

Audit and Pensions Committee

Agenda

Thursday 15 March 2012

7.00 pm

Courtyard Room - Hammersmith Town Hall
King Street, London, W6 9JU

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: 06 March 2012

Audit and Pensions Committee Agenda

15 March 2012

<u>Item</u>		<u>Pages</u>
1. MINUTES OF THE PREVIOUS MEETING		1 - 10
	(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. GOLDMAN SACHS- PRESENTATION		
5. PENSION VALUE AND INVESTMENT PERFORMANCE		11 - 28
	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 31st December 2011.	
6. ALTERNATIVE INVESTMENTS		29 - 35
	This report prepared by Psolve gives various options for investing in alternative investments.	
7. COMMUNITIES AND LOCAL GOVERNMENT CONSULTATION ON PROPOSED AMENDMENTS TO THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) REGULATIONS CONTAINED IN THE DRAFT LGPS (MISCELLANEOUS) REGULATIONS 2012		36 - 56
	This report sets out proposed amendments to the LGPS regulations	

currently under consultation. These amendments are of a technical nature and required to bring LGPS regulations into line with primary legislation. As such, no response was submitted.

- 8. LONDON BOROUGH OF HAMMERSMITH & FULHAM AUDIT OPINION PLAN 2011/12** 57 - 83

This plan sets out the external audit work that the Audit Commission proposes to undertake for the audit of the financial statements 2011-12.
- 9. LONDON BOROUGH OF HAMMERSMITH AND FULHAM PENSION FUND AUDIT OPINION PLAN 2011-12** 84 - 102

This plan sets out the external audit work that the Audit Commission proposes to undertake for the audit of the Pension Fund financial statements 2011-12
- 10. CERTIFICATION OF CLAIMS AND RETURNS- ANNUAL REPORT 2010-11** 103 - 114

The report details the results of work conducted by the Audit Commission to certify grant claims in respect of the 2010/11 financial year.
- 11. AUDIT COMMISSION RECOMMENDATIONS UPDATES & ANNUAL GOVERNANCE STATEMENT 2011 ACTION PLAN** 115 - 119

This report gives an update on the implementation of Audit Commission recommendations and on the AGS 2011 action plan.
- 12. INTERNAL AUDIT PLAN 2012-13** 120 - 132

This report sets out the Internal Audit Plan for 2012-13, for the Committee's approval.
- 13. RISK MANAGEMENT PROGRESS REPORT** 133 - 138

This report informs the Committee on the overall arrangements for, and performance of, risk management across the Council.
- 14. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 OCTOBER TO 31 DECEMBER 2011** 139 - 146

This report summarises internal audit activity in respect of audit reports issued during the period to 31 December 2011, as well as reporting on the performance of the Internal Audit service.
- 15. 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.

16.	EXEMPT MINUTES OF THE PREVIOUS MEETING	147 - 148
17.	ANNUAL BUSINESS PLAN FOR THE PENSION FUND	149 - 153



London Borough of Hammersmith & Fulham

Audit and Pensions Committee Minutes

Thursday 8 December 2011

PRESENT

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

Apologies for Absence: Eugenie White (Coopted Member)

Trade Union Representative: Sheela Selvajothy

In Attendance: Jon Hayes and Julian McGowan, Audit Commission
Steve Russell and Caroline Ader, Ruffer, Helen Smith, Nikhill Agarwal and John Conroy P-Solve

Officers: Jane West, Director of Finance and Governance, Hitesh Jolapara, Deputy Director of Finance, Geoff Drake, Chief Internal Auditor, Dave McNamara, Assistant Director of Finance, Environment and Children's Services, Michael Sloniowski, Principal Consultant, Risk Management, Bob Pearce, Group Accountant - Technical and Owen Rees, Committee Coordinator

35. MINUTES OF THE PREVIOUS MEETING

RESOLVED THAT

The minutes of the meeting held on 22 September 2011 be agreed as a true and correct record.

36. APOLOGIES FOR ABSENCE

There were apologies for absence from Eugenie White.

37. DECLARATIONS OF INTEREST

Councillor Cartwright and Councillor Murphy declared personal interests in items 38, 39, 40, 41, 42 and 43 as members of the London Borough of Hammersmith and Fulham Pension Fund.

38. PENSION FUND MANAGER PRESENTATION- RUFFER

Steve Russell, Investment Director for Ruffer LLP, gave a presentation on Ruffer, their investment approach and their current thinking, with particular emphasis on alternative investments. He said that Ruffer were focused on absolute return investment only, and held a wide variety of assets, which were chosen with the aim, in the first instance, of protecting the capital under management. He said that making returns was extremely difficult, given the prevailing economic climate.

He said that, while a significant proportion of the funds under management at Ruffer were invested in equities, the fund was also investing heavily in index-linked gilts. This followed its expectation that, in the light of domestic and global debt levels, inflation could remain high in the medium term, with negative real interest rates. This would be accompanied by a period of deleveraging by banks, which would affect the viability of certain types of investment. He noted that the value of equities had risen highly in the period between 1980 and 2000, but had not always done so historically, particularly in periods of high inflation.

With regards to alternative investments, he noted the high correlation between equity returns and returns in some investments perceived as alternative. He also noted the dependency of some alternative assets on bank finance, instancing infrastructure and private equity. He described other alternatives that Ruffer was investing in, including illiquid assets, which could be a good match for pension funds provided they were identified and priced correctly. He said that there were five issues to bear in mind when choosing alternative investments- correlation to other assets, fee levels, the impact of the withdrawal of bank finance on the asset class, the liquidity of the assets acquired, and the risk of inflation, and/or Government intervention; he gave the action taken by the Swiss Government to lower the value of the Swiss Franc as an example of this.

The Chairman asked what Ruffer's position on commodities was. Mr Russell said that, given the possibility of a demand shock as a result of the break-up of the Euro, Ruffer was cautious about their purchase at the present, but believed that they might be more attractive in the medium term, once that risk had either diminished or come to pass.

Councillor Ginn asked what percentage of a portfolio should be held in alternative investments to protect against equities volatility. Mr Russell said that Ruffer had a 10 % net exposure to alternatives, which could still make money. He would suggest around 20% should be invested in alternatives. He said that he believed that active management was of high importance, as it allowed investors to benefit from decisions made by managers regarding when to sell and when to buy. He added that returns in alternatives were not necessarily giving drastically better returns, when fee levels were taken into account, however.

Councillor Iggulden asked what returns had been in the sector. Mr Russell said that this could be difficult to ascertain, though the illiquid assets purchased by Ruffer had been returning 5-7% in the 18 months since the strategy was adopted, with returns scheduled to improve over time. He said that forestry returns had also been good, but were, to a large degree, synthetic.

Councillor Iggulden asked about the purchase of art, wine, stamps, and guns as an investment. Mr Russell said that they could provide good returns and provided an excellent inflation hedge but realising the asset could be difficult. Given their illiquidity, he felt that they were a better investment for individuals than for institutional funds or managers.

The Chairman asked about property as an investment, given the presumption of more inflation. Mr Russell said that property was in general overvalued, with the risk of commercial rents falling in the light of economic conditions. Where there had been no boom in value, such as Germany and Japan, investment could be worthwhile, given the prevailing low rate of interest.

Councillor Botterill asked what the effect of demographics would be. Mr Russell said that he had seen no direct evidence of impact, and the long-term nature of change meant that investment would need to be made on very broad principles. He said that he did not believe that land and property would offer strong returns in the next decade, though there would be an end to any inflationary period.

Councillor Murphy asked whether the gap between the interest rate paid by banks and the rate at which they lent would not contain some of the inflationary effect of low rates. Mr Russell said that this was true, but that investors could not, given the need for banks to increase their assets rely on this, investors did not have access to the cheaper rates to borrow or the more expensive rates on their deposits.

RESOLVED THAT

The presentation be noted.

39. PENSION VALUE AND INVESTMENT PERFORMANCE

Helen Smith, P-Solve, presented the report, which set out the performance of the fund in the quarter to 30 September 2011. She said that the quarter had been turbulent and traumatic with the fund down by 5.6%. She said that, given the prevailing market conditions, it made sense to consider the fund's performance in relative terms, both in terms of its peers and in terms of the performance of its managers relative to the markets. On these measures, the fund had weathered the quarter well. She added that the following quarter would see Legal & General move to the new mandate and matching benchmark.

The Chairman said that he was concerned with the performance of Goldman Sachs. Ms Smith said that, following the change to the mandate suggested by Goldman Sachs, two good quarters had followed. The problems experienced in the quarter under discussion were typical of managers in their class and was considered acceptable but was under quarterly review.

Councillor Iggulden noted that the figures bore out that good managers could outperform the equities market as a whole. Ms Smith said that this was true, but that it was important not to assume future over-performance, in what could be an emotive market.

Regarding the current volatility, Bob Pearce, Group Accountant- Technical Services, said that the fund was now valued at the same level as before the quarter under discussion's losses.

Councillor Iggulden stressed the importance of considering both capital and income growth in assessing the value of equities as an asset class. Ms Smith said that total return was considered, and that there were legitimate investment cases to be made for equities, though it was important to take a holistic view of their place within the whole fund.

RESOLVED THAT

The report be noted.

40. PENSION FUND INVESTMENT STRATEGY

Bob Pearce, Group Accountant- Technical Services, introduced the report, which sought to amend the fund's liability benchmark in line with the last actuarial valuation (backdated to 1st April 2011 to match the alteration in the contribution rate). He said that a further report on possible alternative investments for the fund, including the possibility of amending the allocation between mandates, would be submitted to the Committee's next meeting.

RESOLVED THAT

With effect from 1st April 2011, the new Liability Benchmark Portfolio (LBP), with an out-performance target of 2.2%, be agreed.

41. CONSULTATION ON PROPOSED INCREASES TO EMPLOYEE CONTRIBUTION RATES AND CHANGES TO SCHEME ACCRUAL RATES FOR THE LGPS

Jane West, Director of Corporate Finance and Governance, introduced the report, which presented a draft consultation on proposed changes to employee contribution rates.

Councillor Cartwright noted the emphasis placed on potential loss of members, which was an objection put forward by the trade unions. He asked whether officers expected members to exit the scheme.

Ms West said that the combination of rises, inflation and a pay freeze meant that she believed the risk had been underplayed in the Government analysis. In response to a question from Councillor Murphy, she confirmed that 66% of staff employed by the Council were at the top of their pay grade, meaning that the pay-freeze would affect them.

Councillor Iggulden suggested that withdrawals from the fund would be, at worst, neutral in the effect. Ms West said that withdrawals might reduce the demands on the fund in the long-term, but would also reduce cash flow into the fund; this might require a change in structure of the fund, with associated risk.

In response to a question from Councillor Ginn regarding the importance of cash flow, Ms West said that income had always exceeded expenditure, with the deficit the product of current gilt yields. Bob Pearce, Group Accountant - Technical, said that a recent survey of Local Authority Pension Funds had shown that employer contributions for April to September 2011 had fallen 2.2 percent compared to the same period last year, with the employee contributions down 5.5 percent. Councillor Murphy asked whether this was attributable to a reduction in staff numbers, rather than staff withdrawing from the scheme. Ms West said that officers would provide the Committee with figures on opt-outs in the last 6 months.

RESOLVED THAT

- (i) The consultation response be agreed for submission, and;
- (ii) Officers provide the Committee with figures on the level of opt-outs by staff in the previous 6 months.

42. TRI-BOROUGH TREASURY AND PENSION SERVICE

Hitesh Jolapara, Deputy Director of Finance, gave the Committee a short verbal briefing on the move to a Tri-Borough Pensions and Treasury Service. Bob Pearce also updated the Committee on staff changes at P-Solve.

43. ANNUAL AUDIT LETTER

Jon Hayes, District Auditor, introduced the auditor's annual letter to the Council, and drew the Committee's attention to the section on challenges and to the section outlining the schedule of fees. He said that the fees were set following a sector-wide consultation.

Councillor Cartwright asked about the fee set for the Wormwood Scrubs Charitable Trust audit, and asked whether this could be carried out as a Small Body audit. Mr Hayes said that as the organisation was a charity and the Council was a corporate trustee, the approach taken was common. In response to further questions from the Committee, he said that the Audit Commission's position as auditor to the Council meant that they were better equipped to audit the Trust than another auditor would be, and that while the trust could be incorporated into the Council's main accounts, neither the Council nor the auditor thought this sensible.

RESOLVED THAT

The report be noted.

44. WORMWOOD SCRUBS ANNUAL GOVERNANCE REPORT 2010-11

Hitesh Jolapara, Deputy Director of Finance, introduced the report, which contained the audited accounts of the Wormwood Scrubs Charitable Trust, and the annual governance report compiled by the auditor.

Dave McNamara, Assistant Director of Finance, clarified that the Council had begun to make a contribution to the trust to ensure that it could meet the costs of the upkeep of Wormwood Scrubs. He said that the accounts had netted contributions to and from the Council against each other.

The Chairman asked about the possibility of a development on the car park. Dave McNamara said that the area was metropolitan open land, but that the service could provide a briefing on the practicality of any change to the area. He said that the service would also be able to give an explanation of the circumstances under which the Trust made a contribution to the Linford Christie Stadium.

In response to a question from Councillor Murphy, he said that the risk of the artillery wall further deteriorating was minimal.

RESOLVED THAT

- (i) The annual governance report be agreed, and;
- (ii) That the 2010/11 audited statement of accounts and Trustee's report be approved, and
- (iii) That the 2011/12 contribution to the running costs of Linford Christie stadium, up to a maximum of £115,500 be approved.

45. AUDIT COMMISSION RECOMMENDATIONS UPDATES & ANNUAL GOVERNANCE STATEMENT 2011 ACTION PLAN

Geoff Drake, Chief Internal Auditor, introduced the report, which showed no outstanding Audit Commission recommendations, and one outstanding Annual Governance Statement action, which was not scheduled to complete for some time.

RESOLVED THAT

The report be noted.

46. TREASURY MANAGEMENT UPDATE FOR THE FIRST SIX MONTHS OF 2011-12

The Chairman asked what had enabled the reduction in general fund debt. Hitesh Jolapara, Deputy Director of Finance, said that it had been capital receipts: he agreed to supply the Committee with a breakdown of what the receipts related to.

Councillor Ginn asked about the reforms affecting the Housing Revenue Account (HRA). Mr Jolapara said that the Council's HRA debt was estimated to be £186 million following the alteration of the subsidy arrangements. The Housing and Regeneration department were drawing up a 30-year business plan in response to the changes, while CIPFA guidance was that debt should be continue to be pooled separately.

RESOLVED THAT

The report be noted

47. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report, which set out risk management activity in the period since the last meeting. He said that there had been intensive work on the integration of risk management as part of the Tri-Borough programme. He said that work also included work on the Fraud Risk Register, the adoption of a new Local Governance Code, and assessing the implications of the employee code of conduct in light of the Bribery Act.

Councillor Cartwright asked about the impact of the Bribery Act, in light of the recent publicity surrounding the Post Office. Mr Sloniowski said that the employee Code of Conduct was compliant with the Act. With regards to the position of contractors, John Hayes, District Auditor, said that the act required authorities to have assurances that contractors were compliant, and that issues could arise in areas such as trade waste collection. Dave McNamara, Assistant Director of Finance- Environment and Children's Services, said that the Serco contract did include a clause forbidding contractors from accepting tips.

RESOLVED THAT

The report be noted.

48. ST MARY'S PRIMARY SCHOOL AUDIT

Dave McNamara, Assistant Director of Finance- Environment and Children's Services, introduced the report, which set out, further to the nil assurance audit issued on St Mary's Primary School, the progress of the subsequent investigation, and the measures taken by the Council following the audit. He said that, of the schools audited that year, only St Mary's had failed to meet the required financial standard, and would be audited again in 2012. He said that additional measures had been put in place, including a quarterly review of schools by officers to identify those that might require an audit and an additional audit when schools when through a management change; with the agreement of the Chair of Governors at Holy Cross Primary School, this had included an audit of voluntary funds. The Schools Management Service made its report directly to the Governors.

Councillor Iggulden asked where responsibility lay for voluntary funds. Mr McNamara said that the responsibility for grant and diocesan funds was clear, but the responsibility for voluntary funds lay with the school. As such, the discovery of the issues at St Mary's Primary School by the Council, given their isolation from grant funds, were coincidental, and the nature of the problem was unusual. Recent amendments to the law had made it easier for local authorities to report concerns regarding voluntary funds, and the Council urged schools not to keep a separate bank account for voluntary funds, however.

RESOLVED THAT

(i) The report be noted, and;

(ii) The follow up audit scheduled for 2012 be noted.

49. PARKING PAY AND DISPLAY DEPARTMENTAL RESPONSE

Dave McNamara, Assistant Director of Finance- Environment and Children's Services, introduced the report, which set out a response to the recent audit of Parking Pay and Display. He said that the service did not have any concerns about the contractor, Royal Borough of Kensington and Chelsea, or their management of concerns about individual operators. He noted that there had been issues about evidencing the controls that RBKC had in place for the audit, but that these controls were in force.

With regards to the issues identified with reconciliations, he said that the service felt that the audit overstated the issue. He said that the machines involved were often older ones, and had failed to sync immediately with the database, though this evened out over time and represented an improvement over a spot reconciliation process. He added that the problems with foreign coins were endemic to the method of collection.

Councillor Murphy asked if, in the light of problems with reconciliation, the Council had sufficient assurance that the amount collected was correct. Mr McNamara said that the Council was able to see where there had been consistent undercollection and acted accordingly. However, given the level of variation in relation to the level of income, when measured against the cost of replacing the machines to remove the problem, it was considered it as an operational risk.

RESOLVED THAT

The report be noted

50. CORPORATE ANTI FRAUD SERVICE REPORT 1 APRIL TO 30 SEPTEMBER 2011

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the work undertaken by the Corporate Anti-Fraud Service (CAFS) in the first 6 months of the 2011-12 financial year. He said that 76 sanctions had been issued against a target of 60, with £235,000 recovered in real financial terms, and £3.6 million when including property, using the Audit Commission's valuation scale. These figures excluded £94,000 recovered and paid out to partners.

He said that the focus of the service had been shifted at the start of the year, with a focus on recovery of tenancy properties. He said that joint working had taken place with the Housing and Regeneration department to tackle tenancy fraud, and with the Police to investigate criminal activity. The service also now has 3 financial investigators, who work to identify assets which could be targeted for confiscation.

He drew the Committee to the collection of press releases and press coverage at the back of the report, and said that the service would feature in an upcoming episode of Saints and Scroungers.

The Chairman asked whether it was felt that sentences imposed by the courts were strong enough. Mr Drake said that officers felt not, but that the level of financial penalties imposed was more of an issue. Councillor Cartwright noted that sentences were given in line with guidelines issued by the Government.

The Chairman asked about the efforts made on recovery. Mr Drake said that the Council's Debt Management team were involved from an early stage in the interview process. He said that this was part of the unit's orientation towards income generation.

Councillor Iggulden asked whether the services provided to other Councils were on a commercial basis. Mr Drake said that the chief service provided was through the Council's financial investigators, and that a service level agreement was being developed.

Councillor Cartwright asked about the work undertaken on tenancy fraud, given the high value of the assets, and asked how CAFS interacted with the Housing service. Mr Drake said that CAFS received referrals from Housing, and had done educational work with the service. Work was now underway to use data mining to identify potential fraud cases; this involved checking other databases maintained by the Council and external databases, such as Experian.

In response to a question from Sheela Selvajothy, Trade Union Representative, Mr Drake said that any employee, and their trade union if they were a member, would not be informed of an investigation until disciplinary charges were brought: this was both to protect the integrity of the investigation and to protect the reputation of the employee, lest the investigation exonerate them.

RESOLVED THAT

The report be noted.

51. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL TO 30 SEPTEMBER 2011

Geoff Drake, Chief Internal Auditor, introduced the report, which set out internal audit activity undertaken in the quarter to 30 September 2011. He said that, at the time of the Committee, there were 5 outstanding reports, 20 outstanding recommendations, and 9 outstanding recommendations over 6 months past their due date. The audit plan was being delivered broadly to target.

RESOLVED THAT

The report be noted.

52. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED THAT

Under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following 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.

53. EXEMPT MINUTES OF THE MEETING ON 22 SEPTEMBER 2011

RESOLVED THAT

The exempt minutes of the meeting held on 22 September 2011 be agreed as a true and correct record.

Meeting started: 7.00 pm
Meeting ended: 10.00 pm

Chairman

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AUDIT AND PENSIONS COMMITTEE

15th March 2012

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 31st December 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	B Pearce, Extn 1808	16 th Floor, Westminster City Hall,



London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 4 2011

February 2012



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 2.2% 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:

45% Index-linked Treasury Gilt 1¼% 2017, 20% Index-linked Treasury Gilt 1¼% 2027, 10% Index-linked Treasury Gilt 1¼% 2037, 5% Index-linked Treasury Gilt 0¾% 2047, 20% Index-linked Treasury Gilt 1¼% 2055.

This Liability Benchmark was last reviewed in December 2011.

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>MFS Custom Benchmark</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 31st December 2011

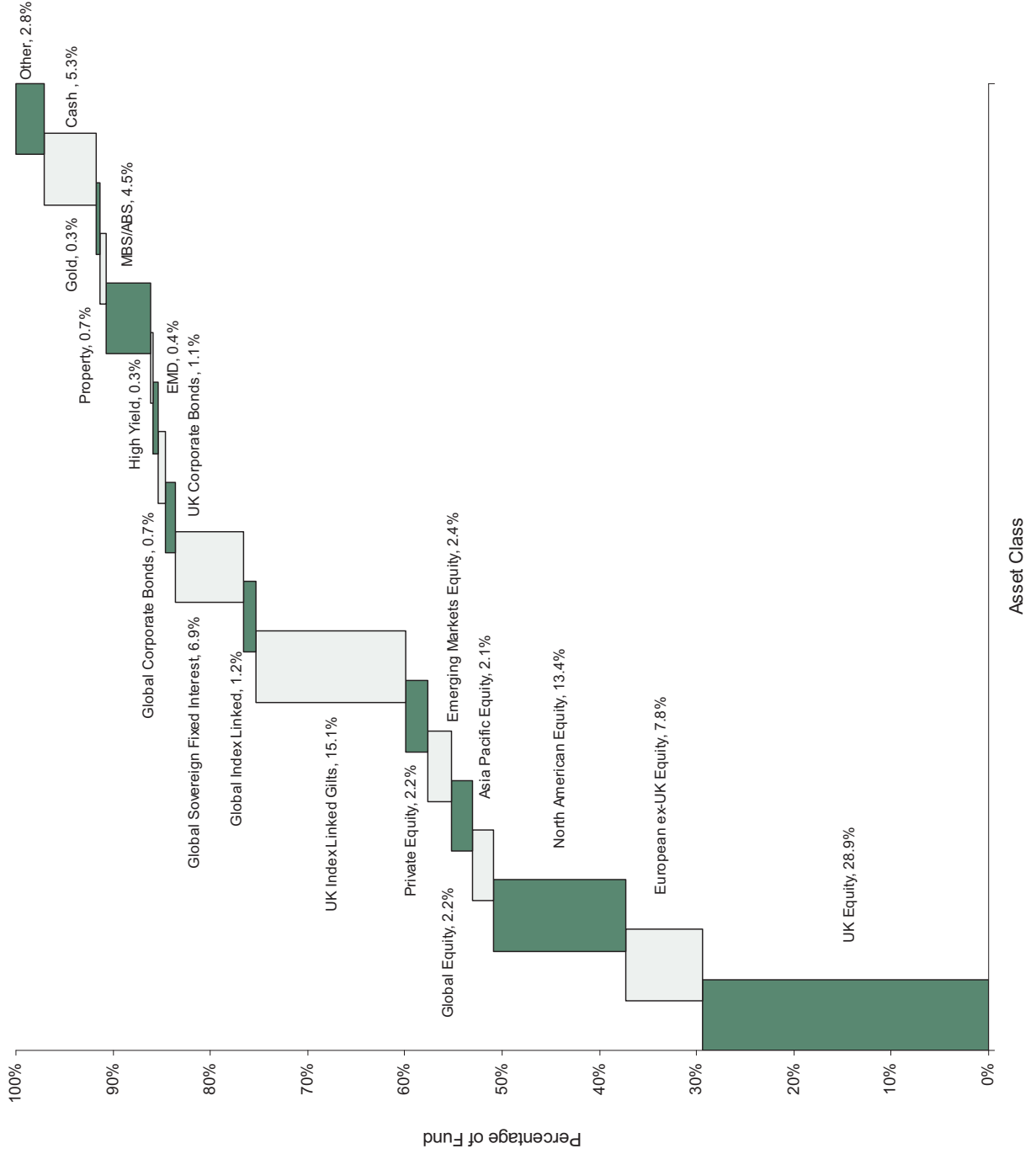
Fund Manager	Market Value (£000)	% of Total Fund	Target % of Total Fund	3 month return (%)	1 year return (%)	2 year return (%)	3 year return (%) p.a.
Total Fund	611,722	100.0	100.0	6.8	3.4	7.4	10.9
<i>New Liability Benchmark + 2.2% p.a.</i>				9.0	22.4	17.1	13.5
<i>Difference</i>				(2.2)	(19.0)	(9.7)	(2.6)
UK Equities	155,777	25.5	25.0	6.6	1.8	6.8	15.5
<i>Majedie</i>				8.9	(1.5)	7.2	15.1
<i>FTSE All Share + 2% p.a.</i>				(2.3)	3.3	(0.4)	0.4
<i>Difference</i>							
Overseas Equities	149,978	24.5	25.0	8.0	(4.2)	5.9	10.0
<i>MFS</i>				7.5	(6.3)	5.2	10.3
<i>MFS Custom Benchmark</i>				0.5	2.1	0.7	(0.3)
<i>Difference</i>							
Dynamic Asset Allocation Mandates	148,760	24.3	25.0	2.2	1.5	6.6	10.3
<i>Barings</i>				2.1	1.6	5.9	10.5
<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	4.9	4.8	5.0
<i>Difference</i>				0.9	(3.3)	1.1	5.5
<i>Ruffer</i>				2.4	1.1	8.9	10.1
<i>3 month Sterling LIBOR + 4% p.a.</i>				1.2	4.9	4.8	5.0
<i>Difference</i>				1.2	(3.8)	4.1	5.1
Matching Fund	142,959	23.4	25.0	10.4	14.9	9.0	7.5
<i>Liability Benchmark + 1% p.a.</i>				8.7	21.2	16.0	12.5
<i>Difference</i>				1.7	(6.3)	(7.0)	(5.0)
<i>Goldman Sachs</i>				(0.1)	(1.7)	0.6	(0.1)
<i>3 month Sterling LIBOR + 2% p.a.</i>				0.8	2.9	2.8	(0.4)
<i>Difference</i>				(0.9)	(4.6)	(2.2)	0.3
<i>Legal & General (note 2)</i>				19.0	29.9	16.1	14.2
<i>2 x FTSE + 15yr IL Gifts - LIBOR p.a.</i>				25.2	54.8	32.5	22.2
<i>Difference</i>				(6.2)	(24.9)	(16.4)	(8.0)
Private Equity	14,247	2.3	0.0	11.3	28.5	23.7	-
<i>Invesco</i>				14.6	31.5	27.6	-
<i>Unicapital</i>				7.1	24.4	18.7	-

Notes:

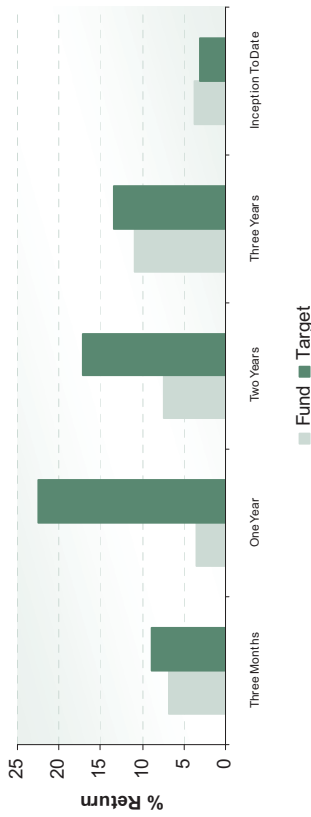
- 1) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.
- 2) At the time of reporting, the Legal & General mandate consisted of index-linked gilts, the first step of the new LDI mandate. The longer term benchmark consists of a blend of benchmarks, reflective of Legal & General's previous holdings.

Fund	Manager	Closing Market Value as at 30th September 2011 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 31st December 2011 £000	% of Total Fund	Target % of Total Fund
Total Fund		573,724	100.0	(930)	37,154	1,774	8	611,722	100.0	100.0
UK Equities	Majedie	146,091	25.5	-	8,597	1,089	-	155,777	25.5	25.0
Overseas Equities	MFS	138,933	24.2	(8)	10,596	457	8	149,978	24.5	25.0
Dynamic Asset Allocation Mandates		145,637	25.4	(27)	2,962	188	-	148,760	24.3	25.0
	Barings	108,149	18.9	(27)	2,183	55	-	110,359	18.0	18.75
	Ruffer	37,488	6.5	-	780	133	-	38,401	6.3	6.25
Matching Fund		129,463	22.6	-	13,495	1	-	142,959	23.4	25.0
	Goldman Sachs	58,247	10.2	-	(65)	0	-	58,183	9.5	12.5
	Legal & General	71,216	12.4	-	13,560	1	-	84,777	13.9	12.5
Private Equity		13,599	2.4	(895)	1,504	38	-	14,247	2.3	0.0
	Invesco	7,242	1.3	(114)	1,056	(0)	-	8,184	1.3	0.0
	Unicapital	6,357	1.1	(781)	449	38	-	6,063	1.0	0.0

Asset Class Breakdown as at 31 December 2011



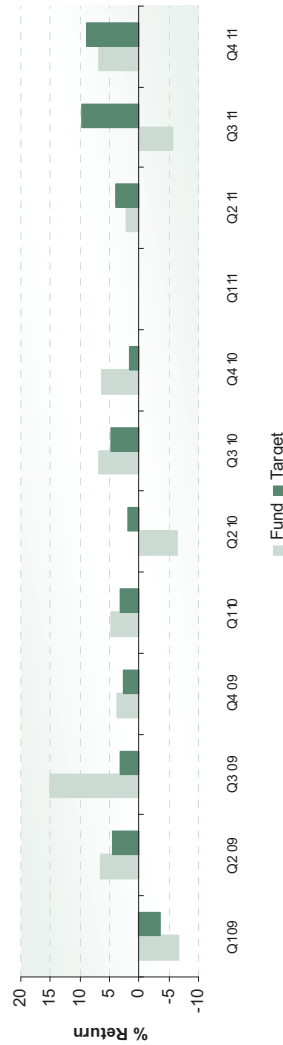
Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	6.79	3.42	7.37	10.94	3.69
Target	8.98	22.43	17.06	13.46	3.11

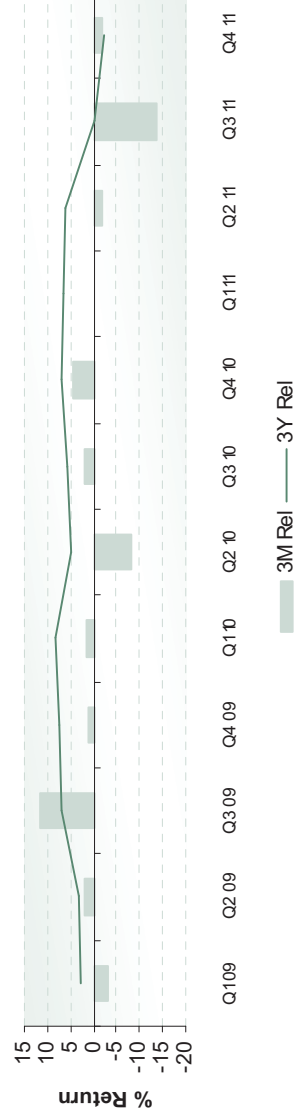
The Fund underperformed its liability benchmark by 2.19% over the quarter, returning 6.79% compared to the target of 8.98%. Whilst the overall performance was strong, making up the losses incurred last quarter, continued market volatility and a flight to safety resulting in gilt yields falling further caused the underperformance. The Fund's performance of 3.42% over the year was behind its target by 19.01%, as it suffered from the underperformance over the third quarter of 2011. The Fund has also underperformed over longer periods.

Three Years Rolling Quarterly Returns



	Q 1 09	Q 2 09	Q 3 09	Q 4 09	Q 1 10	Q 2 10	Q 3 10	Q 4 10	Q 1 11	Q 2 11	Q 3 11	Q 4 11
Fund	-6.68	6.46	15.21	3.59	4.75	-6.34	6.87	6.20	0.14	2.27	-5.62	6.79
Target	-3.50	4.47	3.09	2.57	3.21	2.00	4.68	1.57	0.17	4.07	9.54	8.98

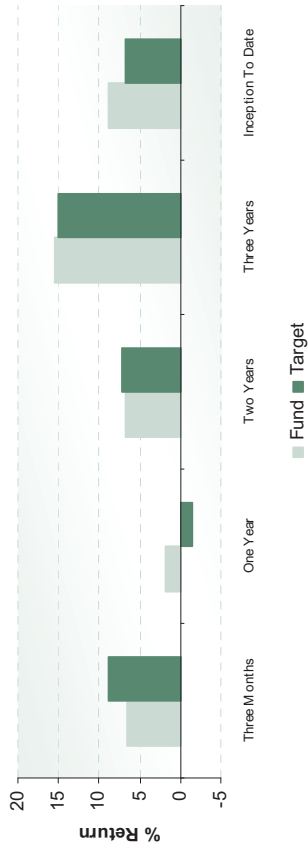
Three Years Rolling Relative Returns



	Q 1 09	Q 2 09	Q 3 09	Q 4 09	Q 1 10	Q 2 10	Q 3 10	Q 4 10	Q 1 11	Q 2 11	Q 3 11	Q 4 11
3M Rel	-3.29	1.90	11.76	1.00	1.49	-8.18	2.09	4.56	-0.03	-1.73	-13.84	-2.01
3Y Rel	2.79	3.37	7.14	7.52	8.10	4.86	5.57	6.83	6.55	5.98	-0.22	-2.22

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.

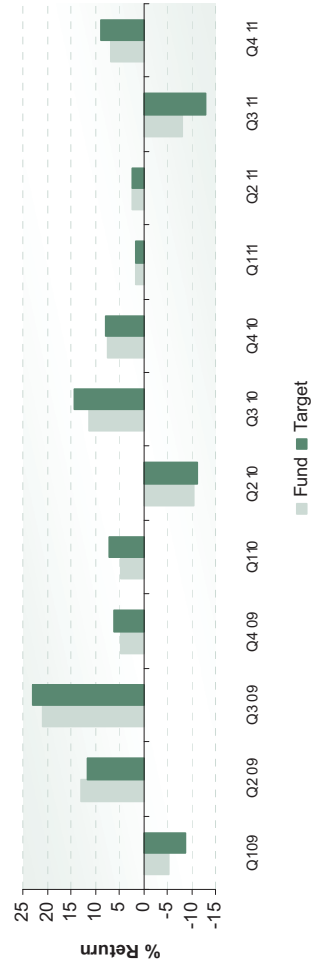
Historical Plan Performance



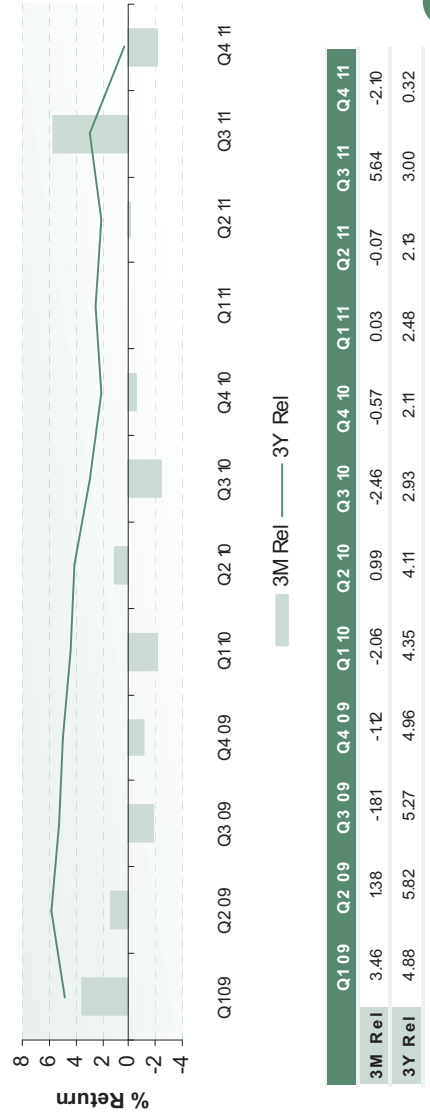
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	The Majedie Tortoise Fund has reached its planned capacity limit and therefore they are closing it. Majedie have built in a small amount of extra capacity for the future cash flow requirements of our existing clients. Majedie will also follow its normal policy of recycling any outflows to new investors, as appropriate.
Performance	The fund performance was 6.63% over the quarter, 2.29% behind its target. Over 12 months, the portfolio was 3.31% ahead of its target. The portfolio's short positions in Rolls Royce, who struck a lucrative deal with US firm Pratt & Whitney, and AGK, which rebounded significantly over the quarter, harmed performance. However, the portfolios positions in Pfizer and BP aided the overall performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



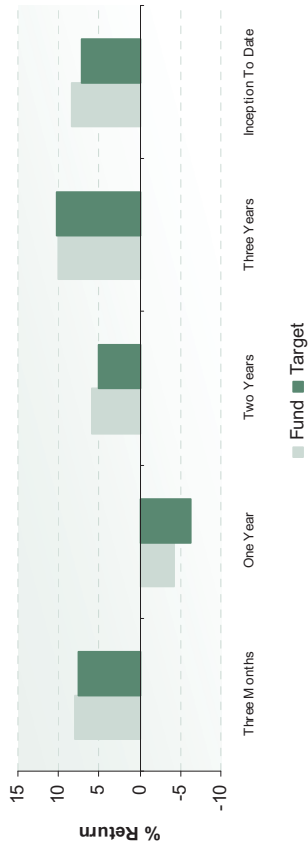
Three Years Rolling Relative Returns



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.

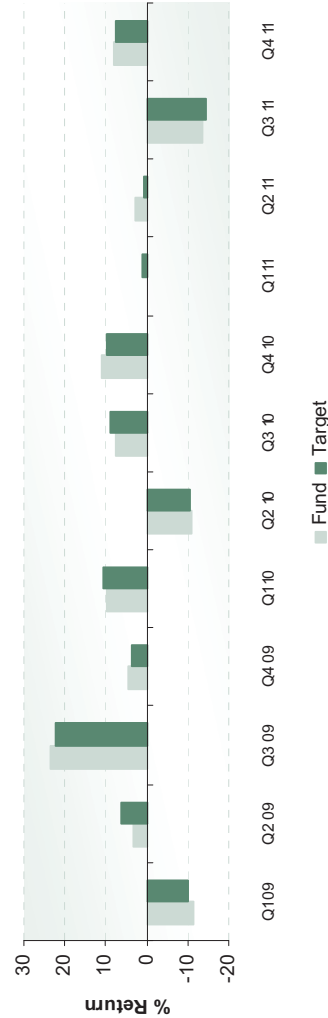
Historical Plan Performance



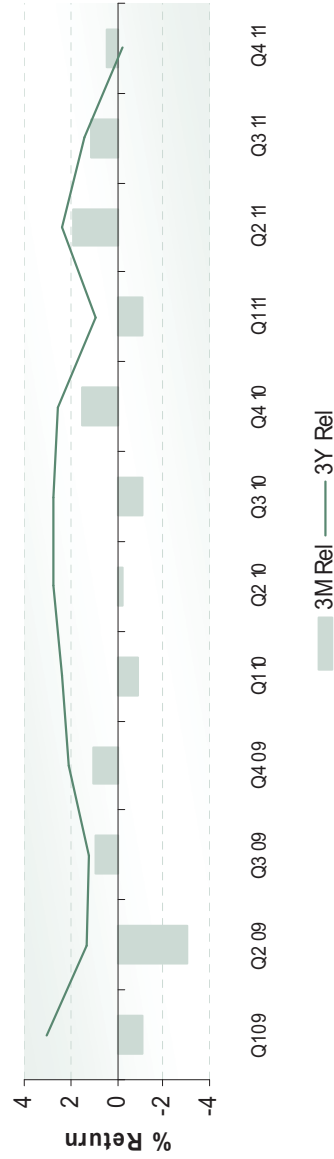
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The performance over the quarter was 7.96%, 0.47% ahead of the target. Over 12 months, the fund was 2.14% ahead of its target. Stock selection in technology, basic materials and financial services aided performance as did individual stock holdings in National Oilwell Varco, Pernod-Ricard, Dun & Bradstreet, WW Grainger and not owning Amazon.com. However, stock selection in health care and industrial goods & services as well as an underweight position and stock selection in transportation was detrimental to performance. Individual holdings of Oracle, Philip Morris International, Credit Suisse, Inditex, Shin-Etsu Chemical, Danone and Lojas Renner also detracted from performance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns

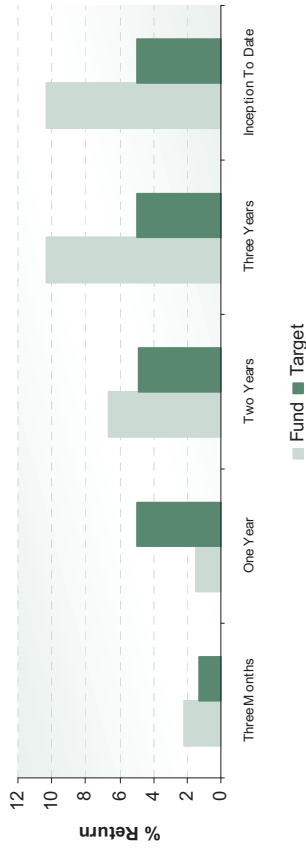


Three Years Rolling Relative Returns



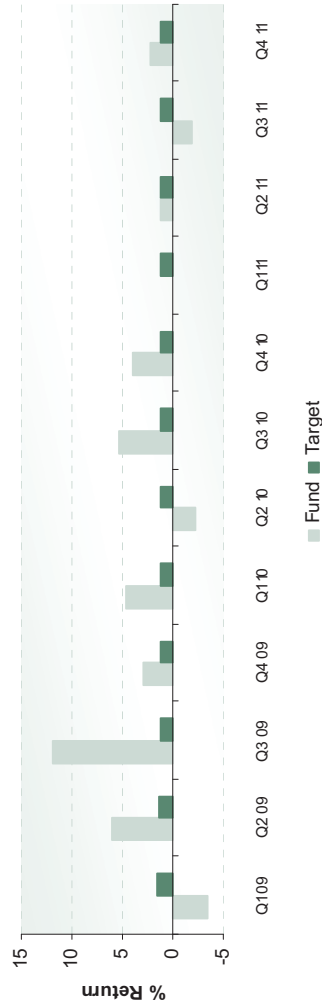
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	2.16	1.45	6.64	10.32	10.32
Target	1.24	4.91	4.82	4.97	4.97

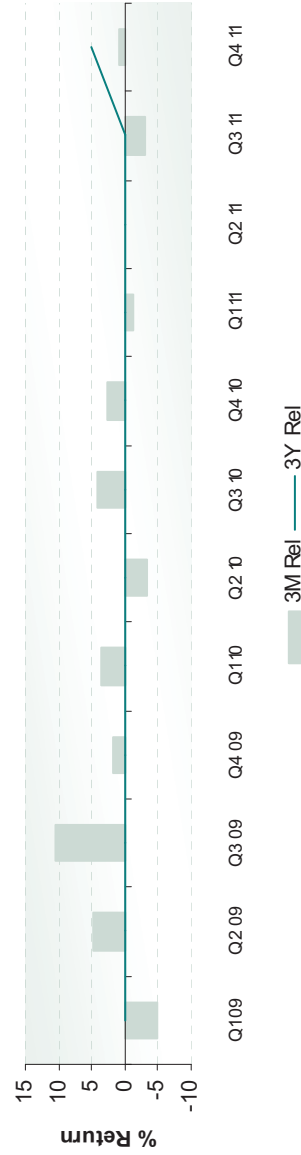
Three Years Rolling Quarterly Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-3.38	6.10	11.82	2.99	4.73	-2.22	5.32	3.94	0.01	1.18	-1.86	2.16
Target	1.50	1.33	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24

The performance of the group over the quarter was 2.16%, the LIBOR-based target returned 1.24%. Both Barings and Ruffer enjoyed similar gains by tactical positions in less volatile assets classes to protect from market uncertainty over the quarter. Over the past 12 months, performance has been 3.46% below target, as both managers have underperformed the target.

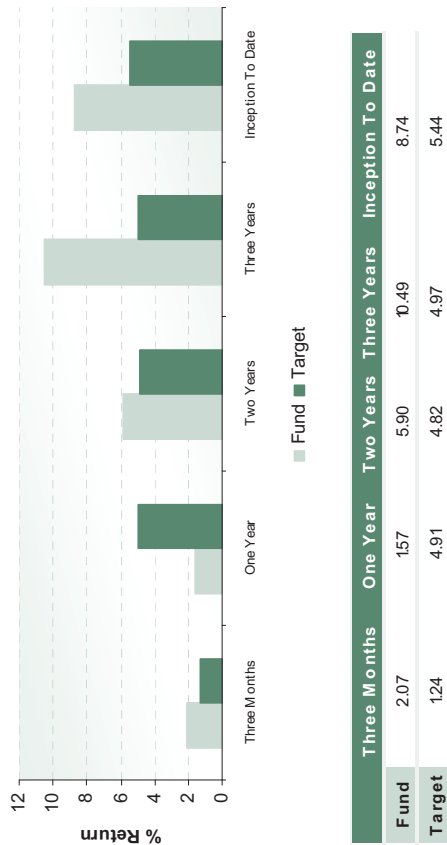
Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	-4.81	4.71	10.51	1.83	3.54	-3.34	4.10	2.74	-1.16	-0.01	-3.03	0.91
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	5.10

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.

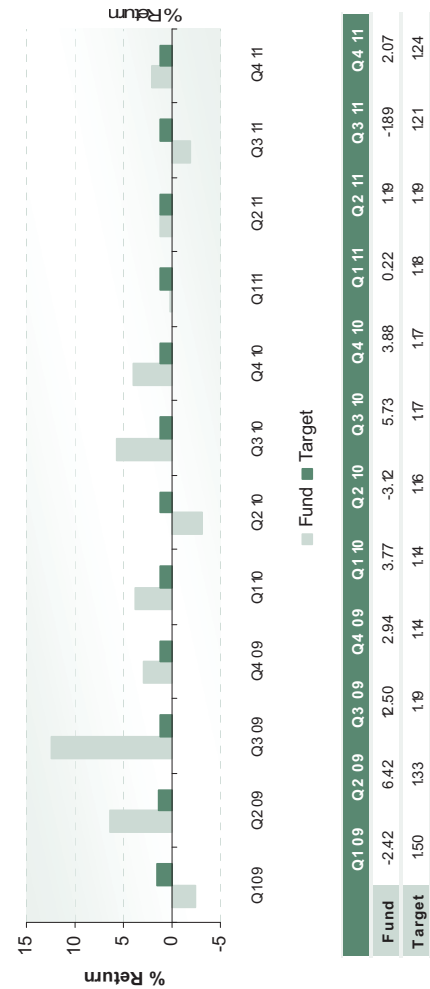
Historical Plan Performance



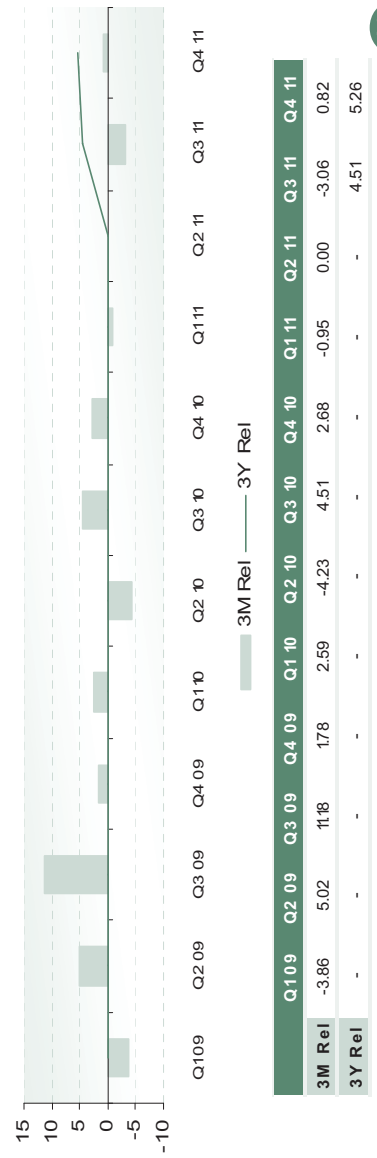
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 2.07% over the quarter, 0.83% ahead of its target. Over 12 months, the fund is 3.34% below target. The fund was able to make gains by taking a relatively defensive position, Australian, long Canadian and UK bonds were the main contribution to performance. The holding in multinational equity funds and a global agriculture fund also boosted returns. However, the short position in FTSE futures and exposure to gold was detrimental to overall performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns

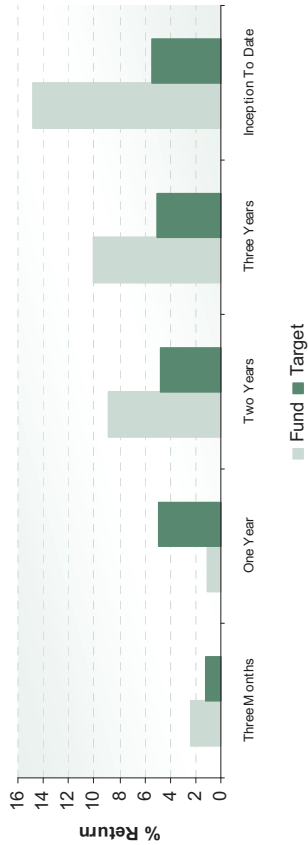


Three Years Rolling Relative Returns



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

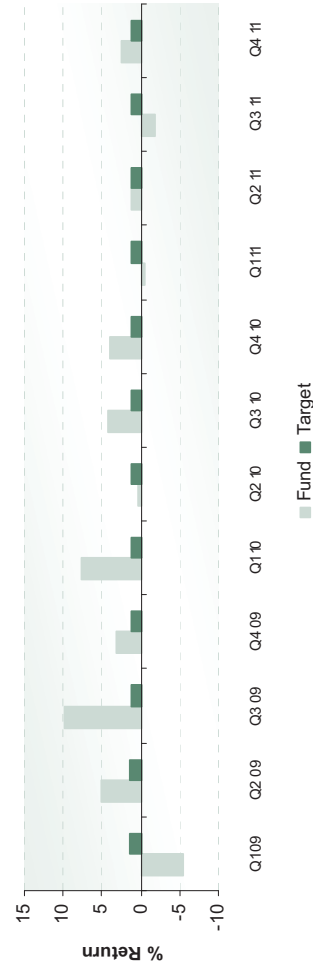


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	2.44	1.11	8.85	10.07	14.82
Target	1.24	4.91	4.82	4.97	5.44

Quarterly Manager update

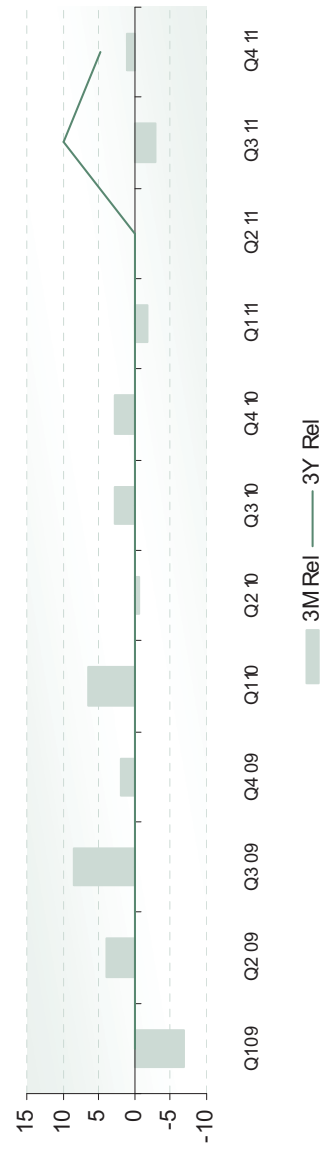
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 2.44% over the quarter, 1.20% ahead of its target. Over 12 months, the fund was 3.80% below the target. The portfolio also took a relatively defensive position with index-linked bonds, large multinational equity holdings and US Dollar exposure being the main drivers of performance. However, Australian and Canadian Dollar put warrants lost ground as on risk assets recovered. The portfolio's exposure to gold was also detrimental to performance.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-5.49	5.7	9.81	3.2	7.64	0.41	4.3	4.11	-0.61	1.3	-1.80	2.44
Target	1.50	1.33	1.9	1.4	1.4	1.6	1.7	1.7	1.8	1.8	1.21	1.24

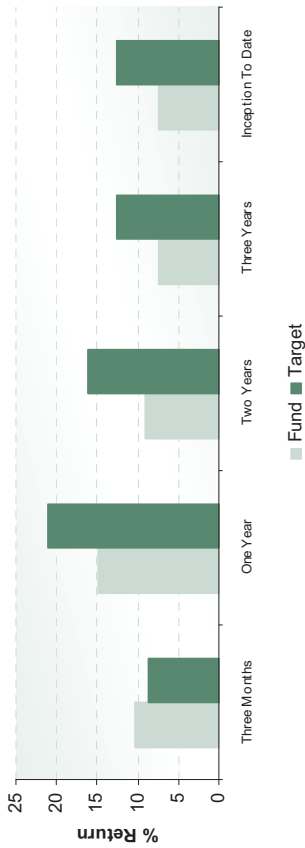
Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	-6.90	3.79	8.52	1.96	6.42	-0.74	2.93	2.91	-1.77	-0.06	-2.97	1.9
3Y Rel	-	-	-	-	-	-	-	-	-	-	9.79	4.86

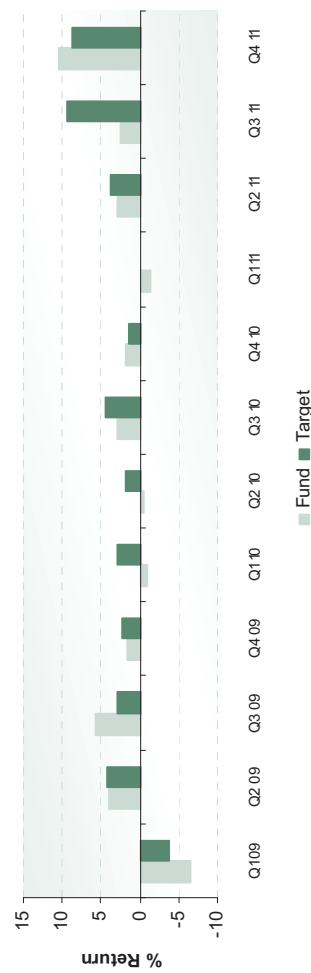
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	10.42	14.92	8.99	7.49	7.49
Target	8.67	21.16	16.02	12.52	12.52

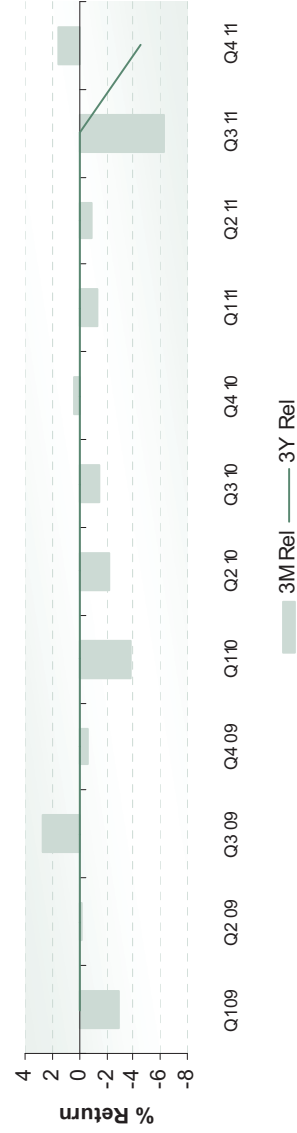
Three Years Rolling Quarterly Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-6.45	4.04	5.66	1.67	-0.88	-0.48	2.98	1.75	-1.32	2.90	2.50	10.42
Target	-3.68	4.28	2.90	2.38	3.02	1.81	4.49	1.38	-0.01	3.88	9.35	8.67

The performance of the Matching Fund over the quarter of 10.42% is 1.75% below its gilts-based liability benchmark. This can be attributed to holding long dated index-linked gilts. However, this should not mask the limited ability of the existing LGIM mandate to track the Liability Related Benchmark. This is being addressed with a new mandate. The Matching Fund return of 14.92% over the year was 6.24% below target.

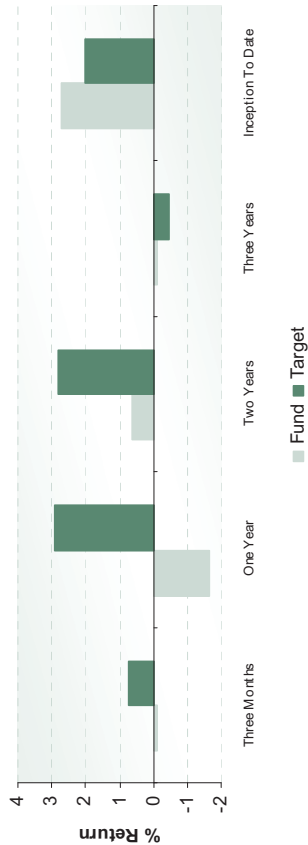
Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	-2.87	-0.23	2.68	-0.69	-3.79	-2.25	-1.45	0.36	-1.31	-0.94	-6.26	1.61
3Y Rel	-	-	-	-	-	-	-	-	-	-	-	-4.47

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.

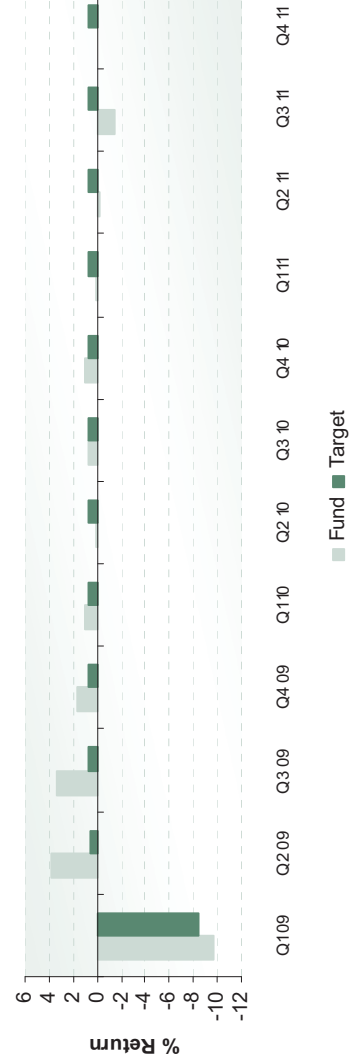
Historical Plan Performance



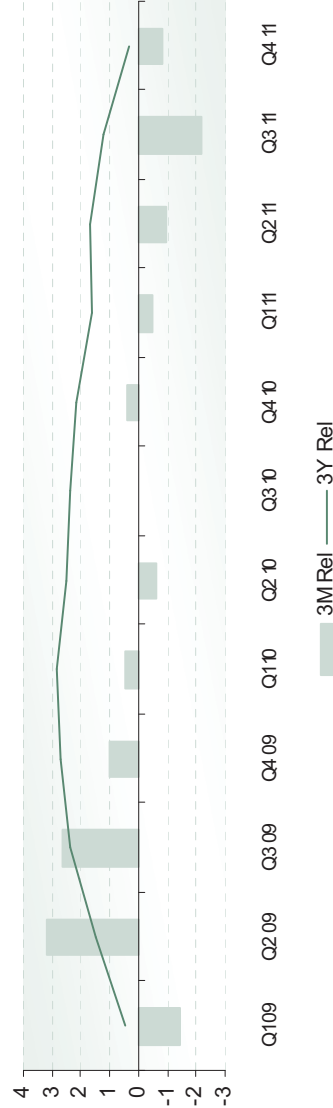
Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was -0.11% over the quarter, 0.86% behind its target. Over 12 months, performance was 4.54% below the target. The fund's country and currency strategies were the main sources of underperformance over the quarter. However, the EMD strategy delivered positive excess returns.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



Three Years Rolling Relative Returns



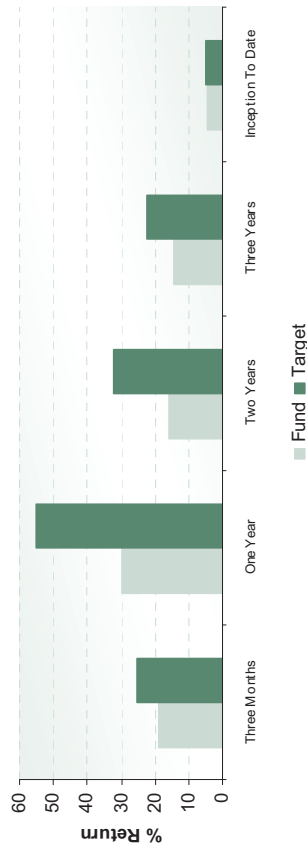
	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-9.70	3.78	3.36	1.66	1.0	0.03	0.68	1.10	0.18	-0.27	-1.45	-0.11
Target	-8.39	0.56	0.70	0.65	0.65	0.67	0.68	0.68	0.69	0.70	0.72	0.75

	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	-1.43	3.20	2.64	1.01	0.44	-0.64	0.00	0.42	-0.51	-0.96	-2.5	-0.85
3Y Rel	0.47	1.48	2.37	2.68	2.86	2.51	2.37	2.19	1.60	1.68	1.20	0.34

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

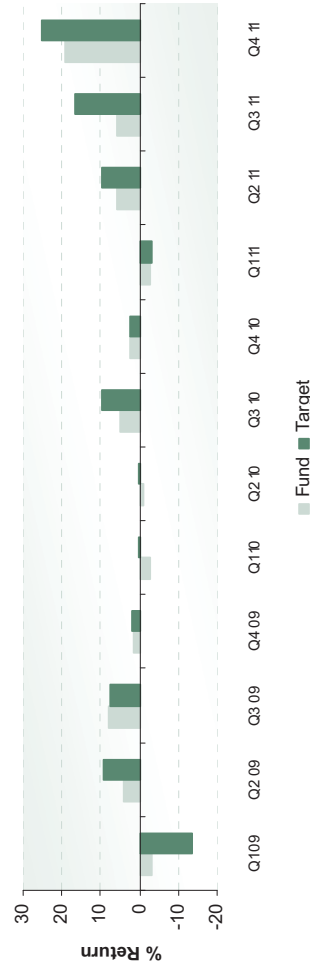


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	19.04	29.93	16.10	14.23	4.66
Target	25.16	54.83	32.47	22.18	5.77

Quarterly Manager update

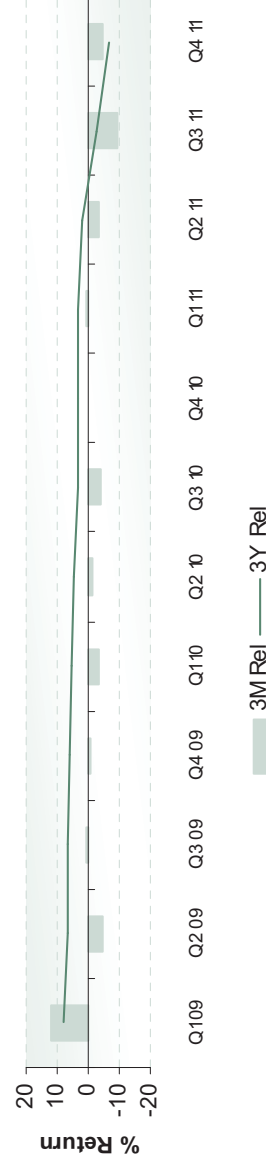
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 19.04% over the quarter, 6.12% behind its target. Over 12 months, performance was 24.90% behind target. The fund, which is invested in the 2055 Index-Linked Gilt, 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



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
Fund	-3.32	4.29	7.85	1.68	-2.69	-0.96	5.18	2.34	-2.69	5.85	5.96	19.04
Target	-3.32	4.29	7.85	1.68	-2.69	-0.96	5.18	2.34	-2.69	5.85	5.96	19.04

Three Years Rolling Relative Returns



	Q1 09	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11
3M Rel	1178	-4.77	0.34	-0.40	-3.03	-1.34	-4.29	-0.04	0.63	-3.42	-9.23	-4.89
3Y Rel	8.07	6.34	6.46	6.29	5.20	4.71	3.23	3.22	3.37	1.89	-2.92	-6.51

The fourth quarter has once again been a rollercoaster ride for investors. Whilst the majority of asset classes and regions made ground over the final part of 2011 this tended to mask volatility in all markets as prices reacted strongly to the news of the day, mostly coming from the Eurozone. As the Sovereign Euro Debt crisis continued, both the Greek and Italian Prime Ministers stepped down. Loukas Papademos replaced George Papandreou and former European commissioner Mario Monti replaced Silvio Berlusconi. Berlusconi was forced out as, amongst other things, Italy's debt became unsustainable with sovereign yields in excess of 7%. During the December EU summit, a treaty change aimed at imposing fiscal discipline across EU countries was vetoed by David Cameron. Cameron reasoned that the changes would be detrimental for the UK Financial sector. In the following weeks other member states voiced concerns leaving the crisis unresolved at year end.

With politicians seemingly unable to find a long-term credible solution to the growing debt crisis, the European Central Bank offered 3 year loans, cut interest rates by 50bps and cut reserve requirements to support the Eurozone banking system. This was seen by the markets as a positive step towards bolstering the economy. Although only time will tell if the ECB's measures will improve bank lending and ease fears about the stability of some of Europe's biggest banks and its peripheral economies. As the festive period drew nearer, sentiment improved in the major European economies to generally leave their equity in positive territory over the quarter. This was scant consolation for many investors however, who have experienced a sharp price contraction over the year, typified by the CAC40 returning -13.4%.

Compared to some of the major western economies, the UK seemed to be holding quite well. However, the outlook for the retail sector looks weak for 2012. It was a difficult Christmas on the high street as electronics and entertainment retailers, including Dixons, Comet, HMV and Game, reported sharp annual falls in sales, as did supermarket chain Tesco. Also looking at 2011 as a whole, credit card spending has fallen by 4% year on year, a sign that consumers are becoming more conscious about their personal debt and are possibly concerned over the UK outlook.

UK debt markets saw positive returns for the quarter. Looking at the annual returns for 2011, 1-3 year gilts returned 3.2%. The FTSE 100 had a strong quarter, returning 9.4%. However, this was not enough to recover the losses from the previous three quarters, the index returned -2.2% for the year. Despite the strong quarterly performance, volatility was marked with daily variations in the FTSE100 of up to 3.7% (see figure 1 below).

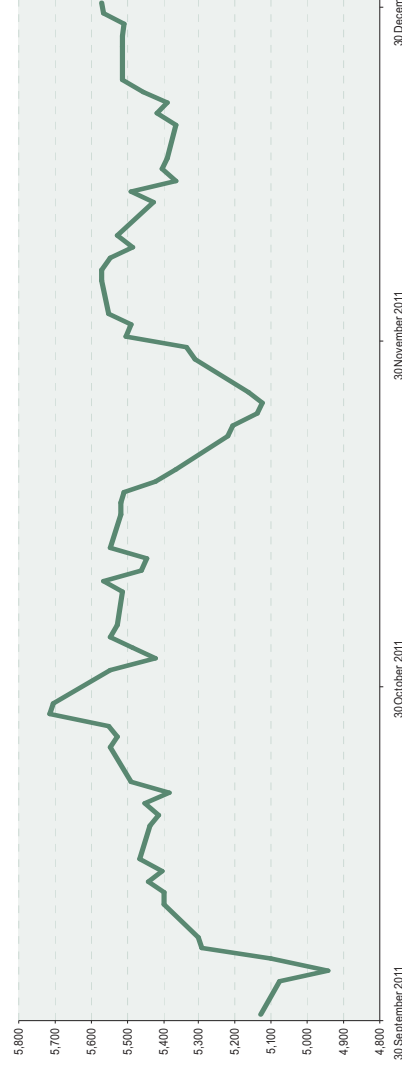


Figure 1 – Progression of the FTSE100 Index over quarter 4 2011.

Sentiment did grow off the back of a unanimous vote by the Bank of England on a £75bn extension to its asset purchase programme.

As a result of the volatility, Gilt yields continued to fall across the length of the curve with 15 year yields down by 45bps over the period. However, the implied inflation curve remained fairly stable, particularly towards the longer end (see figure 2 overleaf).

Contagion of Eurozone issues also impacted the US, as did a downward revision of quarter three GDP growth. There was some positive news as unemployment fell to a 2 year low of 8.6%. However, investor sentiment in the US is still relatively low, following the downgrade of US Government Debt in quarter three. This is reflected in credit spreads, which remain high, at levels last seen during 2009.

2012 for the global economy. However, policy makers reassured investors that monetary policy would be prudent and that the currency, the Yuan, would remain basically stable. With the aim of ensuring stable growth and price increases for the year ahead.

However, the region faced added uncertainty following the death of North Korean leader Kim Jong-il and the perceived instability and threat of conflict that came with the appointment of his successor, Kim Jong-un. Strong performance of a number of electronics companies in South Korea helped offset the effect of the leadership change.

The emerging markets, as measured by the FTSE All-World Emerging Market Index, produced positive returns over the quarter (+3.9%), driven by a rally in October. However, they did tend to underperform developed markets given investors' fragile risk appetite, as a result of macroeconomic problems in the Eurozone. It was therefore unsurprising to learn that EMEA markets underperformed the broader emerging markets over the quarter.

Sources: Datastream, P-Solve RMS.

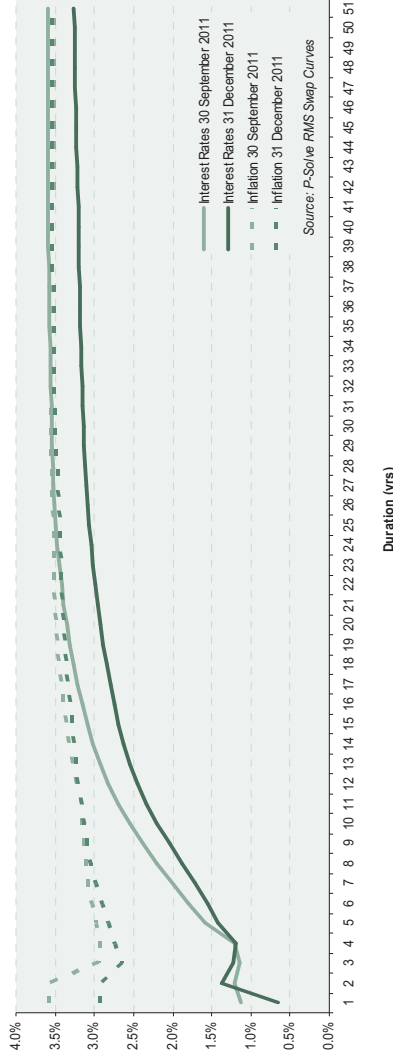


Figure 2 – Prevailing inflation and interest rates over quarter 4 2011.

Looking at individual US sector performance, all the debt sectors ended the year in positive territory, with US Aggregate Government Debt outperforming all major sectors including High Yield. 1-3 Year Government Debt returned 1.6% over the quarter. US High Yield had a strong quarter returning 6.2%, as risk appetite appeared to return.

The co-ordinated action taken by the Fed and five other major central banks to ease the dollar funding pressure and other encouraging data resulted in US stock markets having a strong quarter and recovering all the losses in 2011, the S&P 500 ended the year 2.2% higher.

Equity markets in Japan struggled and were one of the few markets to retreat over the quarter. The strength of the Japanese Yen, as well as the ongoing European debt crisis, weighed on external demand for Japanese goods. Worried about the country's post-quake recovery, the Japanese government stepped in to drive the Yen lower to aid exporting firms. In addition, The Bank of Japan expanded its asset purchase programme by 5tn Yen (£41bn) in a bid to boost growth.

The rest of Asia fared slightly better with equity markets as a whole, up on the quarter. This was despite China predicting a grim and complicated

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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

15th March 2012

CONTRIBUTORS

DF

ALTERNATIVE INVESTMENTS

This report prepared by Psolve gives various options for investing in alternative investments.

**WARDS
All**

RECOMMENDATION:

1. That the committee agree to increase the allocation of the Pension Fund's investments to Ruffer by 5% of the total value of the fund with 2.5% coming from each of Majedie and MFS.

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1	Psolve File	B Pearce Extension 1808	16 th Floor, Westminster City Hall,

1. Introduction

1.1 Members will recall that at a briefing meeting on the 22nd November 2011, Psolve proposed a change in the investment strategy of the fund to include an allocation of the fund's investments to Alternative Investments.

1.2 At the last Audit and Pensions Committee on 8th December 2011 members received a presentation from Ruffer on their investment strategy and their opinion on Alternative Investments. It was proposed that Psolve prepare a paper for the next committee.

1.3 Psolve has now produced their paper which is attached. In the paper they have proposed two main options for investing in Alternative Investments:

a) Allocate more funds to Ruffer to manage with the same mandate as at present. Ruffer invests in a broad range of equities, bonds, different regions, credit and alternative investments. This will give access to Alternative Investments chosen by Ruffer as and when they think fit but not as much as the second option.

b) Go through OJEU procedures to arrive at preferred manager(s). Psolve propose three different options for this route.

1.4 Of the four options, the Ruffer option has the lowest fees.

1.5 Psolve are proposing that 10% of the fund (approx £60million) be invested in Alternative Investments and that this money should come from Majedie's UK Equity mandate.

2. Options

2.1 Officers have considered the proposal by Psolve and believe that there are two options for consideration:

a) Do nothing and leave the investments strategy as it is now. The current strategy has served the fund well and officers are not convinced that a move into Alternative Investments will add much to the Fund apart from diversification and would increase fees. There also does not seem to be much information about the returns they have produced over the long term compared to conventional investments. Alternative Investments by their nature are often illiquid and not easily realisable, which would mean that the fund would not be able to move the assets back into equities or other investments quickly should it be felt necessary.

b) Increase the allocation to Ruffer with the same mandate as at present which will give some exposure to Alternative Investments. The choice of investments will be theirs. Ruffer will be able to switch quickly between asset classes as they can now. Officers only recommend an extra allocation of 5% (Psolve recommend 10%) of the fund with 2.5% coming from both Majedie and MFS. Officers feel that taking the monies only from Majedie (UK Equities) will increase the fund's exposure to currency movements as well as too much from one manager.

3. Recommendation

3.1 That the committee agree to increase the allocation of the Pension Fund's investments to Ruffer by 5% of the total value of the fund with 2.5% coming from each of Majedie and MFS.

Investment Strategy Review next steps: Alternatives implementation or DAA

This note is addressed to the Audit & Pensions Committee (the “Committee”) of the London Borough of Hammersmith & Fulham Pension Fund (the “Fund”). As part of the recent Strategy Review we proposed the Committee seek to reduce the equity holding, diversify the assets by sources of return and diversify by regional allocation (specifically the bias towards UK). In particular, we discussed introducing an allocation to Alternatives.

The purpose of this note is to describe the implementation options available for reducing the equity holding and the governance implications for each.

As a reminder for the Committee, we begin with what we mean by Alternatives and why we propose the Committee consider the introduction of an Alternatives mandate.

What we mean by Alternatives

There is a very wide range of investments that can be considered as “alternative”. However, more simplistically they can be thought of as covering three different types of investment, as shown in the table below.

Broad type	Description	Examples
Traditional illiquid	Assets that pension schemes or institutions have held traditionally but that are illiquid in nature	Private equity Private debt (e.g. loans) Property
Non-Traditional “liquid”	Assets that pension schemes have typically not used significantly but that are relatively easy to trade	Commodities Non-traditional active management strategies (e.g. Hedge Funds) Carbon-credits Shipping
Non-traditional or emerging illiquid	Assets that pension schemes have typically not used significantly and that are also illiquid. These include opportunities that are more recent to emerge	Wine/art etc Insurance linked securities Intellectual capital

Why Alternatives and factors affecting returns

One of the main reasons for investing in alternatives is a belief that there are higher and/or more diverse risk-adjusted returns available.

The return arguments are relatively straightforward:

- = More muted economic growth in developed markets makes seeking alternative sources of return more important
- = Early stage growth opportunities have for some years tended to be illiquid anyway and investors are rewarded for providing liquidity
- = Diversification by return driver (see table below) is becoming more important in the current economic climate – many are hard to access directly other than through Alternatives

= The greater availability of capital in private markets is leading to a need for institutions to think about competing for return. This results partly from the progressive de-listing of capital markets, and partly because of the rise of private financing deals going forward. In addition, shortage of capital (eg in bank lending) is generating opportunities for private capital.

In terms of factors affecting returns, we can summarise what drives long term return investments into ten underlying broad factors. These are shown in the table below.

Driver	How this drives returns
Scarcity	Some resources are finite (oil, precious metals), others are unique (artwork). Both offer the potential for return as scarcity drives up prices.
Population Growth	Availability of more people to provide services/goods
GDP per Capita	People working harder/more efficiently increases productivity
Dependency Ratio	Changes in the ratio of workers to dependents can contribute to growth
Savings Ratio	The balance between spending on consumption now and investment to generate future growth (and consumption)
Attractors	Unnecessary spending. Branded items, luxury goods, trophy assets
Risk Transfer	A return premium exists as some are willing to pay extra to insure against unexpected/large losses.
Subsidy	Governments offer targeted return incentives to encourage desired market activity or behaviour, giving exposure to public sector policy stability.
Innovation	Changing behaviours through thought/product development
Alpha/Arbitrage	Return can be generated through the application of skill (intellectual capital) and the exploitation of information.

Of these factors, four are components of economic growth, to which the majority of listed assets are exposed. These are Population Growth, GDP per Capita, Dependency Ratio and Savings Ratio.

The other factors, however, tend to be significantly less pronounced, if represented at all, in traditional portfolios of listed assets. An Alternatives portfolio can be used to gain access to these other return drivers.

Drivers of return for the Fund

The table below shows the exposure the Fund has to the different drivers of return across the investment mandates.

Driver	Gilts		UK Equity	Overseas Equity	DAA	Private Equity	Hedge Funds
	LGIM (12.5%)	GSAM (12.5%)	Majedie (25%)	MFS (25%)	Barings/Ruffer (25%)	Invesco/Unigestion	Majedie Tortoise
Scarcity							
Economic Growth	✓	✓	✓	✓	✓	✓	
Attractors							
Risk Transfer							
Subsidy							
Innovation						Maybe	
Alpha/Arbitrage					Some	Some	✓

We see that the main driver of return is economic growth. Though there is some exposure to other drivers of return, through the private equity and hedge fund mandates, these only represent 3% of the Fund's assets. In addition, the investment strategy is heavily weighted toward equity exposure, and in particular UK equity exposure.

For this reason, we propose that the Committee considers ways in which diversification by return driver can be improved within the current investment strategy. The most obvious way to achieve better diversification is to introduce an allocation to Alternatives. However, the Committee needs to consider the implementation options and governance implications of such an action. An alternative means of reducing reliance on UK equity returns would be to increase the allocation to DAA.

Implementation and governance considerations

The Committee recently met with Ruffer who described some of the allocations to alternative investments in the DAA mandate. These are predominantly illiquid strategies which are designed to benefit from market distress and an ability to provide liquidity to the market. Though Ruffer do not offer a stand alone alternative investment fund, the Committee could nevertheless allocate funds to this manager to diversify the assets further, and slightly increase the exposure to Alternatives. If the Committee invests further funds with Ruffer, they will also benefit from the increased allocation to rotational mandates, whereby the manager actively rotates between asset classes according to his long-term views.

The table below describes three possible methods of gaining direct exposure to Alternatives, and compares them with the other option discussed above: increasing the allocation to Ruffer.

	Alternatives mandates			DAA
	(1)	(2)	(3)	(4)
	Fund of Funds/ Stand-alone	Basic Advisory	Delegated	Ruffer
Description	Trustee appoints a single manager who is responsible for choice of asset classes and/or underlying managers	Trustee is responsible for choice of asset classes and underlying managers	Delegated manager is responsible for choice of asset classes and underlying managers, within risk constraints set by the Trustees	Ruffer allocates funds across broad spectrum of asset classes and actively rotates between different classes Philosophy is to preserve capital
Expected composition of allocation	Single mandate	Likely only 2 to 3 mandates, in relatively familiar asset classes e.g. Global Property, Fund of hedge funds	Expect 10-15 underlying mandates in a wide range of asset classes e.g. Global Property, Fund of hedge funds, commodities, catastrophe risk, shipping, carbon credits	A diverse split between equity from different regions, credit and some alternatives Manager has flexibility to switch between classes according to outlook
Governance requirement	Time cost associated with selecting a manager (Low to Medium)	Time cost associated with receiving training on asset classes and underlying managers (Medium)	Delegated to a third party manager with specific risk controls Governance shifts to monitoring the Delegated manager (Low to Medium)	No additional governance requirements (Low)
Diversification by return driver	Medium	Low - Medium	High	Low
Indicative fees	1-2% p.a.*	1-2% p.a.*	0.5% p.a. AUM c1% p.a. for underlying managers*	0.85% p.a.

* Managers may also charge a performance fee

The Committee should be aware that for the first two options, each mandate appointed with a new manager may require the Committee to perform a procurement exercise and will incur advisory fees each time.

Though new mandates will be appointed with different managers in the delegated approach too, the Fund may only have to perform the procurement exercise for the delegated manager and incur the advisory fees for this one manager.

Target Strategy

As discussed in our Strategy Review, we would propose the Committee reduce the exposure to UK Equity, through the Majedie mandate, by 10% in favour of an alternatives allocation. The table below describes how the strategic allocations would change. The Committee should note that the total Fund investment target would not change as a consequence of implementing these options.

Asset Class	Manager	Current Strategic Allocation (%)	Proposed Allocation Options 1-3 (%)	Proposed Allocation Option 4 (%)
UK Equity	Majedie	25.0	15.0	15.0
Overseas Equity	MFS	25.0	25.0	25.0
DAA	Barings	18.8	18.8	18.8
	Ruffer	6.2	6.2	16.2
Alternatives		0.0	10.0	0.0
Matching Fund	Goldman Sachs/LGIM	25.0	25.0	25.0
Private Equity	Invesco/Unicredit			
Total		100.0	100.0	100.0
Allocation to alternatives	(assumes DAA managers have 5-10% allocation)	1.25 – 2.5	11.25 – 12.5	1.75 – 3.5

Next Steps

We will discuss with the Committee the relative merits of each implementation option for Alternatives on 23 February 2012. In particular, we would like the Committee to consider which of the options, if any, it would be able to implement or explore further. Depending on this decision, P-Solve would be able to provide the Committee with further training on the alternative asset classes which fit with the implementation method(s) chosen.

Should the Committee conclude, at this time, it does not want to proceed with a direct allocation to Alternatives or more time is required to consider the options, one immediate step the Committee could take to reduce the bias towards UK equity is to increase the allocation to the DAA funds, managed by Ruffer. Though this does not necessarily achieve the same level of diversification by driver of return, it does achieve a better diversification by asset class and region, as the allocation to direct equities and the UK respectively would be reduced.

P-Solve

February 2012

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AUDIT AND PENSIONS COMMITTEE

15 March 2012

CONTRIBUTORS

**Communities and Local Government
Consultation on proposed amendments to
the Local Government Pension Scheme
(LGPS) Regulations contained in the draft
LGPS (Miscellaneous) Regulations 2012**

**WARDS
All**

This report sets out proposed amendments to the LGPS regulations currently under consultation. These amendments are of a technical nature and required to bring LGPS regulations into line with primary legislation. As such, no response was submitted.

RECOMMENDATION:

That the report be noted

1. PURPOSE

Attached as Appendix 1 is a report by Drew Beedall, Technical Consultant at Capita Hartshead, pension administrators to the Hammersmith and Fulham pension fund, summarising the nature and impact of the changes.

Additional comments as to the potential impact for members and employers of the Hammersmith and Fulham pension fund are shown below.

2. BACKGROUND

In general terms these draft regulations deal with various technical issues which need to be addressed to comply with changes to primary legislation.

3 H&F COMMENTS

Draft LGPS (Misc) Regulation 7

The reintroduction of the provision for members to pay additional pension contributions for the purpose of providing additional survivor's pension benefit in respect of pre 6 April 1988 membership will not have a material effect on the H&F pension fund as it will only apply to the very small number of members who have made a nominated co-habiting partner election and have in excess of 24 years LGPS membership.

Draft LGPS (Misc) Regulation 8

In the H&F pension fund there are currently 19 members who are in receipt of pension benefits following flexible retirement and in all cases the whole of their accrued benefits were put into payment.

Flexible retirement is only allowed if agreement is obtained from the employing authority. If this draft change is implemented it gives the member the right to choose to leave the post 31/3/2008 benefits so that they are taken at final retirement date and given that if the member had not been granted flexible retirement these benefits would have been payable on the final retirement date anyway, there would not be any extra significant cost or extra burden on the pension fund.

Draft LGPS (Misc) Regulation 5, 11 and 12

This seems like a common sense provision, for the administering authority to make such discretionary decisions regarding early payment of benefits, where the employing authority no longer exists. The administering authority will need to

consider all such cases in line with the ex-employer's usual practice, the potential cost to the pension fund and any knock-on effect to the other employers in the pension fund.

Draft LGPS (Misc) Regulation 15

Since the two-year vesting period was reduced to three months in 2008 the number of small pensions has increased, so this extension to the trivial pension commutation value is welcomed as an aid to reducing the administration cost of paying trivial pensions.

Draft LGPS (Misc) Regulation 17 and 18

There are no pensioners in the H&F pension fund who currently have suspended tier 3 ill health retirement benefits. It is not possible to estimate how many members may fall into this category in the future but unless there are significant numbers there will be little effect on the pension fund.

Draft LGPS (Misc) Regulation 19

The removal of the provision to transfer the AVC fund into the LGPS for members who commenced before 13 November 2001 will need to be communicated to all such members, with an explanation of the remaining options open to them. The number of members who have paid into the AVC schemes is extremely small.

Draft LGPS (Misc) Regulation 2, 3, 21, 22, 41 and 43 affecting Transferee Admission Bodies

There are 19 transferee admission bodies in the H&F pension fund. All of the bodies have a bond/indemnity in place to cover liabilities arising due to commercial failure and the bodies who have two contracts already have a separate admission agreement and bond or indemnity for each contract.

H&F's standard admission agreement and bond/indemnity to be reviewed following outcome of this consultation.

Draft LGPS (Misc) Regulation 28

Clarification is needed as to what happens to a member's in-house AVC fund where the tier 3 ill health retirement benefit does not cease because the member attains age 65 or if there is uplift from tier 3 to tier 2 following a review.

Draft LGPS (Misc) Regulation 29

This would be of benefit to the member in terms of having their benefits all held in the same pension fund and to the employer in terms of simpler administration of the retirement benefits and ease of performing checks against the Life Time Allowance.

However there would be additional administration work and associated cost in the initial stages and it may make it difficult for actuaries to perform fund valuations if the actuary is unaware that the deferred benefits may be transferred to another fund after the pension fund valuation has taken place...

Actuarial factors to be used in the transfer calculation would have to be devised by the Government Actuary's Department and agreed by the actuaries representing the individual pension funds, to ensure fairness for sending and receiving pension funds.

Draft LGPS (Misc) Regulation 31 and 32

Greater flexibility to reduce any deficit is to be welcomed by the administering authority and the employers.

Draft LGPS (Misc) Regulation 34

There are 2 employers in the H&F pension fund who do not have any active members and 9 who have less than 5 active members. H&F will need to include reference to the 2 employers who no longer have any active members, devising policies affecting pensioners and deferred pensioners who were employed by these employers.

Draft LGPS (Misc) Regulation 35 and 36

These regulations place a significant extra administrative burden on the administering authority, reducing the deadline for production of annual benefit statements from 12 to 6 months. Procedures for the earlier provision of year-end data will need to be put in place.

Draft LGPS (Misc) Regulation 44

This regulation is required to cater for the different staging dates which apply to different size employers under the Workplace Pensions – Auto Enrolment provisions and means that an employee who is not eligible for LGPS on commencement, because the contract of employment is less than 3 months, does not have to be auto-enrolled if the staging date occurs during this period.

3. Future reporting needs

When the final Regulations are made, Capita Hartshead will report the full effects on the pension fund members and will process all changes required to administration procedures and the H&F pensions website.

Key changes will be notified to members and employers where applicable, via a member newsletter.

4. Conclusions

A formal response to this consultation has not been submitted as there are no significant effects or issues for the London Borough of Hammersmith and Fulham.

LOCAL GOVERNMENT ACT 2000- LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Consultation document	Les Green x 1878	FCS Hammersmith Town Hall
2.	draft LGPS (Miscellaneous) Regulations 2012	Les Green x 1878	FCS Hammersmith Town Hall

Draft Local Government Pension Scheme (Miscellaneous) Regulations 2012

Title: Review of the Draft Local Government Pension Scheme (Miscellaneous) Regulations 2012

Author: Drew Beedall

Date: 4 January 2012

Status: Final Version

Private & Confidential due to commercial sensitivity

Introduction

The above draft regulations were issued to stakeholders on 5 December 2011 by Communities and Local Government (CLG) and are intended to come into force as soon as possible after the consultation or as indicated in the draft SI. Responses to the draft regulations should be made to DCLG by 27 February 2012.

The current regulatory framework for the LGPS is laid down in the following which have been subject to periodic amendment:

- LGPS (Benefits, Membership & Contributions) Regulations 2007
- LGPS (Administration) Regulations 2008
- LGPS (Transitional Provisions) Regulations 2008
- Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006

The consultation covers a wide range of mainly unrelated proposals for amendments to the LGPS although changes made by draft regulations 10, 13, 17, 18, 33 and 34 relate in whole or part to ill-health provisions. A number of the proposals were made in discussions with the Local Government Employers whilst others have been implemented as a result of changes to primary legislation.

Opinions are particularly sought by CLG on:

- whether the wording of the draft Regulations achieves the policy intention
- whether they are properly consistent with existing Regulations
- coming into force dates.

I have examined each change and noted below those with significant effect together with the actions I suggest that need to be taken to implement the change and any anticipated concerns arising from that change.

If you require any further assistance please do not hesitate to contact me on 07585 404440 or email me at Andrew.beedall@capita.co.uk

CAPITA HARTSHEAD

Draft Statutory Instrument	Regulations proposed to be Miscellaneous Regulations 2012	Effective date of proposed change	Description of proposed Change	Comment	Suggested action to be taken for Administering Authority and Employing Authority should the draft regulations be enacted
Draft LGPS (misc) Regs 2012					
Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006 (as amended)					
3	Reg 2	TBC	Amends the definition of 'employing authority' to include technical institutes and federated schools.	Clarification amendment required as a result of SI 2010/2090	No action required
Draft LGPS (misc) Regs 2012					
Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 / 1166 (as amended)					
6	BR8	TBC	Addition of paragraph 5(a) and 5(b) into the definition of Final Pay for the purposes of the Finance Act 2011. 5(a) confirms that final pay includes all pensionable pay in the pension input period even if the member has been promoted in the final pay period. 5(b) excludes any period of employment within the final pay period in which the member was also an active member of another public service pension scheme.	Amendment required bringing the regulations in line with provisions of Finance Act 2011 in relation to Annual Allowance.	No action required
7	BR14a	TBC	Reintroduces the option for members to pay ASBCs to	The effective date of the regulation is to be confirmed and we would	Administering Authority

CAPITA HARTSHEAD

	<p>purchase additional survivor benefits in relation to pre 6 April 1988 membership for eligible nominated cohabiting partners. The option previously ceased on 31/03/2011. The option will be restricted to allow elections to be made only within 12 months of the date of nomination of an eligible cohabiting partner.</p>	<p>suggest that the wording is amended to allow members who have nominated their cohabiting partner under BR25 on or after 01/04/2011 to be given the opportunity to purchase ASBCs.</p> <p>GAD guidance is available for calculation of ASBCs but may need amending to take account of the change in indexation of pensions and the reduction in the discount rate.</p>	<p>Updates required to the following: -</p> <ul style="list-style-type: none"> • Web-site, and • Scheme guides, and • Scheme correspondence, and • Administering Authority & Employing Authority Procedure manual
<p>BR18</p>	<p>TBC</p> <p>Amends the flexible retirement provisions so that a member taking flexible retirement must take all pre 01/04/2008 benefits (including those benefits treated as pre 01/04/2008 benefits) and may take some or all post 31/3/2008 benefits</p>	<p>This is a change to current GAD guidance which allows a member to draw all or none of pre 01/04/2008 benefits (including those benefits treated as pre 01/04/2008 benefits).</p> <p>If replicated in the SI this would require the issue of new GAD guidance.</p> <p>We would suggest that the draft amendment is clarified as the extant Gad Guidance was only issued in August 2011 and this appears to be a change in policy.</p>	<p>Administering Authority</p> <p>Updates required to the following: -</p> <ul style="list-style-type: none"> • Web-site, and • Scheme guides, and • Scheme correspondence, and • Administering Authority & Employing Authority Procedure manual
<p>BR26</p>	<p>TBC</p> <p>Amends the definition of eligible child from that in the Disability Discrimination Act 1995 to that in the Equalities Act 2010</p>	<p>The Disability Discrimination Act 1995 was revoked by The Equalities Act 2010 making this amendment a statutory requirement.</p>	<p>Administering Authority</p> <p>Updates to reference required to the following: -</p> <ul style="list-style-type: none"> • Web-site, and • Scheme guides, and • Scheme correspondence, and • Administering Authority & Employing Authority Procedure manual

8

9

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					<p>Authority Procedure manual</p>
<p>10 & 14</p>	<p>BR28 & BR33</p>	<p>30/09/2010</p>	<p>Clarification that if the member has paid ARCs, ASBCs or AVCs then these should be taken into account when calculating a children's pension for a deceased active member and for survivor's pensions for a deceased deferred member.</p> <p>A new provision has been added which takes a pension debit, which has been applied to a member's benefits, into account when calculating a children's pension.</p> <p>Also, if the member has reduced hours due to the condition that caused death, the reduction in hours should be ignored when calculating these benefits.</p>	<p>The clarification is generally in line with current administrative practices and replicates for consistency survivor benefits for active members which were provided for in the LGPS (Miscellaneous) Regulations 2010.</p> <p>However, the addition of a new regulation to take a pension debit into account when calculating a children's pension is a change to current practices. This appears to be an error as under extant GAD guidance (issued in November 2011) no children's pension provision is transferred to the Pension Credit member.</p>	<p>No action required unless what we perceive to be an error is actually intentional.</p>
<p>5 & 11 & 12</p>	<p>BR1 & BR30 & BR30A</p>	<p>TBC</p>	<p>When a member requests early payment of deferred benefits before age 60 or at any age on ill health grounds or compassionate grounds, the employer or former employer has discretion to allow payment.</p> <p>This regulation clarifies that if the employer/former employer is no longer a scheme employer, then the discretion is passed to the appropriate Administering</p>	<p>This clarifies the procedure where no employing authority exists and places the responsibility with the appropriate administering authority.</p> <p>In this instance, for requests for payment on ill health grounds the appropriate Administering Authority would have to pay the costs for the IRMP report before they can make a decision.</p> <p>The impact of this change will be dependent on the current procedure</p>	<p>Administering Authority</p> <p>Updates required to the following: -</p> <ul style="list-style-type: none"> • Web-site, and • Scheme guides, and • Scheme correspondence, and • Administering Authority & Employing Authority Procedure manual, and • Administering Authority discretionary policies

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	<p>BR31 & Administration Regulation (AR) 56</p>	<p>TBC</p>	<p>Authority.</p> <p>Expands entitlement to request early payment of benefits on ill health grounds to include requests from pensioner members with deferred benefits (where Tier 3 ill health benefits have been suspended) providing the condition is unrelated to the condition which gave grounds for the original Tier 3 retirement.</p> <p>The same IRMP may be used to certify retirement under BR31 – ill health from deferred status, as that used under BR20(1)(a) – Tier 3 ill health from active status</p> <p>This regulation also clarifies that if the employer is no longer a scheme employer, then the discretion is passed to the appropriate Administering Authority.</p>	<p>but is expected to be minimal.</p> <p>No comment</p>	<p>Administering Authority</p> <p>Updates required to the following: -</p> <ul style="list-style-type: none"> • Web-site, and • Scheme guides, and • Administering Authority & Employing Authority Procedure manual, and • Administering Authority discretionary policies
<p>13 & 33</p>		<p>TBC</p>	<p>Extends trivial commutation options to allow members whose total commuted pension is less than the de minimis limit of £2,000 to commute without the need to reference other benefits accrued by the member by allowing commutations with reference to Regulation 164 of the Finance Act 2004 and Regulation 6 of the Registered Pensions Schemes (Authorised Payments) Regulations 2009.</p>	<p>This reduces the administrative burden for commutation of small pensions. However, LGPS 1997 regulations: -</p> <ul style="list-style-type: none"> • 49 - applicable to leavers prior to 01/04/2008, and • 156 - applicable to pension credit members <p>do not appear to have been amended to provide for this change.</p>	<p>Administering Authority</p> <p>Updates required to the following: -</p> <ul style="list-style-type: none"> • Scheme correspondence, and • Administering Authority & Employing Authority Procedure manual
<p>15</p>					

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Local Government Pension Scheme (Transitional Provisions) Regulations 2008 / 238 (as amended)	
<p>Draft LGPS (misc) Regs 2012</p>	<p>TR3 & TR10</p>
<p>17 & 18</p>	<p>30/9/2010</p>
<p>Amendment to allow 85 year rule protections to apply to pre 2008 members with deferred benefits' (with suspended Tier 3 benefits) who apply for early payment (on or after age 55) of their benefits. Currently actuarial reductions (excluding compassionate grounds) are based on a pension age of 65 for the entire suspended pension eventually brought into payment, where payment is made prior to age 65.</p>	<p>Requires amendment of the Ill Health FAQs version 3 which currently states, suspended benefits if paid prior to age 65, are reduced and for the appropriate issues of GAD Guidance to be updated with this additional inclusion.</p> <p>The effective date for this change is suggested to be from 30/09/2010 which would suggest that any pensions paid on or after this date, may have been underpaid. To avoid recalculation, we would suggest that the effective date is from a date in the future and not the past.</p>
<p>19</p>	<p>TR Schedule 1</p>
<p>30/9/2010</p>	<p>TBC</p>
<p>19</p>	<p>TR Schedule 1</p>
<p>19</p>	<p>Removes the extant provision (66(8) of the 1997 regulations) allowing for members who contributed to an IHAVC prior to 13/11/2001, to transfer the IHAVC fund in certain circumstances, into the LGPS to purchase membership.</p> <p>Removes the extant provision (122(6C) and 122(6D) of the 1997 regulations) which provide instruction on transfer credits received by a member who was a member prior to 1 April 2008 should be treated (i.e. pre or post 08 membership dependant on date of transfer).</p>
<p>Removes the extant provision (66(8) of the 1997 regulations) allowing for members who contributed to an IHAVC prior to 13/11/2001, to transfer the IHAVC fund in certain circumstances, into the LGPS to purchase membership.</p> <p>Removes the extant provision (122(6C) and 122(6D) of the 1997 regulations) which provide instruction on transfer credits received by a member who was a member prior to 1 April 2008 should be treated (i.e. pre or post 08 membership dependant on date of transfer).</p>	<p>GAD guidance on both these types of transfers provides detailed guidance on how the membership is treated when calculating entitlement to benefits. In both instances the guidance is not synchronised with the regulations, therefore, this change is welcomed.</p> <p>However, by removing extant regulation 66(8) this would appear to prevent members who have not yet transferred, from transferring their IHAVC fund into the LGPS to purchase membership going forwards. This does not appear to be the overall intention of the change and we would suggest that this change is reviewed.</p>
<p>Removes the extant provision (66(8) of the 1997 regulations) allowing for members who contributed to an IHAVC prior to 13/11/2001, to transfer the IHAVC fund in certain circumstances, into the LGPS to purchase membership.</p> <p>Removes the extant provision (122(6C) and 122(6D) of the 1997 regulations) which provide instruction on transfer credits received by a member who was a member prior to 1 April 2008 should be treated (i.e. pre or post 08 membership dependant on date of transfer).</p>	<p>Requires amendment of the Ill Health FAQs version 3 which currently states, suspended benefits if paid prior to age 65, are reduced and for the appropriate issues of GAD Guidance to be updated with this additional inclusion.</p> <p>The effective date for this change is suggested to be from 30/09/2010 which would suggest that any pensions paid on or after this date, may have been underpaid. To avoid recalculation, we would suggest that the effective date is from a date in the future and not the past.</p>
<p>19</p>	<p>TR Schedule 1</p>
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<p>19</p>	<p>TR Schedule 1</p>
<p>19</p>	<p>TR Schedule 1</p>

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Draft LGPS
(misc) Regs
2012

Local Government Pension Scheme (Administration) Regulations 2008 / 239 (as amended)

LG Discretionary
Comp Regs
2006 - 2
AR6
&
AR7
&
AR Schedule 3

TBC

Requires Transferee Admission Bodies (TABs) and Community Admission Bodies (CABs) to put a bond or indemnity in place to cover liabilities and protect the fund. Going forward a TAB must undertake a risk assessment in the future.

If a bond is not possible the TAB or CAB must secure an indemnity from the sponsoring employer/parent guaranteee.

Where the admitted body is established under an enactment allowing the Secretary of State to make financial provisions, then the Secretary of State must provide the guaranteee.

The changes also places the responsibility on administering authorities to inform the Secretary of State of any admission agreements which have been finalised.

Further changes also require the additional information included within agreements for TABs (set out in schedule 3 of the Administration regulations) to be extended to cover all admission agreements going

Although the draft regulations (and extant regulations) require notification of any new admission agreements to be notified to the Secretary of State this does not always happen. Views are requested on whether this should either be removed or be strengthened by adding a date for compliance or removed altogether.

Overall the changes strengthen the position for each fund by enforcing more stringent covenants which reflect today's environment, though this may prove problematic for some TABs or CABs in securing suitable bonds or indemnity.

Administering Authority

- Review of template admission agreements, and
- Overall process

2 & 3 & 21 & 22 & 41 & 43

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			<p>forward, Stipulates that a separate admission agreement should be entered into for each contract for a TAB even if a sole contractor is responsible for a number of contracts. The above amendments shall not have any effect on the admission agreements entered into prior to the date on which the draft regulations come into force.</p>		
23	AR12	TBC	<p>Extends Regulation 12 to cover NHS partnerships in Wales as well as England by referencing the relevant Welsh Act under which such partnerships are allowed. Membership of the LGPS is allowed for such NHS partnerships despite the member being eligible to join the NHS pension scheme.</p>	<p>No Comment</p>	<p>Action only required if the LGPS fund is affected by this change as follows:</p> <ul style="list-style-type: none"> • Administering Authority Updates required to the following: - <ul style="list-style-type: none"> • Web-site, and • Scheme guides, and • Scheme correspondence, and • Administering Authority & Employing Authority Procedure manual, and • Employing Authority Updates required to: - <ul style="list-style-type: none"> • New Starter procedures
24	AR18	TBC	<p>Confirms that Additional Paternity Leave should be treated in the same way as Additional Maternity Leave and Additional Adoption Leave.</p>	<p>Complies with the Additional Paternity Leave Regulations 2010 and is in line with current practice</p>	<p>No action required as the change is intended to clarify existing procedures.</p>

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		<p>Also obliges the member paying ASBCs to continue paying full contributions during the period of Additional Maternity Leave, Additional Adoption Leave, or Additional Paternity Leave.</p>		
<p>25 & 26 & 27</p>	<p>AR19 & AR20 & AR21</p>	<p>Obliges the member paying ASBCs to continue paying full contributions during any period of reserve forces leave, special leave, leave with permission and strike absence in line with how payments are treated in respect of purchasing additional pension or membership.</p>	<p>TBC</p>	<p>Necessary as a consequence of draft miscellaneous regulation 7 should it be enacted.</p>
<p>28</p>	<p>AR26</p>	<p>There are two amendments, the:</p> <ul style="list-style-type: none"> • First allows for pensioner members with deferred benefits (i.e. suspended Tier 3 members) to access their IHAVC fund upon payment of retirement benefits, and • Second prevents a member retiring on the grounds of Tier 3 ill health from receiving payment of their IHAVC fund. 	<p>TBC</p>	<p>In essence, the amendments simply prevent a member who is retiring on a short-term ill health pension from receiving access to their IHAVC fund. However, the IHAVC fund may be paid when the member eventually retires in full.</p> <p>What is not clear is where the regulatory mechanics are in place to determine how an IHAVC fund is paid where the short-term pension either:</p> <ul style="list-style-type: none"> • Never ceases as a result of the member reaching age 65, or • Uplift from tier 3 to tier 2 ill health pension <p>We suggest that this be clarified with DCLG.</p>
<p>29</p>	<p>AR30</p>	<p>Introduce regulation AR30A</p>	<p>Allows transfer of deferred and</p>	<p>Action will only be required when this</p>

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<p>& 30</p>	<p>& New AR30A</p>		<p>which allows employers with both active, deferred and pensioner members (previously only active members could be transferred) in more than one fund to move them into a single fund under the direction of the Secretary of State and with the agreement of the funds and the amalgamating employer(s). The Secretary of State can also direct for financial adjustments between funds (assets or cash) to be made.</p>	<p>pensioner members between funds which was previously not provided for and thus allowing for a clean break. Agreement must be reached between employing authorities and by the Secretary of State. This could provide protection for funds taking on the assets of an employer from another fund where the liabilities of the deferred and pensioner exceed the employers assets held within the originating fund.</p>	<p>arises.</p>
<p>31 & 32</p>	<p>AR32 & AR38</p>		<p>Tightens up regulation allowing an Administering Authority to seek a cessation payment when an employer ceases to be an employer in the fund. It also allows an Administering Authority to review and obtain revised rates and adjustment certificates in between the normal triennial valuation where it has become apparent that the status of an employer has changed or may be due to change. This will give greater scope to reduce any deficit prior to a cessation payment becoming payable.</p>	<p>No comment</p>	<p>No Action required initially, though administering authorities may wish to review their template admission agreements to provide for this expansion</p>
<p>34 (links to draft regs 11</p>	<p>AR66</p>	<p>TBC</p>	<p>Expands the number of mandatory discretions to make</p>	<p>No Comment</p>	<p>Administering Authority</p>

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<p>& 12)</p>			<p>mandatory for all employers to formulate, publish and keep under review a policy on the choice of payment of pension for a pensioner member with deferred benefits (i.e. suspended tier 3 members)</p> <p>In addition, where the former employing authority no longer exists and the responsibility has passed to the appropriate administering authority, the appropriate administering authority must formulate, publish and keep under review such a policy in respect of both deferred members and pensioner members with deferred benefits on or before 31/10/2012</p>		<p>Updates required to: -</p> <ul style="list-style-type: none"> • Discretionary policies <p>Employing Authority</p> <p>Updates required to: -</p> <ul style="list-style-type: none"> • Discretionary policies
<p>35 & 36</p>	<p>AR68 & New AR68A</p>	<p>TBC</p>	<p>Draft regulation 35, brings forward the date by which the Annual Benefit Statement (ABS) should be issued to within 6 months after the 31 March. Members may also request a statement to be issued within this 6 month period by making a request to the administering authority.</p>	<p>Bringing forward the timescales by which an ABS must be issued is in compliance with the new tax laws governing the annual allowance. Employers and Administering Authorities will need to work extremely closely to ensure that this is possible. To ensure compliance we would suggest that data is validity checked on an ongoing basis rather than at the traditional year-end.</p> <p>We note that the regulations do not seem to make allowance for the fact that the first such statements are not, by law, required to be issued until 30/09/2013</p>	<p>Administering and Employing Authorities</p> <p>To ensure statutory compliance: -</p> <ul style="list-style-type: none"> • Review existing process for checking year-end data, and • Review ABS timetables

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			<p>Draft regulation 36, provides the regulatory framework to deduct an Annual Allowance charge from the member's benefits accrued in the LGPS, where the member meets the over-riding legislation requirements.</p>	<p>In order for the administering authority to make such a deduction guidance will need to be provided by the Secretary of State, though we presume that this in turn will be the Government Actuary's Department.</p>	
37	AR83	TBC	<p>Corrects the reference to the Pensions Schemes Act 2004 with the reference Pensions Act 2004.</p>	<p>No comment</p>	<p>No Action required</p>
38 & 39	AR 86 & AR Schedule 1	01/08/2010	<p>Corrects reference to the President of the Institute of Actuaries to the President of the Institute and Faculty of Actuaries. Inserts the definition of Academy within Schedule 1.</p>	<p>No comment</p>	<p>No Action required.</p>
40	AR Schedule 2	22/11/2012	<p>From 22/11/2012 :-</p> <ul style="list-style-type: none"> Reference to a police authority within the Police Act 1996 changes to Police and Crime Commissioners and Chief Constables within the Police Reform and Social Responsibility Act 2010 and 2011 respectively, and Adding Mayoral 	<p>No comment</p>	<p>No Action required.</p>

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			<p>Development Corporations</p> <p>Removing Firebuy Ltd and the Standards Board for England.</p> <p>Removing the National College for School Leadership which is to become an executive agency for the Department for Education in April 2012.</p>		
42	AR Schedule 4	TBC	<p>Provides that an Academy must remain in the fund according to its geographical position irrespective of the location of its proprietor.</p>	No comment	<p>Administering Authority</p> <p>Where an Administering Authority falls into the geographical location of an academy it must make sure that the appropriate admission agreement is established with the proprietor.</p>
44	AR13	Various	<p>Provides transitional provisions to comply with Automatic Enrolment. The effective date will vary for each employer depending on their respective staging date.</p> <p>The regulation determines eligibility to join the LGPS. AR13 (1) has been amended to automatically enrol all members into the LGPS from the date of commencement and AR13 (3 to 6) have been removed.</p> <p>The changes are intended to allow immediate enrolment into the LGPS for all eligible employees from date of commencement.</p>	<p>This regulation applies to all members who are eligible to be members of the LGPS. However, under BR 2(2) a member with a contract of less than 3 months is not eligible for membership of the LGPS.</p> <p>AR13 (3) previously allowed employees who became eligible after their start date (where contracts were extended beyond 3 months) to join from the date they became eligible.</p> <p>The removal of this regulation means that members who are not eligible to join the LGPS on commencement of employment and who later become eligible following an extension to their contract do not have a requirement to be automatically brought into the</p>	<p>Administering Authority</p> <p>Updates required to the following: -</p> <ul style="list-style-type: none"> • Web-site, and • Scheme guides, and • Administering Authority & Employing Authority Procedure manual, and <p>Employing Authorities to ensure statutory compliance: -</p> <ul style="list-style-type: none"> • Review existing process for new starters



AUDIT AND PENSIONS COMMITTEE

15 March 2012

CONTRIBUTORS

Audit Commission

Council Audit Opinion Plan 2011-12

This plan sets out the external audit work that the Audit Commission proposes to undertake for the audit of the financial statements 2011-12.

**WARDS
All**

RECOMMENDATION:

1. To note the content of the report

Audit plan

London Borough of Hammersmith and Fulham

Audit 2011/12



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Introduction

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice for local NHS bodies.

My audit does not relieve the Audit and Pensions Committee, as those charged with governance, of their responsibilities.

Accounting statements

Auditing standards require me to communicate with you the plan for the audit, including those areas viewed as highest risk. I have therefore set out the significant risks and the approach I will take for the audit of the 2011/12 financial statements. I also detail a series of questions that auditing standards require me to ask of management and the Audit Committee each year and request a response to these prior to the commencement of the audit.

Value for money

I will also assess the Authority's financial resilience and arrangements for securing economy, efficiency and effectiveness in the form of a value for money conclusion. I set out the areas where my work will be focused for the 2011/12 value for money conclusion.

Milestones and deadlines, the audit team, independence and quality.

I have set out the planned timetable and outputs from 2011/12 audit work. I also confirm the audit team is independent and set out arrangements to ensure the service provided to the Authority meets quality standards.

Fees

The fee for the audit is £360,000 which is a reduction of 10 per cent from the previous year. The fee has not changed since it was originally communicated to the Authority in February 2011.

Accounting statements

I will carry out the audit of the accounting statements in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I am required to issue an audit report giving my opinion on whether the accounts give a true and fair view.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

- I gain an understanding of the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:
- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
 - considering the financial performance of the Authority;
 - assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
 - assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Audit risks**

Risk	Audit response
<p>Accruals</p> <p>International Standards on Auditing (ISA 240 UK&I) presume an inherent risk in relation to revenue recognition for all audits. Given the pressures placed on council finances by the local government finance settlement, the risk of misstatement exceeds that of prior years particularly with regard to management accruals of expenditure.</p>	<p>I will identify and test management accruals. Specifically, I will:</p> <ul style="list-style-type: none"> ■ assess whether the method for making accruals is appropriate and has been consistently applied; ■ review the assumptions used; ■ test the effectiveness of management controls over the accruals; and ■ verify the accuracy of the accrual by reference to subsequent settlement.
<p>Housing Revenue Account (HRA) reform</p> <p>The government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to or from central government on or before 28 March 2012. This will change the HRA debt of the Authority. Payments from government will in most cases be used to redeem an equal percentage of all PWLB debt held by the Authority. Due to the complexity, magnitude and timing of the HRA reform there is risk that the financial statements will be materially misstated.</p>	<p>I will carry out procedures to ensure HRA reform is accounted for correctly. Specifically, I will:</p> <ul style="list-style-type: none"> ■ agree settlement payment or receipt to the amount specified in the Settlement Payments Determination 2012; ■ check that the settlement transaction has been accounted for in line with the requirements of CIPFA guidance; ■ agree details of loan redemptions to supporting documentation; and ■ check cash flow working papers to confirm that non-cash transactions associated with the loan redemptions are accounted for correctly.

Risk

Accounts payable and receivable audit reports

Internal Audit reports on the accounts payable and accounts receivable systems provide only limited assurance over system controls. The work found weaknesses relating to the authorisation of transactions and changes to suppliers and customer standing data. Due to the importance of these controls in the system, there is a risk that income and expenditure in the financial statements could be misstated.

Audit response

I will undertake additional testing of both accounts payable and accounts receivable transactions.

Heritage assets

The 2011/12 IFRS Code adopts the requirements of FRS 30 Heritage Assets for the first time. These are assets held by the council with the intention of preserving them for future generations because of their cultural, environmental or historical associations. Typical examples in local government include mayoral regalia and paintings. The standard requires that where information on cost or value is available, heritage assets must be reported on the Council's balance sheet and accounted for in accordance with the Code and its disclosure requirements. There is a risk that due to the difficulty in identifying and valuing heritage assets, this change in accounting policy may not be implemented correctly.

I will complete additional work to assess whether the Council has put in place adequate arrangements to identify all potential heritage assets and has applied appropriate judgements with regard to their classification, valuation and disclosure.

Testing strategy

My audit will involve the following.

- Review and re-performance of the work of your internal auditors in respect of the testing of controls in the accounts receivable, accounts payable and payroll systems.
- An IT risk assessment.
- Placing reliance on the work of experts as follows:
 - the actuary for pensions liabilities and assets; and
 - the valuer for the valuation of property, plant and equipment.
- Substantive tests of detail of transactions and amounts on all material balances.

I have sought to:

- maximise reliance, subject to review and re-performance, on the work of your internal auditors; and
- maximise the work that can be undertaken before you prepare your accounting statements.

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 2012. I will agree with officers a schedule of working papers required to support the entries in the accounting statements.

Whole of Government Accounts

Alongside my work on the accounting statements, I will also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of my review and the nature of my report are specified by the National Audit Office.

Management and Audit Committee representations required by ISA (UK&I) 240, 260 and 315

Under the ISA (UK&I) I am required to update my understanding annually of:

- management processes and arrangements; and
- how the Audit Committee as those charged with governance gains assurance over management.

In order to comply with the standards I need to obtain and consider information from management and the Audit Committee by asking the questions outlined in appendix 2 and 3 respectively. The questions should be answered in respect of the Authority, Hammersmith & Fulham Pension Fund and Wormwood Scrubs Charitable Trust audits. I request that responses to the questions are provided to me prior to the commencement of the audit.

Value for money

I am required to reach a conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness.

My conclusion on the Authority's arrangements is based on two criteria, specified by the Commission. These relate to the Authority's arrangements for:

- securing financial resilience – focusing on whether the Authority is managing its financial risks to secure a stable financial position for the foreseeable future; and
- challenging how the Authority secures economy, efficiency and effectiveness – focusing on whether the Authority is prioritising its resources within tighter budgets and improving productivity and efficiency.

Identification of risks

I have considered the risks that are relevant to my value for money conclusion. I have identified the following risks that I will address through my work.

Table 2: Value for money risks

Risk	Audit response
The Local Government Finance Settlement reduced Central Government funding available to the Authority. In 2011/12 the Authority is targeting savings of £27 million. The projected level of savings required will increase in future years, increasing to £64 million by 2013/14.	I will carry out the following tasks. <ul style="list-style-type: none">■ Monitor progress on identified savings in 2011/12.■ Review arrangements for challenging the value for money of services and progress in identifying savings for 2012/13.■ Review the latest medium term financial plan.

Risk

In May 2011, the Authority agreed plans to combine certain services with City of Westminster Council and the Royal Borough of Kensington and Chelsea. The tri-borough programme's objective is to improve people's lives across the three boroughs whilst delivering significant savings to the partners that can be used to protect front-line service provision. Demonstrating the improvement and efficiency outcomes and embedding sound governance arrangements to underpin the initiative will be critical to the Authority's achievement of value for money.

Audit response

I will review the effectiveness of the proposals in the context of:

- short and medium term financial planning (including savings projections) and supporting budgetary processes;
- the methodology for the attribution of costs and savings; and
- governance arrangements to support the joint management of services and in particular those concerning risk management, internal audit and scrutiny.

Milestones and deadlines

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion and value for money conclusion by 30 September 20102.

Table 3: Proposed timetable and planned outputs

Activity	Date	Output
Interim financial statements audit visit	January 2012	Audit Plan
Final financial statements audit visit	June – September 2012	Annual governance report
Value for money conclusion: review of arrangements	January – March 2012	Annual governance report
Issue opinion and value for money conclusion	By 30 September 2012	Auditor’s report
Summarise overall messages from the audit	October 2012	Annual Audit Letter

The audit team

The members of the audit team for the 2011/12 audit are as follows.

Table 4: **Audit team**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	i-haves@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive and Director of Finance and Corporate Services.
Julian McGowan Audit Manager	j-mcgowan@audit-commission.gov.uk 0844 798 2655	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance and Corporate Services and Corporate Finance.
James Beveridge Principal Auditor	j-beveridge@audit-commission.gov.uk 0844 798 2054	Manages the audit team whilst on site and ensures the prompt communication of audit issues to Corporate Finance.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1. I am not aware of any relationships that might constitute a threat to independence.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The scale fee for the audit is £360,000 as set out in my letter of 29 February 2011.

The audit fee

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the audit fee equal to the scale fee which represents a 10 per cent reduction on the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and reporting on the Whole of Government Accounts return; and
- my work on reviewing your arrangements for securing economy, efficiency and effectiveness in your use of resources.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation;
- a reduction resulting from the new approach to local VFM audit work; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Finance and Corporate Services and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take:

- improve the quality of the draft financial statements; and
- improve the quality of working papers.

Total fees payable

In addition to the fee for the audit, the Audit Commission charges fees for:

- certification of claims and returns; and
- the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 5: Fees

	2011/12 proposed (£)	2010/11 actual (£)	Variance (£)
Audit	360,000	400,000	(40,000)
Certification of claims and returns	70,000*	71,000	(1,000)
Non-audit work	-	-	-
Total	430,000	471,000	(41,000)

* certification of claims and returns is charged on an hourly rate, so the proposed fee is an estimate.

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 6: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement. The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		

Appendix 2 – Basis for fee

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example, internal controls are operating effectively.
- The risk in relation to my value for money responsibilities is not significantly different to that identified for 2010/11.
- Internal Audit meets professional standards.
- Internal Audit undertakes sufficient appropriate work on all systems that provide material figures in the accounting on which I can rely.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
 - other information requested within agreed timescales; and
 - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Auditor questions to management

In order to comply with the requirement of ISA (UK&I) 240, 260 and 315 to update my understanding of management processes and arrangements annually, in respect of the Authority, Hammersmith & Fulham Pension Fund and Wormwood Scrubs Charitable Trust, I request that management provide a responses to the following questions.

- What are the management processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
 - identifying and responding to risks of fraud in the authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - communicating to employees its views on business practice and ethical behavior (for example by updating, communicating and monitoring against the Authority code of conduct); and
 - communicating to the Audit Committee the processes for identifying and responding to fraud or error.
- How does management gain assurance that all relevant laws and regulations have been complied with?
- Have there been any instances of non-compliance during 2011/12?
- Are there any actual or potential litigation or claims that would affect the financial statements?
- What controls do you have in place to: identify; authorise; approve; account for; and disclose, related party transactions and relationships? For any significant new related parties (ie any not already disclosed in your year-end 31 March 2011 audited financial statements) please provide a list of them, explain the nature of these, and whether you have entered into any transactions with these related parties during the year to 31 March 2012.
- Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?

- Do you suspect fraud may be occurring within the Authority?
 - Have you identified any specific fraud risks within the Authority?
 - Do you have any concerns that there are areas within your authority that are at risk of fraud?
 - Are there particular locations within the authority where fraud is more likely to occur?
- Are you satisfied that internal controls, including segregation of duties, exist and work effectively?
 - If not where are the risk areas?
 - What other controls are in place to help prevent, deter or detect fraud?
- How do you encourage staff to report their concerns about fraud?
 - What concerns about fraud are staff expected to report?
- From a fraud and corruption perspective, what are considered to be high risk posts within your authority?
 - How are the risks relating to these posts identified, assessed and managed?
- Are you aware of any related party relationships or transactions that could give rise to instances of fraud?
 - How do you mitigate the risks associated with fraud related to related party relationships and transactions?
- Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?
 - Are there particular balances where fraud is more likely to occur?
 - Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the authority?
 - Could a false accounting entry escape detection? If so, how?
 - Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud?
- Are you aware of any organisational, or management pressure to meet financial or operating targets?
 - Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?

Appendix 4 – Auditor questions to the Audit Committee

In order to comply with the requirement of ISA (UK&I) 240, 260 and 315 to update my understanding of how the Audit Committee gains assurance over management processes and arrangements in respect of the Authority, Hammersmith & Fulham Pension Fund and Wormwood Scrubs Charitable Trust, I request that the Audit Committee provide a responses to the following questions.

- How do you exercise oversight of management's processes in relation to:
 - undertaking an assessment of the risk that the financial statements may be materially misstated due to fraud or error (including the nature, extent and frequency of these assessments);
 - identifying and responding to risks of fraud in the authority, including any specific risks of fraud which management have identified or that have been brought to its attention, or classes of transactions, account balances, or disclosure for which a risk of fraud is likely to exist;
 - communicating to employees its view on business practice and ethical behavior (for example by updating, communicating and monitoring against the authority code of conduct); and
 - communicating to you the processes for identifying and responding to fraud or error.
- How do you oversee management processes for identifying and responding to the risk of fraud and possible breaches of internal control? Are you aware of any breaches of internal control during 2011/12?
- How do you gain assurance that all relevant laws and regulations have been complied with? Are you aware of any instances of non-compliance during 2011/12?
- Are you aware of any actual or potential litigation or claims that would affect the financial statements?
- Have you carried out a preliminary assessment of the going concern assumption and if so have you identified any events which may cast significant doubt on the authority's ability to continue as a going concern?
- Are you aware of any instances of actual, suspected or alleged fraud during the period 1 April 2011 – 31 March 2012?

- Do you suspect fraud may be occurring within the authority?
 - Have you identified any specific fraud risks within the authority?
 - Do you have any concerns that there are areas within your authority that are at risk of fraud?
 - Are there particular locations within the authority where fraud is more likely to occur?
- Are you satisfied that internal controls, including segregation of duties, exist and work effectively?
 - If not where are the risk areas?
 - What other controls are in place to help prevent, deter or detect fraud?
- How do you encourage staff to report their concerns about fraud?
 - What concerns about fraud are staff expected to report?
- From a fraud and corruption perspective, what are considered to be high risk posts within your authority?
 - How are the risks relating to these posts identified, assessed and managed?
- Are you aware of any related party relationships or transactions that could give rise to instances of fraud?
 - How do you mitigate the risks associated with fraud related to related party relationships and transactions?
- Are you aware of any entries made in the accounting records of the authority that you believe or suspect are false or intentionally misleading?
 - Are there particular balances where fraud is more likely to occur?
 - Are you aware of any assets, liabilities or transactions that you believe were improperly included or omitted from the accounts of the authority?
 - Could a false accounting entry escape detection? If so, how?
 - Are there any external fraud risk factors, such as benefits payments or collection of tax revenues, which are high risk of fraud?
- Are you aware of any organisational, or management pressure to meet financial or operating targets?
 - Are you aware of any inappropriate organisational or management pressure being applied, or incentives offered, to you or colleagues to meet financial or operating targets?

Appendix 5 – Glossary

Accounting statements

The annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Authority in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Audit Letter

Report issued by the auditor to the Authority after the completion of the audit that summarises the audit work carried out in the period and significant issues arising from auditors' work.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to those charged with governance before the auditor issues their opinion and conclusion.

Annual Governance Statement

The annual report on the Authority's systems of internal control that supports the achievement of the Authority's policies aims and objectives.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out by an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice for local government bodies issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Group accounts

Consolidated accounting statements of an Authority and its subsidiaries, associates and jointly controlled entities.

Internal control

The whole system of controls, financial and otherwise, that the Authority establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

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

Significance

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

Those charged with governance

Those entrusted with the supervision, control and direction of the Authority. This term includes the members of the Authority and its Audit Committee.

Whole of Government Accounts

A project leading to a set of consolidated accounts for the entire UK public sector on commercial accounting principles. The Authority must submit a consolidation pack to the department for Communities and Local Government which is based on, but separate from, its accounting statements.

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.





AUDIT AND PENSIONS COMMITTEE

CONTRIBUTORS

Audit Commission

Pension Fund Audit Opinion Plan 2011-12

This plan sets out the external audit work that the Audit Commission proposes to undertake for the audit of the Pension Fund financial statements 2011-12.

**WARDS
All**

RECOMMENDATION:

1. To note the content of the report

Audit plan

London Borough of Hammersmith and Fulham Pension Fund

Audit 2011/12



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Introduction

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body.

Responsibilities

The Audit Commission's Statement of Responsibilities of Auditors and of Audited Bodies sets out the respective responsibilities of the auditor and the audited body. The Audit Commission has issued a copy of the Statement to you.

The Statement summarises where the different responsibilities of auditors and of the audited body begin and end and I undertake my audit work to meet these responsibilities.

I comply with the statutory requirements governing my audit work, in particular:

- the Audit Commission Act 1998; and
- the Code of Audit Practice.

My audit of the accounting statements does not relieve management or the Audit and Pensions Committee, as those charged with governance, of their responsibilities.

Accounting statements and Pension Fund Annual Report

Auditing standards require me to communicate with you the plan for the audit, including those areas viewed as highest risk. I have therefore set out the audit risks and the approach I will take for the audit of the 2011/12 pension fund and review of the annual report.

Milestones and deadlines, the audit team, independence and quality

I have set out the planned timetable and outputs from 2011/12 audit work. I also confirm the audit team is independent and set out arrangements to ensure the service provided to the Authority meets quality standards.

Fees

The fee for the audit is £35,000 which is consistent with the fee from the previous year. The fee has not changed since it was originally communicated to the Authority in February 2011.

Accounting statements and Pension Fund Annual Report

I will carry out the audit of the accounting statements included within the Authority's Statement of Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board (APB). I also report on the accounting statements included in the Pension Fund Annual Report. I am required to issue audit reports giving my opinion on whether the accounting statements give a true and fair.

Materiality

I will apply the concept of materiality in planning and performing my audit, in evaluating the effect of any identified misstatements, and in forming my opinion.

Identifying audit risks

I gain an understanding of the Authority to identify any risk of material misstatement (whether due to fraud or error) in the accounting statements. I do this by:

- identifying the business risks facing the Authority, including assessing your own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control, including reviewing the control environment, the IT control environment and internal audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

I have considered the additional risks that are relevant to the audit of the accounting statements and have set these out below.

Table 1: **Audit risks**

Risk	Audit response
<p>Change in pensions administration provider</p> <p>In October 2011 the cabinet awarded the framework for provision of pension administration on behalf of the council to Capita Hartshead Ltd replacing the previous administrators the London Pension Fund Authority. The change in provider will require us to gain assurance over this new significant service organisation to the council.</p>	<p>I will rely on external assurances over the internal controls from London Pension Fund Authority auditors for the first seven months of the year, and Capita's auditors for the final five months of the year. Where these assurances indicate additional risks, I will carry out additional testing as required.</p>

Testing strategy

My audit will involve:

- placing reliance on the work of the actuary for calculation of pensions assets and liabilities;
- placing reliance on custodian to confirm valuation of investments; and
- substantive tests of detail of transactions and amounts on all material balances.

The Authority is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion by 30 September 2012. I will agree with officers a schedule of working papers required to support the entries in the accounting statements.

Pension Fund Annual Report

I will also review and report on the accounting statements included in the Pension Fund's Annual Report prepared under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Milestones and deadlines

The Pension Fund is required to prepare the accounting statements by 30 June 2012. I aim to complete my work and issue my opinion on the accounting statements by 30 September 2012.

Table 2: **Proposed timetable and planned outputs**

Activity	Date	Output
Interim pensions audit visit	January 2012	Audit Plan
Final pensions audit visit	June – September 2012	Annual governance report
Issue opinion and review of Pension Fund Annual Report	By 30 September 2012	Auditor's report

The audit team

The key members of the audit team for the 2011/12 audit are as follows.

Table 3: **Audit team**

Name	Contact details	Responsibilities
Jon Hayes District Auditor	i-haves@audit-commission.gov.uk 0844 798 2877	Responsible for the overall delivery of the audit including quality of reports, signing the auditor's report and liaison with the Chief Executive and Director of Finance and Corporate Services.
Julian McGowan Audit Manager	j-mcgowan@audit-commission.gov.uk 0844 798 2655	Manages and coordinates the different elements of the audit work. Key point of contact for the Director of Finance and Corporate Services and Corporate Finance.
James Beveridge Principal Auditor	j-beveridge@audit-commission.gov.uk 0844 798 2054	Manages the audit team whilst on site and ensures the prompt communication of audit issues to Corporate Finance.

Independence and quality

Independence

I comply with the ethical standards issued by the APB and with the Commission's additional requirements for independence and objectivity as summarised in appendix 1. I am aware of the following relationship that might constitute a threat to independence and that I am required to report to you. I am not aware of any relationships that might constitute a threat to independence.

Quality of service

I aim to provide you with a fully satisfactory audit service. If, however, you are unable to deal with any difficulty through me and my team please contact Chris Westwood, Director – Standards & Technical, Audit Practice, Audit Commission, 1st Floor, Millbank Tower, Millbank, London SW1P 4HQ (c-westwood@audit-commission.gov.uk) who will look into any complaint promptly and to do what he can to resolve the position.

If you are still not satisfied you may of course take up the matter with the Audit Commission's Complaints Investigation Officer (The Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol BS34 8SR).

Fees

The fee for the audit is £35,000 as set out in my letter of 28 February 2011.

The audit fee

Variations from the scale fee only occur where my assessments of audit risk and complexity are significantly different from those reflected in the 2010/11 fee. I have not identified significant differences and have therefore set the audit fee equal to the scale fee and the audit fee for 2010/11.

The scale fee covers:

- my audit of your accounting statements and
- my work on reviewing the pension fund annual report.

The scale fee reflects:

- the Audit Commission's decision not to increase fees in line with inflation; and
- a reduction following the one-off work associated with the first-time adoption of International Financing Reporting Standards (IFRS).

Assumptions

In setting the fee, I have made the assumptions set out in appendix 2. Where these assumptions are not met, I may be required to undertake more work and therefore increase the audit fee. Where this is the case, I will discuss this first with the Director of Finance and I will issue a supplement to the plan to record any revisions to the risk and the impact on the fee.

Specific actions you could take to reduce your audit fee

The Audit Commission requires me to inform you of specific actions you could take to reduce your audit fee. I have identified the following actions that you could take:

- improve the quality of the draft financial statements; and
- improve the quality of working papers.

Total fees payable

In addition to the fee for the audit, the Audit Commission will make charges for the agreed provision of non-audit services under the Audit Commission's advice and assistance powers.

Based on current plans the fees payable are as follows.

Table 4: Fees

	2011/12 proposed	2010/11 actual	Variance
Audit	35,000	35,000	0
Non-audit work	0	0	0
Total	35,000	35,000	35,000

Appendix 1 – Independence and objectivity

Auditors appointed by the Audit Commission must comply with the Commission’s Code of Audit Practice and Standing Guidance for Auditors. When auditing the accounting statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB). These impose stringent rules to ensure the independence and objectivity of auditors. The Audit Practice puts in place robust arrangements to ensure compliance with these requirements, overseen by the Audit Practice’s Director – Standards and Technical, who serves as the Audit Practice’s Ethics Partner.

Table 5: Independence and objectivity

Area	Requirement	How we comply
Business, employment and personal relationships	Appointed auditors and their staff should avoid any official, professional or personal relationships which may, or could reasonably be perceived to, cause them inappropriately or unjustifiably to limit the scope, extent or rigour of their work or impair the objectivity of their judgement. The appointed auditor and senior members of the audit team must not take part in political activity for a political party, or special interest group, whose activities relate directly to the functions of local government or NHS bodies in general, or to a particular local government or NHS body.	All audit staff are required to declare all potential threats to independence. Details of declarations are made available to appointed auditors. Where appropriate, staff are excluded from engagements or safeguards put in place to reduce the threat to independence to an acceptably low level.

Area	Requirement	How we comply
Long association with audit clients	The appointed auditor responsible for the audit should, in all but the most exceptional circumstances, be changed at least once every seven years, with additional consideration of threats to independence after five years.	The Audit Practice maintains and monitors a central database of assignment of auditors and senior audit staff to ensure this requirement is met.
Gifts and hospitality	The appointed auditor and members of the audit team must abide by the Commission's policy on gifts, hospitality and entertainment.	All audit staff are required to declare any gifts or hospitality irrespective of whether or not they are accepted. Gifts and Hospitality may only be accepted with line manager approval.
Non-audit work	<p>Appointed auditors should not perform additional work for an audited body (that is work above the minimum required to meet their statutory responsibilities) if it would compromise their independence or might result in a reasonable perception that their independence could be compromised.</p> <p>Auditors should not accept engagements that involve commenting on the performance of other auditors appointed by the Commission on Commission work without first consulting the Commission.</p> <p>Work over a specified value must only be undertaken with the prior approval of the Audit Commission's Director of Audit Policy and Regulation.</p>	All proposed additional work is subject to review and approval by the appointed auditor and the Director – Standards and Technical, to ensure that independence is not compromised.
<i>Code of Audit Practice, Audit Commission Standing Guidance and APB Ethical Standards</i>		

Appendix 2 – Basis for fee

Assumptions

In setting the fee, I have assumed the following.

- The risk in relation to the audit of the accounting statements is not significantly different to that identified for 2010/11. For example, internal controls are operating effectively.
- The Authority provides:
 - good quality working papers and records to support the accounting statements and the text of the other information to be published with the statements by 30 June 2012;
 - other information requested within agreed timescales; and
 - prompt responses to draft reports.
- There are no questions asked or objections made by local government electors.

Where these assumptions are not met, I will have to undertake more work which is likely to result in an increased audit fee.

Appendix 3 – Glossary

Accounting statements

The Pension Fund accounts included within the annual statement of accounts that the Authority is required to prepare, which report the financial performance and financial position of the Fund in accordance with the Accounts and Audit (England) Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom.

Annual Governance Statement

The annual report on the Fund's systems of internal control that supports the achievement of the Fund's policies aims and objectives.

Annual Governance Report

The auditor's report on matters arising from the audit of the accounting statements presented to the [Pension Panel] before the auditor issues their opinion.

Audit of the accounts

The audit of the accounts of an audited body comprises all work carried out an auditor under the Code to meet their statutory responsibilities under the Audit Commission Act 1998.

Audited body

A body to which the Audit Commission is responsible for appointing the external auditor.

Auditing Practices Board (APB)

The body responsible in the UK for issuing auditing standards, ethical standards and associated guidance to auditors. Its objectives are to establish high standards of auditing that meet the developing needs of users of financial information and to ensure public confidence in the auditing process.

Auditing standards

Pronouncements of the APB that contain basic principles and essential procedures with which auditors must comply, except where otherwise stated in the auditing standard concerned.

Auditor(s)

Auditors appointed by the Audit Commission.

Code (the)

The Code of Audit Practice issued by the Audit Commission and approved by Parliament.

Commission (the)

The Audit Commission for Local Authorities and the National Health Service in England.

Ethical Standards

Pronouncements of the APB that contain basic principles relating to independence, integrity and objectivity that apply to the conduct of audits and with which auditors must comply, except where otherwise stated in the standard concerned.

Internal control

The whole system of controls, financial and otherwise, that the Pension Fund establishes to provide reasonable assurance of effective and efficient operations, internal financial control and compliance with laws and regulations.

Materiality

The APB defines this concept as 'an expression of the relative significance or importance of a particular matter in the context of the accounting statements as a whole. A matter is material if its omission would reasonably influence the decisions of an addressee of the auditor's report; likewise a misstatement is material if it would have a similar influence. Materiality may also be considered in the context of any individual primary statement within the accounting statements or of individual items included in them. Materiality is not capable of general mathematical definition, as it has both qualitative and quantitative aspects'.

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

Pension Fund Annual Report

The annual report, including accounting statements, that the Pension Fund must publish under Regulation 34 of the Local Government Pension Scheme (Administration) Regulations 2008.

Those charged with governance

Those entrusted with the supervision, control and direction of the Pension Fund. This term includes the members of the Authority, [the Pension Panel] and the Audit Committee.

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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.





AUDIT AND PENSIONS COMMITTEE

15 March 2012

CONTRIBUTORS

Audit Commission

**Certification of Claims and Returns- Annual
Report 2010-11**

**WARDS
All**

The report details the results of work conducted by the Audit Commission to certify grant claims in respect of the 2010/11 financial year.

RECOMMENDATION:

The Committee notes the report and monitors the implementation of the recommendations.

Certification of claims and returns - annual report

London Borough of Hammersmith and Fulham

Audit 2010/11



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Introduction

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and are required to complete returns providing financial information to government departments. My certification work provides assurance to grant-paying bodies that claims for grants and subsidies are made properly or that information in financial returns is reliable. This report summarises the outcomes of my certification work on your 2010/11 claims and returns.

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. Where such arrangements are made, certification instructions issued by the Audit Commission to its auditors set out the work auditors must do before they give their certificate. The work required varies according to the value of the claim or return and the requirements of the government department or grant-paying body, but in broad terms:

- for claims and returns below £125,000 the Commission does not make certification arrangements and I was not required to undertake work;
- for claims and returns between £125,000 and £500,000, I undertook limited tests to agree form entries to underlying records, but did not undertake any testing of eligibility of expenditure; and
- for claims and returns over £500,000 I planned and performed my work in accordance with the certification instruction to assess the control environment for the preparation of the claim or return to decide whether or not to place reliance on it. Depending on the outcome of that assessment, I undertook testing as appropriate to agree form entries to underlying records and test the eligibility of expenditure or data.

Claims and returns may be amended where I agree with your officers that this is necessary. My certificate may also refer to a qualification letter where there is disagreement or uncertainty, or you have not complied with scheme terms and conditions.

Summary of my 2010/11 certification work

We certified nine grant claims for the Council with a total value of £355 million. The overall quality of grant claims presented to audit is adequate. The three qualifications issued are as follows.

- The national non-domestic rates return was qualified as evidence was not retained to demonstrate that one property from a sample of ten was entitled to receive empty property relief. This is considered a one-off error.
- The housing benefits claim was qualified for a number of issues, but most significantly due to the incorrect classification of overpayments as either claimant or local authority error.
- The new deal for communities claim was qualified as evidence could not be located for Government approval of expenditure limits and one project spent more than had been approved.

Table 1: **Summary of 2010/11 certification work**

Number of claims and returns certified	
Total value of claims and returns certified	9
Number of claims and returns amended due to errors	5
Number of claims and returns where I issued a qualification letter because there was disagreement or uncertainty over the content of the claim or return or scheme terms and conditions had not been complied with	3
Total cost of certification work	£71,412.84

Results of 2010/11 certification work

This section summarises the results of my 2010/11 certification work and highlights the significant issues arising from that work.

Table 2: Claims and returns above £500,000

Claim or return	Value of claim or return presented for certification (£000)	Was reliance placed on the control environment?	Value of any amendments made (£000)	Was a qualification letter issued?
Housing and council tax benefit scheme	162,665	N	13	Y
Pooling of housing capital receipts	1,493	N	2	N
HRA subsidy	13,800	N	154	N
Housing finance base data return	n/a	N	n/a	N
National non-domestic rates return	154,908	N	2	Y
Teachers' pensions return	8,872	N	n/a	N
Sure start, early years and childcare grant and aiming high for disabled children grant	9,938	N	n/a	N
New deal for communities*	2,891	N	-61	Y

Table 3: Claims between £125,000 and £500,000

Claim or return	Value of claim or return presented for certification (£'000)	Value of any amendments made (£000)	Was a qualification letter issued?
Disabled facilities	459	n/a	N

* 2010/11 is the final year of New Deal for Communities grant funding.

In order for us to place reliance on the control environments and reduce auditor testing the following actions would be required:

- demonstrate a track record of no amendments or qualification on individual claims; and
- increase quality checking of claims prior to passing to audit, including independent checks on the eligibility of expenditure.

Summary of progress on previous recommendations

This section considers the progress made in implementing recommendations I have previously made arising from certification work.

Table 4: Summary of progress made on recommendations arising from certification work undertaken in earlier years

Agreed action	Priority	Date for implementation	Responsible officer	Current status	Comments
Improve the quality of working papers provided in support of the Teachers' Pension Grant Claim.	High	April 2011	Assistant Director (Human Resources) Finance & Corporate Services Department	Implemented	The Teachers Pensions working papers were improved this year, and there were no amendments or qualifications to the claim.
Improve the level of compliance with internal procedures when making housing benefit claimant assessments.	High	May 2011	Assistant Director (H&F Direct) – Finance & Corporate Services Department	Partially implemented	Increased quality checking has improved the quality of the housing benefits claim, but further work is required to ensure correct classification of overpayments.

Summary of recommendations

This section highlights the recommendations arising from my certification work and the actions agreed for implementation. A recommendation has not been made for the national non-domestic rates claim as the qualification is considered to be due to a one-off error. A recommendation has not been made for the new deals for communities claim as 2010/11 was the final year of the scheme.

Table 5: Summary of recommendations arising from 2010/11 certification work

Recommendation	Priority	Client response	Date for implementation	Responsible officer
Introduce procedures to improve the accuracy of housing benefits overpayment classification.	High	At the start of this financial year (2011/12012) we carried out a comprehensive review of our quality checking procedures to identify how we could further reduce the instances of error and omission in the system. As a result of this review a revised quality checking procedure was introduced effective from April 2011. The new quality checking procedures have now been specifically designed to detect and correct financial errors for both new claims and changes in circumstances. In particular changes in circumstance, which result in overpayments, are checked to ensure dates, calculations and subsidy classifications are correct.	April 2011	Head of Assessments

Summary of certification fees

This section summarises the fees arising from my 2010/11 certification work and highlights the reasons for any significant changes in the level of fees from 2009/10.

Table 6: Summary of certification fees

Claim or return	2010/11 fee (£)	2009/10 fee (£)	Reasons for changes in fee greater than +/- 10 per cent
Grants planning and reporting	2,772.00	2,506.50	More detailed reporting requirements specified by the Audit Commission.
Housing and council tax benefit scheme	34,039.50	36,529.00	n/a
Pooling of housing capital receipts	5,982.02	5,395.50	Amendments required to the claim
HRA subsidy	2,254.00	2,415.00	n/a
Housing finance base data return	5,876.50	5,551.50	n/a
National non-domestic rates return	6,249.32	4,581.50	Less timely responses to audit queries
Teachers' pensions return	5,216.50	9,525.00	Improvement in quality of working papers
Sure start, early years and childcare grant and aiming high for disabled children grant	3,244.50	2,964.50	n/a
Disabled facilities	707.00	1,015.00	The audit was completed in less time.
New deal for communities	5,071.50	6,762.00	Final year of claim

Claim or return	2010/11 fee (£)	2009/10 fee (£)	Reasons for changes in fee greater than +/- 10 per cent
Single programme	0.00	4,651.50	No claims for 2010/11
Total	71,412.84	81,897.00	

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The Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body.



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January 2012



AUDIT AND PENSIONS COMMITTEE

15 March 2012

CONTRIBUTORS	Audit Commission recommendations updates & Annual Governance Statement 2011 Action Plan	WARDS All
Internal Audit Manager		

This report gives an update on the implementation of Audit Commission recommendations and on the AGS 2011 action plan.

RECOMMENDATION:

That the Committee notes the report.

Internal Audit

Update on Audit Commission report recommendations

Updates on Audit Commission recommendations were last reported to the Committee in June 2011 at which point all the outstanding recommendations had been cleared. No further reports have been issued since that date and there are therefore no updates to report to this meeting.

Annual Governance Statement Action Plan

The 2011 Annual Governance Statement (AGS) was first considered by the Audit and Pensions Committee at its September 2011 meeting.

Attached as Appendix 1 is the first update to the action plan relating to the control weaknesses identified in the statement and report on its progress. Updates have been provided for all 1 of the 4 identified control weaknesses. The relevant issues relating to the remaining 3 weaknesses were reported resolved at the December meeting and no further remedial action is required. Updates will continue to be reported to future meetings on the outstanding weakness.

The action plan is a necessary result of producing the AGS. Because these issues are considered to be significant the action plan and the progress made in its implementation should be periodically reported to the Audit and Pensions Committee to agree and then to monitor progress. The action plan should provide sufficient evidence to show that the individual significant control weaknesses taken from the AGS will be resolved as soon as possible, preferably in-year before the next statement is due.

Failure to act effectively on the significant control issues would increase the exposure of the council to risk.

The schedule at Appendix 1 shows the current stated position as reported by the identified responsible officers. Unless otherwise stated, Internal Audit has not verified the current position reported in either appendix and can therefore not give any independent assurance in respect of the reported position.

The Audit and Pensions Committee is invited to note the updates provided by operational management.

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

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Annual Governance Statement Action Plan	Internal Audit Manager Ext. 2505	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU

2010/11 Annual Governance Statement**Action Plan**

AGS Finding re Significant Control Weakness	Responsible Officer	Update reported to December 2011 Audit and Pensions Committee meeting	Update for February 2012 Audit and Pensions Committee meeting
<p>Reconciliation of Financial Systems</p> <p>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.</p>	<p>Head of Corporate Accountancy</p>	<p>A closing 'post-mortem' will be undertaken to identify weak spots and areas for improvement</p> <p>{Target Date 31 October 2011}</p> <p>Workplan for Corporate Accountancy and Capital and detailed closing calendar to be produced.</p> <p>{Target Date 31 December 2011}</p> <p>The accounts production process will be reviewed and revised as necessary, sharing best practice from other Authorities</p> <p>{Target Date 31 January 2012}</p> <p>Quarterly closedown (excluding a quarter 1 close down) to be implemented for 2012/13</p> <p>{Target Date 30 June 2012}</p>	<p>Target dates for 31 October, 31 December and 31 January have been met.</p> <p><i>The accounts production process was reviewed at a workshop in November and changes to the process were implemented following this workshop. We continue to scrutinise our accounts production process, particularly in light of guidance being issued from CIPFA and the Audit Commission and we address issues as and when they arise. We have had an initial session to share best practice with RBKC in November and have timetabled a further session for mid-February.</i></p>

AGS Finding re Significant Control Weakness	Responsible Officer	Update reported to December 2011 Audit and Pensions Committee meeting	Update for February 2012 Audit and Pensions Committee meeting
<p>Contract Management</p> <p>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.</p>	<p>Assistant Director – Human Resources</p>	<p>A full review of consultants has taken place and a new corporate procedure for the procurement of consultants has been agreed and implemented by EMT with effect from 1st August 2011. Existing consultants' contracts have been reviewed and HR is in the process of converting these, where appropriate to new contracts in line with the agreed procedures.</p>	<p><i>Issue reported as fully resolved at December 2011 meeting.</i></p> <p><i>No further update required</i></p>
<p>Information Requests</p> <p>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.</p>	<p>Information Manager</p>	<p>Official monitoring finished at the end of November 2010 with a marked improvement in performance. However staff capacity issues resulted in Geoff Alltimes and the Information Commissioner signing an Undertaking in April 2011. However, performance significantly improved with 92% of all RFIs processed within timescale since April 2011 and 85% (the ICO's target) processed within timescale since October 2010.</p>	<p><i>Issue reported as fully resolved at December 2011 meeting.</i></p> <p><i>No further update required</i></p>

AGS Finding re Significant Control Weakness	Responsible Officer	Update reported to December 2011 Audit and Pensions Committee meeting	Update for February 2012 Audit and Pensions Committee meeting
<p>Health & Safety</p> <p>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</p>	<p>Assistant Director – Building & Property</p>	<p>Quarterly updates are provided to the Executive Management Team of the current status of organisational health and safety.</p> <p>Agreed performance indicators provide information on salient pieces of information including gas safety, risk assessments etc.</p> <p>The status of departmental corporate safety audits are included based on a basic RAG system. (red/amber/green).</p> <p>The report also provides details on organisational accident/incident rates and training records.</p> <p>The sum of this information is conveyed at the quarterly Safety Committee, which is attended by departmental representatives, Unions, HR etc. The minutes are placed on the intranet.</p> <p><i>In addition to this update from the Head of Corporate Safety, Internal Audit has recently carried out audit work relating to Accommodation Services which included coverage of this issue. The audit work concluded that there are no remaining significant issues in this area.</i></p> <p><i>In addition, EMT now sees quarterly reports from the Corporate Safety Unit on gas certification compliance.</i></p>	<p><i>Issue reported as fully resolved at December 2011 meeting.</i></p> <p><i>No further update required</i></p>



AUDIT AND PENSIONS COMMITTEE

15 March 2012

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP
Departmental
Management Teams

Draft 2012/13 Internal Audit Plan

This report sets out the Internal Audit Plan for 2012-13, for the Committee's approval.

WARDS
All

RECOMMENDATION:

To approve the draft 2012/13 Internal Audit Plan

1. The audit plan attached as Appendix A based on the current risks facing the work of the Council and has been produced by considering the most Council's recent corporate, departmental and thematic risk registers.
2. It has then been refined through discussions with departments, senior management and other key stakeholders. These discussions remain ongoing.
3. Additionally we continue to develop the plans with respect to developing tri-borough and bi-borough arrangements. We will also be sharing the plans with the other tri-borough audit services in order to continue exploring the possibilities of providing coordinated plans and shared assurances across jointly delivered services.
4. This plan is likely to be subject to change throughout 2012/13 following further discussions with departments and other key stakeholders as well as currently unforeseen developments. Any further changes will be reported to the Audit and Pensions Committee at the next available meeting.
5. In addition to the plan shown in Appendix A, we have also developed a reserve plan to facilitate the effective and efficient substitution of audits should that become necessary during the year.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/ Copy	Department/ Location
1.	Departmental and Corporate Risk Registers	Risk Consultant extn. 2587	Finance and corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU
2.	Record of meetings with departments and senior management	Head of Internal Audit extn. 2529	Finance and corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

APPENDIX A

**London Borough of Hammersmith and Fulham
Draft Internal Audit Plan 2012/13**

Department	Subject	Timing	Coverage / miniscope	Notes
Corporate/ Cross departmental				
	Corporate & Partnership Governance	Q4	To cover the following areas taken from a 3-year rolling scope: <ul style="list-style-type: none"> - Governance Framework - Roles and Responsibilities - Capacity and Capability - Partnership Organisations 	
Tri-borough	Tri-borough working	Q2	Scope dependent on subject (to be determined)	
	Bi-borough working	Q2	Scope dependent on subject.	<i>Coverage to be identified - to include Environment and Residents Services</i>
Project	Regeneration projects	Q1/2/3/4	Coverage dependent on nature and stage of project but likely to cover: <ul style="list-style-type: none"> - Council and Service Objectives - Programme Management Arrangements and Governance - Project Management and Monitoring - Definition and Delivery of Benefits - Risk Management 	<i>To include consideration of the issues raised from Edward Woods, perhaps including follow up on implementation of the action plan for that project</i>
Risk	Risk Management	Q4	<ul style="list-style-type: none"> - Risk Management Framework and Governance - Roles and Responsibilities - Identification of Risk - Assessment of Risk - Management of Risk - Monitoring and Reporting of Risk 	<i>Audit work to underpin reliance on risk management processes for audit and business planning</i>

Department	Subject	Timing	Coverage / miniscope	Notes
Corporate Services				
	Core Financials - Council Tax	Q3	<ul style="list-style-type: none"> - Legislation, Policies and Procedures - Council Tax Transactions and Records <ul style="list-style-type: none"> - Valuation - Tax Setting - Liability - Billing - Collection - Refunds - Debt Recovery and Enforcement <ul style="list-style-type: none"> - Management Reporting 	<i>Dependent on outcome of discussions with new External Auditor</i>
	Core Financials - NNDR	Q3	<ul style="list-style-type: none"> - NNDR Transactions and Records <ul style="list-style-type: none"> - Valuation - Liability - Billing - Collection - Refunds - Debt Recovery and Enforcement <ul style="list-style-type: none"> - Management Reporting 	<i>Dependent on outcome of discussions with new External Auditor</i>
	Core Financials - On-street parking	Q3	<ul style="list-style-type: none"> - Applications for Permits <ul style="list-style-type: none"> - Issue of Permits - Income and Banking - Return of Permits and Refunds - Public Notices and Enforcement <ul style="list-style-type: none"> - Management Information 	<i>Dependent on outcome of discussions with new External Auditor</i>

Department	Subject	Timing	Coverage / miniscope	Notes
	Core Financials - Penalty Charge Notices	Q3	<ul style="list-style-type: none"> - Policies, Procedures and Legislation - Contract Management - issue of PCNs - Reconciliations, Interfaces and Payments - Appeals - Monitoring of Income Collection 	<i>Dependent on outcome of discussions with new External Auditor</i>
	Core Financials - Schools (SIMS)	Q3	Full audit and testing for external audit: <ul style="list-style-type: none"> - Monitoring and Review of Schools Financial Returns - Reconciliations to Council Records 	<i>Dependent on outcome of discussions with new External Auditor</i> <i>Not sure if this is still needed in current context (subject not covered in past 3 years by external audit)</i>
	Core Financials - preliminary testing	Q2	Preliminary testing of relevant systems' key controls to prepare for external audit testing	<i>Dependent on outcome of discussions with new External Auditor</i>
	Core Financials - other systems	Q2	Light-touch testing of all other identified Core Financial systems to ensure continued compliance with required controls	<i>Possibly to be done (at least in part) using CRSAs currently being developed by Deloitte for Croydon Partnership</i>
	Financial Accounting system ledger - Cedar	Q1	<ul style="list-style-type: none"> - Accounting Records - Accounting Transactions and Manual Adjustments - Year-End Procedures - Financial and Performance Management Reporting 	
	Development of Finance Systems WCFM	Q1	Likely to take the form of risk and control advice where finance systems and procedures are due to change significantly.	
IT				
	Network Infrastructure + WiFi + Laptop and Mobile Devices	Q2	This audit will test the security and management of controls over the Council's Network Infrastructure; WiFi governance, risk, usage and arrangements; and will test controls over the risk management and security of Laptops and Mobile Devices used by staff.	

Department	Subject	Timing	Coverage / miniscope	Notes
	IT Strategy including Tri-Borough	Q1	This audit assesses the controls applied to integrating the overall corporate strategy into the strategic route map for IT activities and investments by review of controls for example; Roles and responsibility for ICT strategy is clearly defined; A current integrated and appropriate ICT strategy has been developed and formally approved; and management and monitoring arrangements.	
	Starters Movers Leavers (SML) - Post Implementation	Q3	Post Implementation audit. This audit will test controls over: Risk management of any ongoing residual project risks; Post implementation methodology to assess and quantify business achievements and delivery of strategic goals; and Post implementation knowledge management learning initiatives for ongoing continuous improvements.	
	PCI DSS Audit	Q1	An audit of PCI DSS, but not giving Assurance over the accreditation to PCI DSS. Controls will be tested over PCI Governance within the Council (Responsibility); Monitoring arrangements to maintain compliance (PCI changes, internal change control); Regular Compliance checks (Internal and external); Regular Pen Tests; and Action plans to remedy issues identified in compliance checks.	
	iCasework - Application	Q1	Application audit. This will include testing controls over access, input, data processing, output, interfaces, management trails, support arrangements, backup and recovery, and supplier management. Also to consider the value of further audit coverage.	
	Tri-Boro IT Security Audit of Adult Social Services	Q1	Scope to be determined.	
	Tri-Boro IT Security Audit of Children's Services	Q2	Scope to be determined.	

Department	Subject	Timing	Coverage / miniscope	Notes
Contracts				
Contracts	Recently tendered contracts	Q2	<p>To cover: -</p> <ul style="list-style-type: none"> - market testing - Letting of - Section of contractors <p>- Tender Receipt, evaluation and reporting</p> <p>- e-tendering (where appropriate)</p> <p>Possible extensions of scope could cover: -</p> <ul style="list-style-type: none"> • Defining the procurement strategy <ul style="list-style-type: none"> • Pre-qualification. • Inviting tenders • Invitation to tender (ITT) • Evaluating and refining tenders <ul style="list-style-type: none"> • Awarding the contract • Putting the contract in place • Contracts, terms and conditions <ul style="list-style-type: none"> • Managing the contract • Review and testing <ul style="list-style-type: none"> • Feedback 	<p><i>Themed audit to cover testing across 6 recently tendered contracts. Specific individual contracts to be proposed to and agreed with Competitions Board. Deliverables - 6 management letters & one overall report (with assurance level) to be issued to the Competitions Board.</i></p> <p><i>Jane West - Consider passenger transport, facilities management, schools catering</i></p>
Contracts	Extended contracts	Q1	<p>To cover: -</p> <ul style="list-style-type: none"> • The frequency that Extensions of Time are used? <ul style="list-style-type: none"> • Contractors notification • CA/Project Manager assessments • Relevant events (type and use of) • Resulting effect on LADs and Contractors recovery of cost <ul style="list-style-type: none"> • Contract compliance 	<p><i>Themed audit to cover testing across 6 recently tendered contracts. Specific individual contracts to be proposed to and agreed with Competitions Board. Deliverables - 6 management letters & one overall report (with assurance level) to be issued to the Competitions Board.</i></p>

Department	Subject	Timing	Coverage / miniscope	Notes
Contracts	Delivering a cost reduction programme for the LB Hammersmith & Fulham. -	Q1	- Contract Formalities - Contract Management and Performance Management - Payments - Budget Management - Value for Money	
Contracts	Resurfacing and Road Marking – Colas	Q1	- Contract Formalities - Contract Management and Performance Management - Payments - Budget Management - Value for Money	
Contracts	Housing Repairs Water Systems – Seven Trent	Q1	- Contract Formalities - Contract Management and Performance Management - Payments - Budget Management - Value for Money	
Contracts	Provision of Penalty Charge Notice Software – TSMP	Q1	- Contract Formalities - Contract Management and Performance Management - Payments - Budget Management - Value for Money	
Children's Services				
School	Avonmore Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	
School	Brackenbury Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	
School	Fulham Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	

Department	Subject	Timing	Coverage / miniscope	Notes
School	Greenside Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	
School	New Kings Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	
School	Pope John Catholic Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	
School	St Mary's Catholic Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	
School	St Stephen's CE Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	
School	Hurlingham & Chelsea School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	
School	Lady Margaret School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	
School	Cambridge School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	
School	The Bridge Academy PRU	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.	
	Customer Referral Management	Q2	<ul style="list-style-type: none"> - Service Level Agreements - Service Provision (portfolio of services and provision of those services) - Billing and Income Recovery - Performance Management 	
	School performance monitoring	Q1	To cover the systems in place to monitor schools financial and academic performance and how poor performance is identified and addressed.	

Department	Subject	Timing	Coverage / miniscope	Notes
Contracts	West London Alliance Home Support Framework Agreement 2011/12 Social Community Care Support Services	Q3	<ul style="list-style-type: none"> - Contract Formalities - Contract Management and Performance Management - Payments - Budget Management - Value for Money 	
	Themed schools audit - <i>Head Teacher's Pay and incentive payments</i>	Q1	<p>To cover whether: -</p> <ul style="list-style-type: none"> - Headteacher's spinal point is within the acceptable range based on number and age of pupils - Any payments above the allowed level are only allowed when School is a school causing concern, if the School has substantial difficulties recruiting/retaining the Headteacher, or the Headteacher is running more than one school (This provision should not be used simply to pay the Headteacher more money based on his performance). - Approval and annual review of pay scale by Governing Body <ul style="list-style-type: none"> - Check if any additional payments are made to the Headteacher and if they are appropriate and approved - That schools aren't paying Inner London Supplement of £822 per year any more as this provision ceased in 2008 - The above could also be expanded to leadership team pay 	
	Themed schools audit - <i>Leasing</i>	Q1	<p>To cover: -</p> <ul style="list-style-type: none"> - Appropriate lease (i.e. operating not finance lease) - Advice sought and Approval obtained to enter into lease <ul style="list-style-type: none"> - Value for money sought 	

Department	Subject	Timing	Coverage / miniscope	Notes
	SEN Transport	Q2	<ul style="list-style-type: none"> - Management of Bookings and Requests - Vetting and Security - Payments to Transport Providers - Internal Recharges - Monitoring and Management Information 	
Contracts	Social Enterprise contract management	Q2	<ul style="list-style-type: none"> - Contract Formalities - Contract Management and Performance Management - Payments - Budget Management - Value for Money 	
Adult Social Care				
Project	Disability equipment	Q2	<p>Coverage likely to cover:</p> <ul style="list-style-type: none"> - Council and Service Objectives - Programme Management Arrangements and Governance - Project Management and Monitoring - Definition and Delivery of Benefits - Risk Management 	
Project	Transfer to sheltered housing/ continuity of care	Q1	<p>Coverage likely to cover:</p> <ul style="list-style-type: none"> - Council and Service Objectives - Programme Management Arrangements and Governance - Project Management and Monitoring - Definition and Delivery of Benefits - Risk Management 	<i>To be identified by Director/ DMT</i>
Contracts	West London Housing Related Support Joint Framework Tender	Q1	<ul style="list-style-type: none"> - Contract Formalities - Contract Management and Performance Management - Payments - Budget Management - Value for Money 	

Department	Subject	Timing	Coverage / miniscope	Notes
	CSD departmental governance	Q3	<ul style="list-style-type: none"> - Governance Structure - Roles and Responsibilities - Management Information and Reporting 	
Tri-borough	Adult Social Care (Tri-borough working)	Q2	Scope dependent on subject (to be determined)	
	Outsourcing	Q3	<p>To cover the outsourcing process with proactive work to feed into identified projects. May cover:</p> <p>would expect to cover:</p> <ul style="list-style-type: none"> - Decision to Outsource - Development of Service Specification - Payments - Contract Monitoring - Financial Management 	<p><i>Possibly to include: -</i></p> <ul style="list-style-type: none"> <i>Meals</i> <i>Transport</i> <i>Removals</i> <i>Learning Disability</i>
Transport & Technical Services				
Contracts	Planned preventative maintenance - passenger lifts and goods lifts Lot no 2 Housing Properties	Q2	<ul style="list-style-type: none"> - Contract Formalities - Contract Management and Performance Management - Payments - Budget Management - Value for Money 	
	Parking Enforcement	Q2	To refer to and extend the coverage of the audit being carried out in relation to External Audit as a core financial	
Housing and Regeneration				
Project	BPM programme	Q2	<p>Coverage dependent on nature and stage of project but likely to cover:</p> <ul style="list-style-type: none"> - Council and Service Objectives - Programme Management Arrangements and Governance - Project Management and Monitoring - Definition and Delivery of Benefits - Risk Management 	

Department	Subject	Timing	Coverage / miniscope	Notes
	Regeneration Governance	Q1	audit of Regeneration governance (programme/projects). Scope likely to include: - Governance Structure - Roles and Responsibilities - Management Information and Reporting	
	Income collection	Q2	More detailed work than the standard core financial audit work to cover timely rent account set up, collection, arrears collection, and including segregation of duties/controls in regional offices; to undertake early in the year	
Contracts	Repairs and Maintenance	Q1	contract management including use of management information (eg tracking repeat visits), 'resolve first time' visiting, lessons to learn for new contract, accruals process	
Environment, Residents & Leisure Services				
	Neighbourhood Wardens	Q2	Possible scope - Allocation and Monitoring - Investigations - Issue, Collection and Monitoring of Fixed Penalty Notices - Management Information and Performance	<i>Tasking and briefings</i>
	Neighbourhood Wardens	Q2	<i>To be clarified by department</i>	<i>Wardens Database</i>
Other				
	Verification of Priority 1 audit recommendations implementation	Q1/2/3/4	Verification of P1 recs not included in follow-ups for quarterly reporting to FSB and possibly APC	<i>To include all P1s - P2s to be included as requested by in-house team.</i>
	End of year reports	Q1	To produce year end reports on schools, IT, projects/project management, Finance (including a section on procurement) and others as agreed	
	Follow-up audits	Q1/2/3/4	Estimate based on 1.5 days each for an estimate of 8 follow-ups required. Additional budget to be requested and agreed as justified.	
	Audit and Pensions Committee Training	Q2		



AUDIT AND PENSIONS COMMITTEE

2012

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:

- 1. 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 to meet BS31100 requirements for Enterprise Risk Management. 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 Executive 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 – Stable

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 and in any procurement or commissioning. The Councils Business Continuity Manager, now a Bi Borough appointment, provides a service for the council and the Royal Borough of Kensington and Chelsea. This will be an important factor in ensuring consistency of planning and response in the event of a potential major service interruption.

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

3.4.1. The Executive Management Team receive consolidated statistics on four Portfolios;

- 3.4.1.1. Customer Access & Service Delivery
- 3.4.1.2. Transforming the way we do business
- 3.4.1.3. Market management
- 3.4.1.4. Tri-borough

3.4.2. All portfolio managers have now met with the Principal Consultant Risk Management and confirm that each report on risks and mitigations to HFBB on a monthly basis. They highlight a number of key risks that include, but are not limited to;

- Challenging Medium Term Financial Strategy savings
- Rapidity and complexity of change

- Development of commercial skills
- H & F Bridge Partnership negotiations
- Key staffing changes

3.4.3. Each risk is accompanied with a proposed mitigation and provides an update on the Organisational Development and Transformation resource requirements, benefits realisation and plans to provide increased Programme Assurance.

3.4.4. In December 2011 Cabinet were informed of the results of a tendering exercise for two Business and Management Consultancy contracts. These were successfully tendered in support of market management and debt recovery and constitute an important element in the Council's pursuit of significant savings over the next few years. These services comprise Procurement Services & Savings and Enhanced Revenue/Debt Collection/Recovery. The services will be provided on a 'gain share' basis, with the successful organisation(s) primarily receiving payment only by way of a proportion of the savings identified or additional debt recovered on behalf of the Council. This is not a traditional consultancy service type contract with the risk for delivery placed firmly with the successful bidder and not the Council. This is the first time the Council has used this model which ensures payment is only made when there is a delivered outcome to the Council.

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

3.5.1. Meetings between Tri-Borough colleagues to discuss health and safety management systems are being held fortnightly and an operating model is to be proposed and discussed at HFBB. It has been agreed that the Host Borough will coordinate the cascade of health and safety information from all boroughs to senior managers through a designated health and safety advisor. Each council will retain a Safety Committee to comply with current legislative requirements. Where a service is being provided to potentially 'at risk' clients for example in Tri Borough Adult Social Care Services the proposals extend to create a cross borough representative group.

3.5.2. A new system has been rolled out replacing the previous mechanism for recording and managing information about violent service users. In future staff will record any incident on the corporate health and safety incident reporting system used for accidents, violent incidents, dangerous occurrences and near misses. A routine report will pull this information to the intranet so that it is accessible to all council staff.

3.5.3. The new system removes the risk and bureaucracy of duplication of entries and management of information. This will enable corporate safety to review the nature and frequency of incidents whilst Executive Services will retain the responsibility for managing the information in terms of relevance and accessibility ensuring it is removed as soon as it is no longer applicable.

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

3.6.1. Increasingly apparent are the numbers of high profile information security incidents reported in the national media. Added to this is the interest shown by the Information Commissioners Office into individual cases where local authorities have fallen below expected standards of Information security management. ITSOG, the councils Information Technology Standards Operational Group, periodically review the councils breaches of information management protocols and other incidents. A copy of the December ITSOG report is attached as **Appendix 2** that highlights the number of Statistical summary of incidents.

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

3.7.1. Risk and issue management is facilitated through the Royal Borough of Kensington and Chelsea Programme Management Office (PMO). An updated position on Tri Borough working risks and mitigations has been reflected in the councils Corporate Risk Register.

3.7.2. A common set of risks are emerging from Portfolio managers via the summary provided by the PMO that include, but are not limited to accommodation, IT, timing and Human Resources. All portfolios, Adult Social Care, Corporate Services, Libraries and Environment are reporting via the agreed highlight reports registering emerging risks and their mitigations.

4. 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.

5. Programme and projects

5.1. The Transformation Office are refreshing their project and programme governance reporting arrangements. Departments will in future track and report on progress of individual projects. Aspects of which will be discussed at their respective Department Management Teams.

6. Operational highlights

- 6.1.** Tri Borough working arrangements have now been put into place for Insurance Services. This is being hosted by the Royal Borough of Kensington & Chelsea and will cover the Internal claims handling and Insurance purchase processes. Background information on Risk Management activities for the past three years and forward plans have been requested by the Insurance Broker in advance of re-tendering of the insurance portfolio.
- 6.2.** Following a request by the Health and Safety Executive a copy of the council's asbestos strategy and management procedures have been forwarded. A programme of asbestos awareness training, to kick off the new management strategy, had already been scheduled for November/December. This forms part of a targeted programme of health and safety training based on the revamped procedures that are being rolled out.
- 6.3.** A strategy was drawn up between Corporate Safety and Building Property Management in April 2011 setting out the identified risks and the immediate and long-term management actions. The required control measures in summary include: asbestos management surveys of property portfolio, starting with schools; changes to the corporate asset management system to allow it to act as the asbestos register, the repository and hub for asbestos management plans and audit trail of contractor movements; the adoption of a new control of contractors procedure and permissions to work system; the recruitment of an Appointed Person to manage the asbestos portfolio; the creation of individual asbestos management plans for each building and an overall strategy for the entire portfolio; the roll out of tailored asbestos awareness training for premise managers, contractors and staff; monitoring of compliance through inspection and key performance indicators.

7. Market Testing

- 7.1.** An update to contract schedules (market testing programme, new contracts, contract renewals and contract review & negotiation Programme) was reviewed and discussed at the councils Competition Board. Competition Board has asked the councils Contracts Register Group to monitor progress on new contracts, contract renewals and renegotiations, Market Testing Programme, and contract monitoring and report back to Competition Board on an exception basis. In effect this concerns reporting on red flag items where major problems or issues have been encountered and Competition Board need to be advised. It was also considered sensible to report on any major headlines issues.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	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
2.	The Orange Book, Management of Risk Principles & Concepts – HM Treasury	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
3.	Departmental Risk Registers, Tri borough Portfolio risk logs	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
4.	CIPFA Finance Advisory Network The Annual Governance Statement	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
5.	BS 31100 Code of Practice for risk management	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith



AUDIT AND PENSIONS COMMITTEE

15 March 2012

CONTRIBUTORS

Chief Internal Auditor
Internal Audit Manager
Deloitte & Touche LLP

**Internal Audit Quarterly report for the
period 1 October to 31 December 2011**

This report summarises internal audit activity in respect of audit reports issued during the period to 31 December 2011, as well as reporting on the performance of the Internal Audit service.

**WARDS
All**

RECOMMENDATION:

To note the contents of this report

CONTENTS

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1 Introduction

- 1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 October to 31 December 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 12 audit reports were finalised in the third quarter of 2011/2012 (see **Appendix A**). In addition 1 management letter and 2 follow up reports were issued.
- 2.3 In addition to follow-up audits of limited and nil assurance reports, Internal Audit also seeks to verify the implementation of all other priority 1 recommendations. In the quarter ended 31 December 2011, 9 recommendations were reviewed. 8 were found to have been fully implemented whilst the remaining one was found to have been partly implemented.
- 2.4 Two audit reports issued in this period received limited assurance. All 8 of the recommendations made in the report on *Client Affairs – Property Protection* and all 5 made in the report on *Direct Payments – Use of Funds* have now been reported as fully implemented. Follow-up audits will now be scheduled. Full copies of both these reports have been made available to members.
- 2.5 The Internal Audit department works with key departmental contacts to monitor the numbers of outstanding draft reports and the implementation of agreed recommendations.
- 2.6 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. We are very pleased to be able to report that there are no outstanding reports as at 31 December 2011.

- 2.7 We are also delighted to be able to report that there are no audit recommendations made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and it has 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.
- 2.8 Internal Audit are now focussing on a more proactive approach of assisting departments and HFBP to concentrate on forthcoming recommendations in order to maintain the current excellent position.
- 2.9 As part of the tri-borough programme some department names have been amended whilst their areas of responsibility have remained broadly similar. The changes are as follows: -
- ◆ Community Services has become *Adult Social Care*
 - ◆ Environment Services has become *Transport and Technical Services*
 - ◆ Finance & Corporate Services has become *Corporate Services*
 - ◆ Residents Services has become *Environment, Residents and Leisure Services*.

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 2011/12

Ref	Performance Indicator	Target	Pro rata target	At end of December	Variance	Comments
1	% of deliverables completed (2011/12)	95%	75%	69%	-6%	75 reports delivered out of a total plan of 108
2	% of planned audit days delivered (2011/12)	95%	75%	64%	-11%	608 days delivered out of a total plan of 949 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	95%	On Target	37 out of 39 briefs issued more than ten working days before the start of the audit.
4	% of Draft reports issued within 10 working days of exit meeting	95%	95%	93%	-2%	43 out of 46 draft reports issued within 10 working days of exit meeting.

3.3 The Corporate Anti-Fraud Section which is part of the wider Internal Audit Unit is lasing with Housing and Regeneration Department in respect of Tenancy Fraud and an update has been attached as **Appendix B**.

4 Audit Planning

4.1 The 2012/13 Internal Audit Plan has been submitted to the Committee for approval as a separate report.

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 October to 31 December 2011

We have finalised a total of 12 audit reports for the period to 31 December 2011. In addition, we have issued a further 1 management letter and 2 follow ups.

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	2011/12	Holy Cross Primary School	Andrew Christie	Substantial
2	2011/12	Normand Croft Community School	Andrew Christie	Substantial
3	2011/12	St John's CE Primary School	Andrew Christie	Substantial
4	2011/12	Sullivan Primary School	Andrew Christie	Substantial
5	2011/12	St Peter's CE School	Andrew Christie	Substantial
6	2011/12	Direct Payments	John Chamberlain (Acting)	Limited
7	2011/12	Supported Housing Contract Renegotiation	John Chamberlain (Acting)	Substantial
8	2011/12	Reablement	John Chamberlain (Acting)	Substantial
9	2011/12	Client Affairs – Property Protection	John Chamberlain (Acting)	Limited
10	2011/12	Client Affairs – Funerals	John Chamberlain (Acting)	Substantial
11	2011/12	Client Affairs – Appointeeships and Deputyships	John Chamberlain (Acting)	Substantial
12	2011/12	Election Expenses	Jane West	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
13	11/12	Key Financial Controls – Self Assessments	Jane West

Follow ups

No.	Audit Plan	Audit Title	Director	Implemented	Partly Implemented	Not Implemented	Not Applicable
14	2011/12	Parking Pay and Display	Nigel Pallace	7	1	0	0
16	2011/12	CRB Checks*	Jane West	0	0	0	0

* No recommendations raised in the original report as there was a sound system of controls in place to identify and follow up outstanding and due CRB checks. However, our audit work identified that there remained a significant number of officers who have not been CRB checked in the last three years for whom CRB check applications have not been submitted. Our follow up work established that the Council's position on outstanding CRB checks has improved since the original audit was undertaken; however we have raised a further recommendation that departments should be formally reminded to submit CRB check applications.

Tenancy Fraud Initiative 2011/2013

There is a Tenancy Fraud Initiative partnership between Housing and Regeneration Department (HRD) and the Corporate Anti-Fraud Section (CAFS). This links the work of CAFS with the tenancy fraud initiative being managed by a consultant within the Technical and Support Services Unit in HRD. Fortnightly operational meetings are held as well as monthly fraud steering group meetings.

The core strategy is to identify areas of tenancy fraud, in particular illegal subletting, and identifying areas of weakness with internal processes and controls in order to reduce the likelihood of error and fraud.

The initiative will involve referrals of proactive intelligence to CAFS that arise from developing data matching techniques. CAFS will conduct prioritised visits providing monthly feedback on their enforcement actions.

The priorities will be eviction, conviction and with an overarching consideration of asset recovery where cost effective and “profitable”. Prevention of loss will also be a major consideration.

The use and feedback of 12,346 Experian data matched records with key trends in Council held data will develop a proactive approach and a legacy for future operations against tenancy cheats. 6% of tenancies have been designated high risk with 109 classified as high quality matches. Additional training and database access within HRD will allow more detailed briefing packages and referrals to be made to CAFS.

Two referrals have already been made to CAFS for further investigation. A steep rise in referrals is expected moving forward.

Four operational recommendations have been raised to more closely record squatting of council properties, to ensure all void properties are correctly categorised, to introduce safeguards to prevent repossession of council properties by squatters and to roll out JANUS concierge software within the south of the borough.

By virtue of paragraph(s) 1, 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted