommendations.

5.3. A refresh of the Finance & Corporate Services Department risk & assurance register has recently been undertaken and work is underway to compile the Housing & Regeneration Department registers.

6. Market Testing

6.1. A new reporting line covering this area has been established as part of the new Transformation portfolios. Procurement and market testing is now under the Market Management Portfolio. The Senior Responsible Officer on the Executive Management Team is the Director of Resident Services. Other areas under consideration include increased commercialisation, social enterprises and mutuals and the identification of alternate contract provision through a single Tri-Borough procurement strategy.

LOCAL GOVERNMENT ACT 2000 **LIST OF BACKGROUND PAPERS**

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Audit Commission: Worth The Risk, Improving Risk	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall,

	Management in Local Government		Hammersmith
2.	Association of Local Authority Risk Managers & Institute of Risk Management, 2002, A Risk Management Standard	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
3.	The Orange Book, Management of Risk Principles & Concepts – HM Treasury	OGC Website	http://www.ogc.gov.uk/documents/Risk.pdf
4.	Departmental Risk Registers	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
5.	CIPFA Finance Advisory Network The Annual Governance Statement	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
6.	BS 31100 Code of Practice for risk management	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith



AUDIT AND PENSIONS COMMITTEE

22 September 2011

CONTRIBUTORS

DFCS

AD- H & F Direct

H & F DIRECT LEAN PATHFINDER PROJECT

At its meeting on the 30th June 2011, the Committee discussed the performance of the Housing Benefit Service. This report updates the Committee on the H & F Direct Lean Pathfinder Project, which aims to apply Lean Systems principles to the Service.

WARDS

All

RECOMMENDATION:

That the report be noted

1 Lean Programme Context

- 1.1 H&F has a vision to become a “lean organisation” with lean systems thinking a core principle of transformational change over the short and medium term.
- 1.2 As a first step towards achieving this vision, H&F has initiated a lean programme consisting of 2 pathfinder projects designed to prove the lean concept and create a critical mass of H&F resource with the capability and experience to initiate further roll outs as required. One of these two pathfinder projects is focussing on H&F Direct (specifically the Revenues and Benefits service) with a view to improving existing performance levels in a service that has reduced staffing levels by 35% over the last 5 years, whilst workloads have increased due to the recession.

2 Project Context

- 2.1 The Revenues and Benefits services were merged into a single service in 2008. Pre-2008, the revenues services was a strong performing service against other London authorities, however, the Benefits service had experienced declining performance levels and an overspend of c.£1m per annum in 2006 which had been rectified in 2007/8.. The service has experienced an operating budget reduction of 45% between 06/07 and 11/12 resulting in significant operational strain and a steadily increasing ‘backlog’ of work.
- 2.2 The project is required to ensure the sustainability of service delivery now and over the next 3 years to 13/14. It is not anticipated that this project will release additional cashable savings in the short term.

3 Project Scope

- 3.1 The project has the following scope:
 - Council Tax Collection Processes
 - Council Tax Benefit Processes
 - Housing Benefit Processes

4 Skills Transfer to H&F

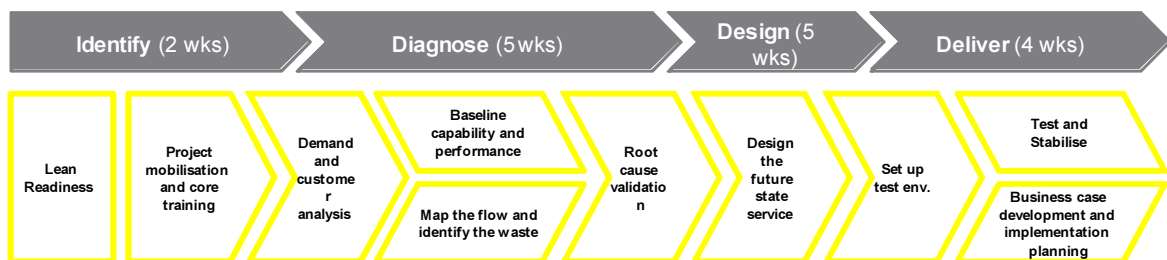
- 4.1 The project is being supported by Ernst &Young who will ensure H&F Direct staff involved in project delivery are given the formal training, coaching and experiential learning required to deliver similar projects within H&F Direct or elsewhere in the Council. Project team members are following an Ernst & Young lean curriculum and each have their own skills transfer contracts to monitor and assure progress. The H&F OD service

are acting as independent monitors of team members skills transfer contracts.

5 Timeline and Methodology

5.1 The project is 4 months in duration and is scheduled to finish September 23rd at which point full implementation of the recommendations and solutions will begin.

5.2 The project methodology is set out below:



6 Progress and Findings to Date

6.1 The project is currently in the 'Deliver' stage which will run to the 23rd September 2011.

6.2 There is one aspect of the 'Design' phase that has yet to be completed (see below), but it was decided it would be more beneficial to continue with the pilot team phase as planned.

6.3 The project has currently delivered:

Identify Phase:

- Core team (H&F staff to be involved in project delivery) selected and mobilised
- 2 day lean training course delivered by Ernst & Young to all core team members
- Project scope agreed and PID signed off
- Skills transfer contracts agreed

Diagnose Phase:

- Current state process maps produced and validated
- Current state performance and capability understood and baselined
- Voice of the customer captured and analysed
- Process value and waste identified
- Process issues and root causes identified
- Areas for intervention prioritised and signed off by the service management team

Design Phase:

- Future state processes designed and validated
- Business case for change produced (to be completed)
- Pilot team established

Deliver Phase (Next Steps to 23rd September):

- Run a pilot team to test 'to be' processes
- Produce an implementation plan
- Produce a change impact assessment
- Completed skills transfer contracts

7 Some Example Improvements

7.1 Set out below are a few examples of proposed new ways of working the lean project has recommended:

- Processing of Housing Benefit change of circumstances over the phone:

Under the current process, H&F HB claimants are required to notify the Council of a change of circumstance in writing, often requiring supporting evidence. This recommendation is to process simple and low risk changes (i.e. changes of circumstance resulting in decreased benefit payments and/or those requiring no evidence) over the telephone.

This change will result in increased processing at the first point of contact with the claimant, reduced face to face appointments to process these changes and overall reduced change of circumstance cycle time (a DWP reporting requirement).

- Improved Use of Risk Based New Claims Software

H&F is one of a number of Councils selected by DWP to pilot a risk based approach to processing new housing benefit claims. However, H&F is currently not taking full advantage of the potential opportunities the software provides.

By moving to a new process where the risk software defines the type and volume of evidence required, new claims cycle time can be reduced as low risk cases (c.45% of all new claims) can be fast tracked into payment with minimal evidence required.

- Remove/Replace 0845 H&F Direct general enquiry number

The *voice of the customer* exercise undertaken early in the project uncovered the fact that many customers are deeply unhappy with the cost of the 0845 H&F Direct general enquiry line when calling from a mobile phone.

The consequence of this is that many customers call the 0208 general appointment line or come to the Town Hall in person and make an unnecessary appointment when the query could have been dealt with over the phone (had they contacted the correct number).

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/ Copy	Department/ Location
1.	Cabinet Report – Reforming Public Services through Lean Systems Thinking 18 April 2011	Graeme Findlay x2276	Residents' Services
CONTACT OFFICER:		NAME: Graeme Findlay EXT: 2276	



AUDIT AND PENSIONS COMMITTEE

22 September 2011

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP

Subject

**Internal Audit Quarterly report for the
period 1 April to 30 June 2011**

**WARDS
All**

This report summarises internal audit activity in respect of audit reports issued during the period to 30 June 2011, as well as reporting on the performance of the Internal Audit service.

RECOMMENDATION:

- a) To note the contents of this report
- b) To approve the amendments to the audit plan as outlined in Appendix C

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1 Introduction

- 1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 April to 30 June 2011 as well as reporting on the performance of the Internal Audit service.
- 1.2 In order to minimise the volume of paperwork being sent to Committee members, the appendices detailing outstanding recommendations and reports, as well as the full text of all limited or nil assurance reports have not been appended to this report. However, the information which would have been contained in these appendices has been made available to all members separately.

2 Internal Audit Coverage

- 2.1 The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner.
- 2.2 A total of 19 audit reports were finalised in the first quarter of 2011/12 (see **Appendix A**). In addition 12 other management letters were issued.
- 2.3 Two audit reports issued in this period received limited assurance. None of the 4 recommendations made in the report on *Spydus Application* or the 1 in the report on the *Single Equality Scheme* have been reported as fully implemented. It should be noted that 2 of the *Spydus* recommendations are Priority 3 and therefore constitute good practice advice, whilst the *Single Equality Scheme* recommendation is due to be partially implemented by 30 September 2011 but not fully until 30 September 2012. Follow-up audits will be carried out once all priority 1 and 2 recommendations have been reported as implemented. Full copies of these reports have been made available to members.
- 2.4 The Internal Audit department works with key departmental contacts to monitor the numbers of outstanding draft reports and the implementation of agreed recommendations.
- 2.5 Departments are given 10 working days for management agreement to be given to each report and for the responsible director to sign it off so that it can then be finalised. There are currently 2 reports still outstanding that were due to be signed off on or before 30 June and these are listed in **Appendix B** for information.

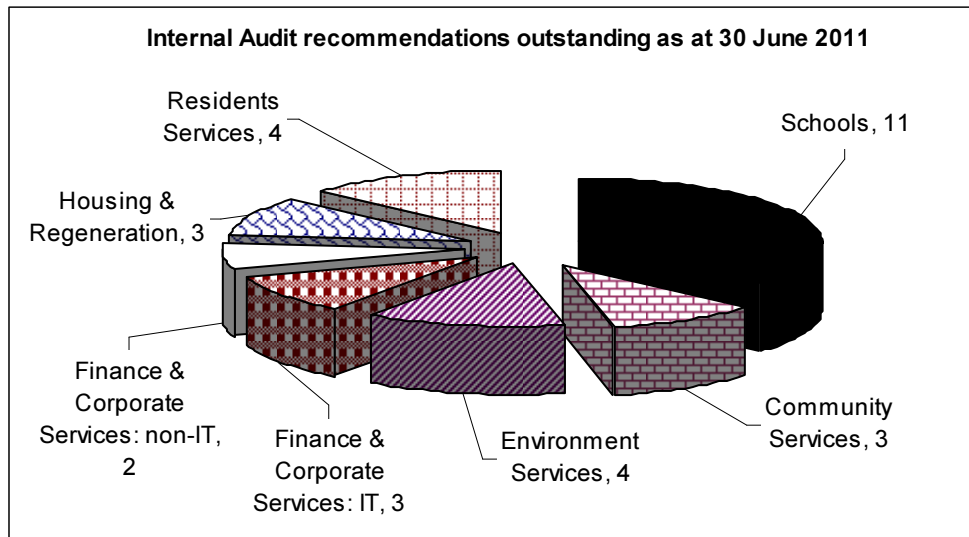
Both these outstanding reports relate to Residents Services and neither will be over 6 months old at the time of the Committee meeting. We are very pleased to report that there are no reports outstanding for any other department.

2.6 There are now 29 audit recommendations made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation. This compares to the 20 reported as outstanding at the end of the previous quarter and represents a deterioration in the overall position. We continue to work with departments and HFBP to further reduce the numbers outstanding.

2.7 The breakdown between departments is as follows:

- ◆ Schools – 11
- ◆ Community Services - 3
- ◆ Environment Services Dept – 4
- ◆ Finance & Corporate Services Dept – 4
- ◆ Housing & Regeneration - 3
- ◆ Residents Services – 4

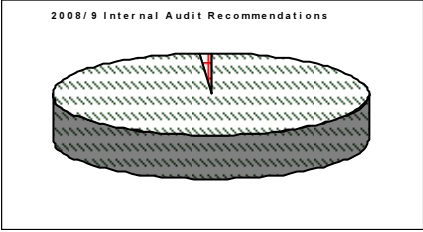
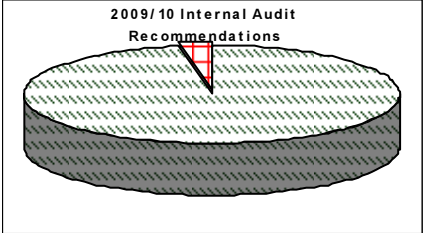
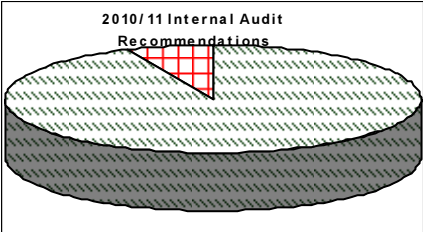
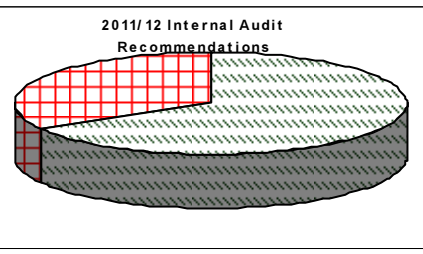
4 of these outstanding recommendations relate to HFBP.



2.8 4 of the 29 recommendations listed are over six months past their target date for implementation as at the date of the Committee meeting. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will be arranging meetings with the specific managers and Assistant Directors responsible for all recommendations overdue by more than 3 months as and when this occurs.

The breakdown of recommendations implemented as a proportion of the total raised in each audit year can be seen below.

100% of recommendations made prior to 2008/09 have been implemented

<p>Percentage of 2008/9 year audit recommendations past their implementation date that have been implemented.</p>	<p>98.92%</p>	<p>456 recommendations implemented out of a total of 461</p> <p>5 recommendation outstanding</p>	
<p>Percentage of 2009/10 year audit recommendations past their implementation date that have been implemented.</p>	<p>97.26%</p>	<p>390 recommendations implemented out of a total of 401</p> <p>11 recommendations outstanding</p>	
<p>Percentage of 2010/11 year audit recommendations past their implementation date that have been implemented.</p>	<p>93.25%</p>	<p>152 recommendations implemented out of a total of 163</p> <p>11 recommendations outstanding</p>	
<p>Percentage of 2011/12 year audit recommendations past their implementation date that have been implemented.</p>	<p>66.67%</p>	<p>6 recommendations implemented out of a total of 9</p> <p>3 recommendations outstanding</p>	

2.9 In the current financial climate we anticipate a number of recommendations being reported to us as no longer realistic to implement given available resources. Our standard practice in such cases will be to refer the recommendations in question to the relevant director who will be deemed to have accepted the identified risk. We will then report any such recommendations to the next appropriate meeting of the Audit and Pensions Committee.

3 Internal Audit Service

- 3.1 Since the last report to the Audit Committee, there has been no structural change to the operation of the internal audit service. The in-house team consists of the Chief Internal Auditor (CIA) and Audit Manager. Deloitte Public Sector Internal Audit Ltd carries out individual audits and also periodically provides management information to support the reporting requirements of the in-house team
- 3.2 Part of the CIA's function is to monitor the quality of Deloitte work. Formal monthly meetings are held with the Deloitte Contract Manager and one of the agenda items is an update on progress and a review of performance against key performance indicators. The performance figures are provided for the period from 1 April to 30 June 2011 are shown below.

Performance Indicators 2010/2011 & 2011/12

Ref	Performance Indicator	Target	Pro rata target	At end of March	Variance	Comments
2010/11						
1	% of deliverables completed (2010/11)	95%	95%	99%	+2%	111 reports delivered out of a total plan of 115
2	% of planned audit days delivered (2010/11)	95%	95%	95%	0%	986 days delivered out of a total plan of 991 days
2011/12						
3	% of deliverables completed (2011/12)	95%	25%	24%	-1%	25 reports delivered out of a total plan of 105
4	% of planned audit days delivered (2011/12)	95%	25%	22%	-3%	205 days delivered out of a total plan of 949 days
5	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	89%	-6%	8 out of 9 briefs issued more than ten working days before the start of the audit.
6	% of Draft reports issued within 10 working days of exit meeting	95%	95%	100%	+5%	16 out of 16 draft reports issued within 10 working days of exit meeting.

4 Audit Planning

- 4.1 Amendments that have been made to the 2011/12 Internal Audit Plan have been shown in **Appendix C** which the Committee is invited to approve.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/ Copy	Department/ Location
1.	Full audit reports from October 2004 to date	Geoff Drake Ext. 2529	Finance and corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

APPENDIX A

Audit reports Issued 1 April to 30 June 2011

We have finalised a total of 19 audit reports for the period to 30 June 2011. In addition, we have issued a further 12 management letters.

Audit Reports

We categorise our **opinions** according to our assessment of the controls in place and the level of compliance with these controls.

Audit Reports finalised in the period:

No.	Audit Plan	Audit Title	Director	Audit Assurance
1	08/09	Section 106 Agreements	Nigel Pallace	Substantial
2	10/11	Pensions Administration	Jane West	Substantial
3	10/11	Market Testing – Legal Services	Jane West	Substantial
4	10/11	Market Testing – BTS	Nigel Pallace	Substantial
5	10/11	School Meals	Andrew Christie	Substantial
6	10/11	Spydus Application Audit	Lyn Carpenter	Limited
7	10/11	Personal Budgets	Heather Schroeder	Substantial
8	10/11	Family Support Programme	Andrew Christie	Substantial
9	10/11	IT Performance	Jane West	Substantial
10	10/11	Sacred Heart High School	Andrew Christie	Substantial
11	10/11	All Saints School	Andrew Christie	Substantial
12	10/11	Single Equality Scheme	Jane West	Limited
13	10/11	Partnership and Corporate Governance	Jane West	Substantial
14	10/11	GCSX	Jane West	N/A
15	10/11	Housing Benefits	Jane West	Substantial
16	11/12	James Lee Nursery	Andrew Christie	Substantial
17	11/12	Addison Primary School	Andrew Christie	Substantial
18	11/12	Queens Manor Primary School	Andrew Christie	Substantial
19	11/12	Flora Garden Primary School	Andrew Christie	Substantial

Audit Reports

Full Assurance	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
Substantial Assurance	While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.
No Assurance	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Other Reports

Management Letters

No.	Audit Plan	Audit Title	Director
20	2010/11	Vertical Contract Audit – Normand Park	Nigel Pallace
21	2010/11	Early Years – Compliance With Statutory Duties	Andrew Christie
22	2010/11	Schools Finance Manual Benchmarking	Andrew Christie
23	2010/11	Risk Management – Controls Testing	Jane West
24	2010/11	Data Quality	Jane West
25	2010/11	Preventions	Heather Schroeder
26	2011/12	Year End Report – Head of Audit	Jane West
27	2011/12	Year End Report –Finance	Jane West
28	2011/12	Year End Report –Schools	Andrew Christie
29	2011/12	Year End Report –Project Management	Jane West
30	2011/12	Year End Report -IT	Jane West
31	2011/12	Safeguarding Project Management (part 2)	Andrew Christie

Follow ups

No follow up reports were issued in quarter 1 of the 2011/12 financial year.

APPENDIX B

Internal Audit reports in issue more than two weeks as at 30 June 2011

	Audit Year	Department	Responsible Director	Audit Title	Assurance	Draft report issued on	Responsible Officer	Target date for responses	Awaiting Response From
1	2010/11	Residents Services (HFBP)	Lyn Carpenter	Powersuite Application Audit	Limited	31/03/2011	Application Support Analyst	14/04/2011	Auditee and Director
2	2010/11	Residents Services	Lyn Carpenter	Financial Management in Libraries	Substantial	01/04/2011	Deputy Head of Libraries	15/04/2011	Auditee and Director

Amendments to 2011/12 Audit Plan

	Department	Audit Name	Nature of amendment (e.g. added/ deleted/ deferred)	Reason for amendment
1	Children's Services	Social Enterprise	Added	Added following emergence of plans to create a social enterprise
2	Finance & Corporate Services (HFBP)	Source Code	Added	Added following discussion with department
3	Finance & Corporate Services	Insurance	Removed	Removed following lack of response from requesting department
4	Children's Services	Family Intervention Project	Removed	Removed following discussion with department
5	Housing & Regeneration	HAFFTRA	Added	Added following discussion with department
6	Housing & Regeneration	Northgate Kendrick Ash (NKA)	Added	Added following discussion with department
7	Children's Services	CPYU Transport	Added	Added following discussion with department