

# Audit, Pensions and Standards Committee

## Agenda

Thursday 28 June 2012

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL  
KING STREET, W6 9JU

### MEMBERSHIP

Administration:	Opposition	Co-optees
Councillor Michael Adam (Chairman) Councillor Marcus Ginn Councillor Robert Iggulden Councillor Lucy Ivimy	Councillor Michael Cartwright Councillor PJ Murphy	Eugenie White (T.B.C.)

**CONTACT OFFICER:** Owen Rees  
Committee Co-ordinator  
Governance and Scrutiny  
☎: 02087532088  
E-mail: owen.rees@lbhf.gov.uk

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[http://www.lbhf.gov.uk/Directory/Council\\_and\\_Democracy](http://www.lbhf.gov.uk/Directory/Council_and_Democracy)

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Date Issued: 20 June 2012

# Audit, Pensions and Standards Committee Agenda

28 June 2012

<u>Item</u>		<u>Pages</u>
<b>1. MINUTES OF THE PREVIOUS MEETING</b>		1 - 8
	(a) To approve as an accurate record and the Chairman to sign the minutes of the meeting of the Audit and Pensions Committee held on the 15 <sup>th</sup> March 2012, and;	
	(b) To note the outstanding actions.	
<b>2. APOLOGIES FOR ABSENCE</b>		
<b>3. DECLARATIONS OF INTEREST</b>		
	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.	
<b>4. MEMBERSHIP AND TERMS OF REFERENCE</b>		9 - 13
<b>5. APPOINTMENT OF CO-OPTED MEMBER</b>		14 - 15
	This report recommends the reappointment of a non-voting co-opted member to the Committee.	
<b>6. MAJEDIE MANDATE</b>		16 - 22
	This report follows a request from Majedie to broaden their UK equity investment mandate to include a maximum of 20% overseas listed equities. Discussions on this report will be preceded by a presentation from Majedie.	
<b>7. PENSION VALUE AND INVESTMENT PERFORMANCE</b>		23 - 40
	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 March 2012.

- 8. STATEMENT OF INVESTMENT PRINCIPLES** 41 - 54
- This report updates and amends the Statement of Investment Principles of the Pension Fund.
- 9. ANNUAL REVIEW OF RETIREMENTS AND REDUNDANCIES 2011-12** 55 - 62
- The report draws members attention to the Local Government Pension Scheme retirements that occurred in 2011/2012 and the consequential effect on the pension fund.
- It also reports the number and value of redundancy payments made by the Council in 2011/12 for information. Appendices 1 and 2 are contained in the exempt agenda under Item 17.
- 10. EXTERNAL AUDIT PROGRESS REPORT** 63 - 76
- This report updates the Committee on the work of the Council's external auditor, the Audit Commission.
- 11. HEAD OF INTERNAL AUDIT ANNUAL REPORT** 77 - 101
- This Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2011/12 financial year and provides assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. In all cases a satisfactory assurance has been provided with the exception of the significant control weaknesses recorded in the report. The report is a key element of the evidence supporting the Annual Governance Statement (AGS).
- 12. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT** 102 - 145
- This report updates the Committee of the risks, controls, assurances and management action orientated to manage Organisational level risks.
- 13. CORPORATE ANTI-FRAUD SERVICE ANNUAL REPORT** 146 - 159
- This is the annual report on the progress made in delivering the 2011/12 year service plans; key results of the work undertaken, and the performance achieved
- 14. INTERNAL AUDIT QUARTERLY REPORT** 160 - 175
- This report summarises internal audit activity in respect of audit reports issued during the period to 31<sup>st</sup> March 2012, 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 1,2,3 and 7 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. ANNUAL REVIEW OF RETIREMENTS 2011/2012- EXEMPT ASPECTS**
- 17. GAS SAFETY CERTIFICATION**
- 18. UPDATE ON TAX ISSUES - VERBAL UPDATE FROM DELOITTE TAX ADVISORY**



London Borough of Hammersmith & Fulham

## **Audit and Pensions Committee Minutes**

**Thursday 15 March 2012**

### **PRESENT**

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

**Others in Attendance:** Gillian Evans, James Wates and Emma Burnett-Ray, Goldman Sachs

Nikhil Aggarwal and , P-Solve

Jon Hayes, District Auditor, Audit Commission

**Officers:** Jane West, Executive Director of Finance and Corporate Governance, Hitesh Jolapara, Deputy Director of Finance, Jonathan Hunt, Tri-Borough Director- Pensions and Investment, Geoff Drake, Chief Internal Auditor, Michael Sloniowski, Principal Risk Consultant, and Owen Rees, Committee Coordinator

### **54. MINUTES OF THE PREVIOUS MEETING**

#### **RESOLVED THAT**

The minutes of the meeting held on 8 December 2011 be agreed as a true and correct record.

### **55. APOLOGIES FOR ABSENCE**

There were apologies from Eugenie White.

### **56. DECLARATIONS OF INTEREST**

Councillors Cartwright and Murphy declared a personal interest in respect of items 57, 58, 59, 60, and 62 as members of the Pension Fund.

### **57. GOLDMAN SACHS- PRESENTATION**

Gillian Evans, James Wates, and Emma Burnett-Ray, representing Goldman Sachs, attend the Committee to give a presentation on the performance of the element of the fund invested with Goldman Sachs.

Gillian Evans explained the nature of the mandate held by Goldman Sachs, the nature of the fixed income market, including the types of asset available, and the factors considered when selecting assets invested in. She described the value of the investment with Goldman Sachs, the benchmark for the investment and the investment objective. She said that performance since the inception of the mandate had achieved the objective set, but that performance in 2011 had been poor; she said that James Wates, who worked in the Fixed Income division, would set out the reasons for that.

Mr Wates described the salient features of the market in 2011. Firstly, yields had been low at the start of the year, but had got lower still as the year went on, both for short-dated and long-dated bonds and securities, with a rally for "risk-free" assets, such as Government debt. Secondly, concerns regarding parts of the Eurozone prompted increasing spreads and increasing stresses in the market in the 3<sup>rd</sup> quarter of the year. Thirdly, in the wake of those stresses, spreads on other assets with credit characteristics, including corporate bonds, increased, particularly in the 3<sup>rd</sup> quarter, with the ECB's action reducing those stresses in the 4<sup>th</sup> quarter.

Councillor Iggulden asked how this turbulence had affected the portfolio. Mr Wates said that Goldman Sachs had taken the position at the start of 2011 that interest rates were too low and would rise within the year. They had accordingly held short-dated debt, and so did not get the full benefit of falling yields. He said that there had also been contagion as a result of market conditions, with high-levels of risk aversion, which made realising the fundamental value of assets difficult. He said that Goldman Sachs was cautious, and remained cautious, with regards to European Bonds, and believed that the injection of liquidity by the ECB was responsible for the rally. He said that Goldman Sachs had been surprised by the level of, and success of, ECB support, but remained very cautious. However, these positions had led to the underperformance.

Gillian Evans said that it was challenging to operate in an environment in which politics had superseded economics. She said that Goldman Sachs had invested where it was confident of the underlying value of assets. She said that the selection of assets had been correct, but that the duration chosen and the chances and effects of Government intervention misjudged. She said that the fund was up 201 basis points since the start of the year.

Councillor Murphy asked how Goldman Sachs had altered its views and process in light of the underperformance of 2011. Mr Wates said that the view had been based on improving data from the US, and though that showed signs of cooling, the cooling was a result of the mid-cycle slowdown; it proved much more serious than thought. He said that while Goldman Sachs believed that it brought insight to fixed income investment; it would not get every decision correct. He said that the process of analysis and fund management were fundamentally the same.

The Chairman asked whether Goldman Sachs believed that the underlying risk that had prompted the events of August 2011, and the subsequent intervention by the ECB had dissipated, noting that few had seen the market event coming.

Mr Wates said that there were still long term risks, despite the ECB's intervention allowing the opportunity for structural changes to be made. He said that the fund had been correctly positioned for the 4<sup>th</sup> quarter of the year. Further to a question from Councillor Botterill, he said that there had been little exposure to the European periphery, and the issues for Goldman Sachs had been contagion across asset classes. He said that Goldman Sachs saw more value in United States securities going forward, and remained concerned about European debt. The investments made were in line with the levels of risk implicit in the investment objective set.

In response to a question from P-Solve, Mr Wates said that a year was too short a horizon to judge performance, with 3 to 5 years a more sensible term. He said that the one year figure was affected by a large loss in Quarter 3 of 2011, which had included August.

He then took the Committee through the remainder of the presentation, pointing out that the allocations showed the way the fund was managed: he noted that the current cash allocation included derivatives which were sensitive to higher yields. He also highlighted the fund's current thinking on security selection, which was positive towards commodity currencies, certain types of credit impaired security and US Housing market securities issued by Freddie Mac, Fannie Mae and Ginnie Mae.

The Committee thanked Goldman Sachs for attending.

## **RESOLVED THAT**

The presentation be noted.

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

Nikhil Aggarwal, P-Solve, presented the report, which outlined the fund's performance in the previous quarter. He said that, while the 6.8% return looked good, it hid considerable volatility. Returns in October had been strong following the announcement of another round of quantitative easing, but November had seen fall back, in the wake of concerns about Europe, and growth forecast downgrades. He said that market sentiment was the key driver for the quarter, with high demand for UK bonds causing a rise in liabilities of 9%, making for a 2.2% underperformance over the quarter.

With regards to the performance of individual mandates, he said that Majedie had underperformed their benchmark, but their strong performance in quarter 3 suggested that they were well protected against market shocks; they remained above target for the year. He said that they had taken the decision to close the Tortoise fund to new investors; a decision which P-Solve suggested was a welcome one.

With regards to the Legal & General mandate, he said that the new mandate, which would be bespoke to the fund's liabilities, had been implemented in February; the agreement had been signed in mid-January but had allowed Legal & General three months to implement the mandate, to allow it do so at a time when market conditions were most amenable. Quarter 1 performance figures would reflect this.

Councillor Iggulden asked what the final fees agreed were. Mr Agarwal said that he would send the Committee details of the fees agreed.

#### **RESOLVED THAT**

The report be noted.

#### **59. ALTERNATIVE INVESTMENTS**

The Committee received and considered a report on alternative investments.

Councillor Iggulden expressed concerns that the case for alternative investments had not been proven, with Ruffer themselves sceptical. The Chairman said that the Committee took his point on that, but sought diversification away from conventional equities, as recommended by P-Solve, through an increase in the percentage of the fund held in a Dynamic Asset Allocation mandate by Ruffer.

#### **RESOLVED 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.

#### **60. COMMUNITIES AND LOCAL GOVERNMENT CONSULTATION ON PROPOSED AMENDMENTS TO THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) REGULATIONS CONTAINED IN THE DRAFT LGPS (MISCELLANEOUS) REGULATIONS 2012**

Jonathan Hunt, Tri-Borough Director- Pensions and Investment, introduced the report, which set out a number of technical amendments the Government proposed to make to the regulations governing local government pension schemes (LGPS). He said that the proposals were not of material concern for the Fund.

He said that, with regards to wider reform of the LGPS, meetings between unions and sector leaders were ongoing, with the aim of making proposals by the end of March 2012, with a view to implementation in March 2013. The suggested timescale would coincide with the actuarial valuation of the fund. He said that no announcement had been made, but that career averaging, the maintenance of the current accrual rate, and proposals for caps on employer contributions were under discussion.

#### **RESOLVED THAT**



The report be noted.

**61. LONDON BOROUGH OF HAMMERSMITH & FULHAM AUDIT OPINION PLAN 2011/12**

Jon Hayes, District Auditor, introduced the report, which set out the Audit Opinion Plan for the 2011-12 financial year. He said that the Audit Commission had recently announced the result of a tendering exercise, with the auditing of North London, the cluster of which the Council was a part, let to KPMG. He said that staff would be transferred to KPMG in October 2013. He said that tendering exercise had been carried out, as primary legislation required the Audit Commission to appoint local authority auditors. He said that the tendering exercise, combined with a reduction in central capacity and functions, would enable a 40% cut in fees to be made in future.

With regards to the 2011-12 audit, he said that key risks were identified on pages 63-64 and planned value for money work at pages 66 to 67 of the main agenda.

**RESOLVED THAT**

The report be noted.

**62. LONDON BOROUGH OF HAMMERSMITH AND FULHAM PENSION FUND AUDIT OPINION PLAN 2011-12**

Jon Hayes, District Auditor, introduced the report, which set out the Pension Fund Audit Opinion Plan for the 2011-12 financial year. He said that it would be the first audit working with Capita Hartshead, the new administrators, but noted that Capita Hartshead were experienced in the sector and had worked with the Audit Commission elsewhere. He drew the Committee's attention to page 78, and said that the response was normally coordinated by the Chief Internal Auditor.

**RESOLVED THAT**

The report be noted.

**63. CERTIFICATION OF CLAIMS AND RETURNS- ANNUAL REPORT 2010-11**

Jon Hayes, District Auditor, introduced the report, which contained the last of the work done on the 201-11 accounts by the Audit Commission, and concerned the certification of grant claims. He said that, while the report used the term qualification with regards to some of the claims, it did not consider materiality in doing so. He said that, while he wished to see an improved performance, Hammersmith and Fulham's performance was akin to that of other London Boroughs.

Councillor Iggulden asked if there was an opportunity to introduce materiality into the process. Mr Hayes said that the audit standards were set by the Government department making the grant, and that they tended to want a specific accounting of the claim: It was an area in which the Government was seeking to reduce burdens,

and in which the Audit Commission had already succeeded in persuading some departments to allow sampling and statistical analysis.

**RESOLVED THAT**

The report be noted.

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

Geoff Drake, Chief Internal Auditor, introduced the report, and said that all progress on implementation was as planned.

**RESOLVED THAT**

The report be noted.

**65. INTERNAL AUDIT PLAN 2012-13**

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the work plan for internal audit work in the following financial year. He said that the plan was risk-based, and was driven by the corporate and departmental risk registers. He said that the internal audit service was working with the services in Westminster and Kensington & Chelsea on audits of tri-borough activity, and were trying to align reporting standards to facilitate this.

**RESOLVED THAT**

The draft 2012-13 audit plan be approved.

**66. RISK MANAGEMENT PROGRESS REPORT**

Michael Sloniowski, Principal Risk Consultant, updated on risk management activity since the Committee's last meeting. He said that meetings had taken place between risk managers in the three boroughs, with an aim to developing a single risk register, harmonising methodology, approach and reporting, while recognising differing views on risk appetite and what were sovereign matters.

Councillor Murphy asked about the contract outlined in 3.4.4 of the report, and asked at what stage the company might expect to receive payment. Jane West, Executive Director of Finance and Corporate Governance, said that the agreement allowed Agilisys to develop business cases, and the payment structure would depend on the nature of the saving and how it was realised. It would still be open to the Council to refuse to take up the proposal, should it have plans in place.

Councillor Iggulden asked about the existing arrangement with Agilisys, through the Hammersmith & Fulham Bridge Partnership, and asked whether it had generated any monies for the Council. Ms West said that the relationship had led to the development of products that were being marketed to other authorities, and that the Council had also received its profit share on its own contract and reinvested this.

Councillor Murphy raised the issue of recent events on the flyover. He said that the issue, and similar issues, did not appear on the risk register. Mr Sloniowski said that there were national and regional risk registers, which logged such risks. He said that he had begun liaising with the business continuity manager responsible for the service area regarding integration. Jane West, Executive Director of Finance and Corporate Governance, said that it seemed that an examination of the type of risk described was necessary, and that officers would undertake this.

**RESOLVED THAT**

The report be noted.

**67. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 OCTOBER TO 31 DECEMBER 2011**

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the work undertaken by internal audit in the quarter to 31 December 2011. He said that 12 reports were issued, 2 of which gave limited assurance. All the recommendations made in those reports were now recorded as implemented, and there were no outstanding reports or recommendations.

**RESOLVED THAT**

The report be noted.

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

**RESOLVED THAT**

Under Section 100A (4) of the Local Government Act 1972, 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.

**69. EXEMPT MINUTES OF THE PREVIOUS MEETING**

**RESOLVED THAT**

The exempt minutes of the meeting held on 8 December 2011 be agreed as a true and correct record.

**70. ANNUAL BUSINESS PLAN FOR THE PENSION FUND**

**RESOLVED THAT**

The annual business plan be agreed.

Meeting started: 7.00 pm  
Meeting ended: 9.04 pm

Chairman .....

Contact officer: Owen Rees  
Committee Co-ordinator  
Governance and Scrutiny  
☎: 02087532088  
E-mail: owen.rees@lbhf.gov.uk



# AUDIT, PENSIONS AND STANDARDS COMMITTEE

28 June 2012

**CONTRIBUTORS**

**MEMBERSHIP AND TERMS OF REFERENCE**

**WARDS  
All**

Committee Co-  
Ordinator

**RECOMMENDATION:**

(i) The Committee is asked to note its membership and terms of reference, as agreed at the Annual Meeting of the Council on 30 May 2012, and to;

(ii) Elect a Vice-Chairman.

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

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Council Agenda, Annual Meeting, May 2012	Owen Rees 020 8753 2088	Hammersmith Town Hall

## **Membership**

Councillor Adam (Chairman)  
Councillor Ginn (Executive Member)  
Councillor Iggulden  
Councillor Ivimy  
Councillor Cartwright  
Councillor Murphy

## **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **TERMS OF REFERENCE**

### **1. Membership**

- 1.1 The Committee will have the following membership:
  - 4 Administration Councillors
  - 2 Opposition Councillors
- 1.2 The Chairman will be drawn from one of the Administration Councillors; the Vice-Chairman will be an Opposition Councillor.
- 1.3 The Committee may co-opt non-voting independent members as appropriate.
- 1.5 The agenda of meetings of the Committee will be divided into separate sections for Audit and Pensions matters.
- 1.6 The Pension Fund's external investment managers will be required to attend meetings of the Committee when dealing with Pensions matters and to submit reports and make presentations as required.
- 1.7 The Trades Unions and representatives from the admitted and scheduled bodies in the Pensions Fund shall be invited to attend and participate in meetings considering Pensions matters, but shall not have a formal vote.
- 1.8 The Committee may ask the Head of Internal Audit, a representative of External Audit, the Risk Management Consultant, Assistant Director (Business Support) and any other official of the organisation to attend any of its meeting to assist it with its discussions on any particular matter.

### **2. Quorum**

- 2,1 The quorum of the Committee shall be 3 members.

### **3. Voting**

- 3.1 All Councillors on the Committee shall have voting rights. In the event of an equality of votes, the Chairman of the Committee shall have a second casting vote. Where the Chairman is not in attendance, the Vice-Chairman will take the casting vote.

### **4. Procedures**

- 4.1 Except as provided herein, Council Procedure Rules (as applicable to all Committees) shall apply in all other respects to the conduct of the Committee.
- 4.2 Meetings of the Committee shall be held in public, subject to the provisions for considering exempt items in accordance with sections 100A-D of the Local Government Act 1972 (as amended).

### **5. Meetings**

- 5.1 The Audit and Pensions Committee will meet at least four times a year.
- 5.2 Meetings will generally take place in the spring, summer, autumn, and winter. The Chairman of the Committee may convene additional meetings as necessary.
- 5.3 The Chief Executive may ask the Committee to convene further meetings to discuss particular issues on which the Committee's advice is sought.

### **6. Reporting**

- 6.1 The Audit and Pensions Committee will formally report back in writing to the full Council at least annually.

### **7. Responsibilities**

#### **(a) Audit**

- 7.1 The Audit and Pensions Committee will advise the Executive on:
- the strategic processes for risk, control and governance and the Statement on Internal Control;
  - the accounting policies and the annual accounts of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;

- the planned activity and results of both internal and external audit;
- the adequacy of management responses to issues identified by audit activity, including the external auditor's annual letter
- the Chief Internal Auditor's annual assurance report and the annual report of the External Auditors.
- assurances relating to the corporate governance requirements for the organisation;
- (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services.

7.2 The Committee's responsibilities in relation to the annual accounts will include:

- to approve the Council's Statement of Accounts, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003;
- acting as the Approval of Accounts Committee, to be held in June;
- to consider any report as necessary from the external auditor under Statement of Auditing Standard 610;
- to re-approve the Council's Statement of Accounts following any amendments arising from the external audit, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003.

7.3 The Committee's responsibilities in relation to risk management will encompass the oversight of all risk analysis and risk assessment, risk response, and risk monitoring. This includes:

- the establishment of risk management across the organisation, including partnerships;
- awareness of the Council's risk appetite and tolerance;
- reviewing of the risk portfolio (including IT risks);
- being appraised of the most significant risks;
- determining whether management's response to risk and changes in risk are appropriate.

7.4 The Council has nominated the Committee to be responsible for the effective scrutiny of the Treasury Management Strategy and policies.

**(b) Pensions - Decision-Making Powers (The following powers are hereby delegated on behalf of the Council)**



- 7.5 To determine the overall investment strategy and strategic asset allocation of the Pension Fund.
- 7.6 To appoint the investment manager(s), custodian, actuary and any independent external advisors felt to be necessary for the good stewardship of the Pension Fund.
- 7.7 To monitor the qualitative performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable.
- 7.8 To review on a regular basis the investment managers' performance against established benchmarks, and satisfy themselves as to the managers' expertise and the quality of their internal systems and controls,
- 7.9 To prepare, publish and maintain the Statement of Investment Principles, and monitor compliance with the statement and review its contents,
- 7.10 To prepare, publish and maintain the Funding Strategy Statement, the Governance Compliance Statement, and the Communications Policy and Practice Statement and revise the statements to reflect any material changes in policy,
- 7.11 To approve the final accounts and balance sheet of the Pension Fund and approve the Annual Report.
- 7.12 To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
- 7.13 To oversee and approve any changes to the administrative arrangements and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
- 7.14 To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately.
- 7.15 To approve the arrangements for the provision of AVCs for fund members.
- 7.16 To receive and consider the Audit Commission's report on the governance of the Pension Fund.

# Agenda Item 5



## **AUDIT, PENSIONS AND STANDARDS COMMITTEE**

28 June 2012

### **CONTRIBUTORS**

Committee Co-  
Ordinator

### **APPOINTMENT OF CO-OPTED MEMBER**

This report recommends the reappointment of a non-voting co-opted member to the Committee.

**WARDS  
All**

### **RECOMMENDATION:**

The Committee is asked to confirm the reappointment of Eugenie White as a non-voting co-opted member.

## **1. BACKGROUND**

- 1.1 The Terms of Reference for the Audit, Standards and Pensions Committee, under 1.3, state that “The Committee may co-opt non-voting independent members as appropriate.”
- 1.2 Eugenie White served as a non-voting independent member on the Committee for the 2010-11 and 2011-12 municipal years.
- 1.3 It is proposed that, given the high level of Eugenie White’s contribution to the Committee’s work, she be reappointed as a non-voting independent member for the 2012-13 municipal year.

## **2. COMMENTS OF THE EXECUTIVE DIRECTOR OF FINANCE AND CORPORATE SERVICES**

Under the Council’s Members Allowances Scheme, co-opted members and independent members of the Standards Committee are entitled to an annual allowance of £504.

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

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
1.	Council Agenda, Annual Meeting, May 2012	Owen Rees 020 8753 2088	Hammersmith Town Hall
2.	Council Constitution	Owen Rees 020 8753 2088	Hammersmith Town Hall
3.	Members Allowances Scheme	Owen Rees 020 8753 2088	Hammersmith Town Hall

# Agenda Item 6



## AUDIT, PENSIONS AND STANDARDS COMMITTEE

28<sup>th</sup> June 2012

### CONTRIBUTORS

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### MAJEDIE MANDATE

This report follows a request from Majedie to broaden their UK equity investment mandate to include a maximum of 20% overseas listed equities. Discussions on this report will be preceded by a presentation from Majedie.

### WARDS

All

### RECOMMENDATION:

1. That the committee agree to broaden the Majedie UK equity investment mandate to include a maximum of 20% overseas listed equities.

### LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

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

## **1. Introduction**

1.1 Majedie have requested that they be allowed to broaden their UK equity investment mandate to include a maximum of 20% overseas listed equities with the remainder of the portfolio staying as UK listed equities. They would remain tied to the FTSE All Share performance benchmark. A copy of their request is attached as Appendix A.

1.2 Majedie have made the request so they are able to take broader sector positions than they can at the moment – two examples they give is pharmaceutical (where there is a limited number of UK listed companies – GlaxoSmithKline and AstraZeneca are the main ones) as well as technology stocks. By having the ability to invest overseas, they would be given a broader scope within each sector. Majedie's performance would still be measured relative to their current benchmark of FTSE All-Share + 2%.

1.3 Majedie have recently (August 2010) taken on a team focusing on overseas investments, and while it is not the plan to bring them into play with the recent proposal (it will remain the UK based team making the decisions), it may be Majedie intend to use the experience the overseas team have to offer.

1.4 Attached as Appendix B is a note from P-Solve who are supportive of the change but remain vigilant to any reduction in performance. Given the explanations and rationale, Officers are supportive of the proposal.

## **2. Recommendation**

2.1 That the committee agree to broaden the Majedie UK equity investment mandate to include a maximum of 20% overseas listed equities.



# MAJEDIE

ASSET MANAGEMENT

10 Old Bailey  
London EC4M 7NG  
tel +44 (0) 20 7618 3900  
fax +44 (0) 20 7618 3933  
email [info@majedie.com](mailto:info@majedie.com)  
web [www.majedie.com](http://www.majedie.com)

Bob Pearce  
The London Borough of Hammersmith and Fulham  
Westminster City Council  
16<sup>th</sup> Floor West  
City Hall  
64 Victoria Street  
London  
SW1E 6QP

7 March 2012

Dear Bob,

## **Majedie UK Equity Fund – modest allocation to international equities**

Following our recent conversation, I am writing to set out in more detail our decision to introduce flexibility into the UK Equity Fund to make selected purchases in shares listed overseas.

As you know, our aim always has been – and always will be – to make money for you. For reasons which I will outline in this letter, our strong conviction is that making this small change to our investment parameters will enhance our ability to keep the performance momentum high. As owners of our business we are here for the long term, and therefore we will only make a change if we are completely comfortable that it will successfully stand the test of time; we believe the time is now right in this case. We have demonstrable skills in international stock selection through the Tortoise Fund, fresh insights from our Global equity team and a strong record of reading the global macro runes; meanwhile our rigorous company research is broader and deeper than ever.

This small move gives us more flexibility and more opportunities to perform for you (echoing our decisions both to limit capacity and to remove sector restrictions in 2005). Some sectors of the FTSE All-Share index have become either quite concentrated (including Pharmaceuticals, Oils and Defence) or thinly populated (for example Technology); we believe the ability to invest in selected overseas shares will help us to build a well balanced, high conviction portfolio which can generate healthy, long term equity returns.

FSA permission has been sought to amend our pooled fund prospectuses, such that at least 80% of each Fund will remain invested in London-listed equities. The balance, less any cash held, could be invested in overseas listed companies. To be clear, we remain absolutely committed to the (highly international) London equity market – still our primary investment universe – and the Fund's benchmark remains the FTSE All-Share Index.

Regarding timing, we hope to receive approval during the second calendar quarter and anticipate at least being in a position to invest internationally before 30 June. In practice, any investments outside the UK will be made in the normal course of portfolio turnover; 12 months on, we would envisage an allocation to international equities of circa 10%.



We recognise that we are hardly trailblazers in this area; many peer UK equity funds are already less constrained. You can therefore be assured that we have not progressed this far without a great deal of thought and analysis, much of which it is impractical to include here. Likewise, we are acutely aware that any off-benchmark investments that we do make on your behalf are likely to attract even more scrutiny than normal. Hopefully this provides you with some comfort that such investments will only be made where we have genuine conviction that they can be value enhancing.

Of course, if you have any questions on this, please do feel most welcome to get in touch with me directly.

Yours sincerely

Simon Hazlitt  
0207 618 3911



## Majedie UK Equity Funds – overseas stock inclusion change

This note is addressed to the Officers of the Audit & Pensions Committee of the London Borough of Hammersmith & Fulham Council (the “Officers”) in respect of the London Borough of Hammersmith & Fulham Pension Fund (the “LBHF Fund”).

### Background

The Fund has had an active equity mandate in place with Majedie Asset Management (“Majedie”) since August 2005. This consists of holdings of the UK Equity Service Fund, the UK Focus Fund, and the Tortoise Fund.

The UK Equity Service Fund and the UK Focus Fund (the “Funds”) invest long only in stocks listed on the FTSE All-Share index. In March 2012, Majedie informed the Officers of their intention to amend the stock restrictions such that up to 20% of the UK Equity Funds may be invested in stocks not listed on the FTSE All-Share index. The overall return target will be maintained at FTSE All-Share + 2% p.a.

This note provides the Officers with the reasoning behind this move, details of Majedie’s ability and experience in investing in overseas stocks, and P-Solve’s view on the proposed change. P-Solve have discussed the proposed change to the Funds with Majedie and our views are based on the outcome of these discussions.

### Rationale for the change

The main driver for the change is because Majedie believe that adding a handful of overseas shares in certain defined circumstances is an opportunity to improve the risk/ return mix for the Funds.

They state that certain sectors of the FTSE index are too concentrated or thinly populated. For example, the Pharmaceuticals sector, which is dominated by GlaxoSmithKline and AstraZeneca, and the Technology sector, where ARM Holdings is the only significant stock. This limits the manager’s ability to invest in certain sectors which they believe will perform well without taking a large amount of specific stock risk.

By permitting up to 20% of the Funds to be invested in non-London listed stocks, the manager will be able to diversify this specific stock risk. It will also offer the manager the ability to invest in overseas stocks where they believe the opportunity is better.

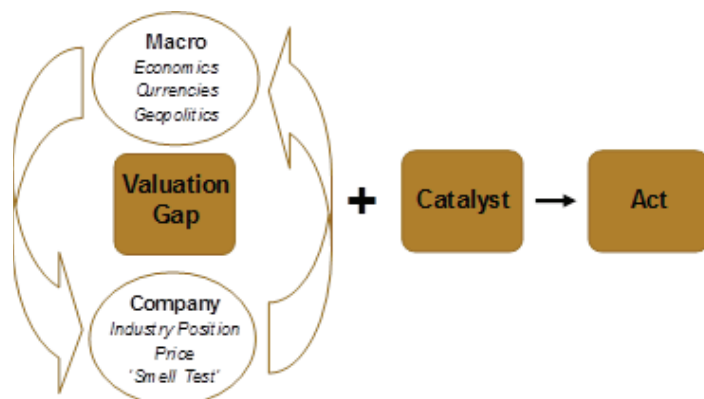
Majedie will continue to invest at least 80% of the Funds in London-listed stocks. The remainder will be invested in cash and stocks not listed in London. This will ensure that the Funds continue to be UK equity funds at their core, but have the ability to invest in a wider universe to implement their themes. Majedie noted that in order to be classified as a UK Equity Fund by CAPS Mellon, a minimum holding of 80% in London-listed stocks was required. Majedie also mentioned that one of their clients requested this change five years ago. At the time they accepted it in principle, but were concerned to build the capability before executing on it.



## Process and Experience

The main investment process will be unchanged, whereby their research process is designed to be efficient, and the Funds are split between four managers. Majedie state that part of their research process already involves analysing overseas stocks. This is necessary for them to understand sectors as a whole and the relative merits of stocks; this is particularly relevant as London-listed stocks have exposure to a wide variety of foreign markets.

As a reminder, the Funds adopt a three stage process. The following summary, sourced from Majedie, provides a reminder of the investment process used.



*"Finding the valuation gap' entails in-depth company research and assessing the impact of the economic and geopolitical climate on the market, industries and individual companies. We are looking for those shares whose price is jarringly below the real, industrial or long term worth of the company. We scrutinise the current price of a company's share in a market context, the dynamics of its industry, and its strategic positioning within that industry. External research is sourced to help us analyse the global economic and geopolitical environment, which in turn allows us to identify pressure points and long term themes that affect our stock selection and overall portfolio balance. In this wider analysis, company research itself provides a useful aid to inform and modify our view of the macro environment.*

*'Identify the catalyst' is our search for the agent that will narrow this fundamental gap – such events could be meaningful director share buying or a strategy change. A catalyst ensures that the momentum of performance is kept high.*

*'Act' is our conviction to get good ideas into the portfolio fast. The individual accountability that flows from our innovative portfolio structure (see below) and the ability of a small team to test ideas for traction ensures the shortest possible time from well researched investment idea to transaction. As mentioned above, because we are small, we have no liquidity issues getting our transactions into portfolios quickly, a significant competitive advantage."*

Matthew Smith, one of the managers for both of the Funds, also manages the Tortoise Fund. This fund has an allocation of up to 45% in overseas stocks. Whilst the styles of the three funds are different (UK Equity Service Fund and UK Focus Fund are long only, Tortoise Fund is long/short), we can see that there is already experience in researching overseas stocks.

Furthermore, Majedie appointed a Global equity team in August 2010. This team will provide input in the discussion process, though the Global fund has a buy-and-hold style compared to the rotational style of the UK Equity Funds used by the LBHF Fund. It should be noted that the Global equity fund team will not be involved in the decision-making process, and the UK Equity managers will be fully responsible for any overseas stock investment.

## P-Solve's view

Based on our discussions with Majedie, we are supportive of this move by Majedie. They have already demonstrated an ability to generate strong performance, and we believe they will now have additional tools to provide them with more opportunities to continue generating the required performance.

However, the UK Equity team, who are responsible for deciding on what overseas stocks to invest in (if any), does not have a specific track record in overseas investment. We have therefore been unable to perform a full due diligence on their ability in selecting stocks in these markets. There are differences associated with investing in local markets and overseas markets, such as currency exposure, accounting standards, and legislation; these will have to be factored into the decision-making process. We take comfort in the fact that Matthew Smith already has experience in these markets and the team & process will remain unchanged.

We would propose monitoring Majedie more closely once this change has been made to give ourselves comfort in their ability to select overseas stocks.

**P-Solve**  
**April 2012**

### Important Notice

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# AUDIT, PENSIONS AND STANDARDS COMMITTEE

28<sup>th</sup> June 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 March 2012.

**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 <sup>th</sup> Floor, Westminster City Hall,



# London Borough of Hammersmith & Fulham Pension Fund

Investment Governance Report – Quarter 1 2012

May 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>L&amp;G Benchmark</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 March 2012

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.
<b>Total Fund</b>	<b>641,524</b>	<b>100.0</b>	<b>100.0</b>	<b>5.0</b>	<b>8.2</b>	<b>7.4</b>	<b>15.4</b>
<i>New Liability Benchmark + 2.2% p.a. Difference</i>				<b>(0.4)</b>	<b>21.7</b>	<b>15.0</b>	<b>14.7</b>
<b>UK Equities</b>	<b>165,495</b>	<b>25.8</b>	<b>25.0</b>	<b>5.4</b>	<b>(13.5)</b>	<b>(7.6)</b>	<b>0.7</b>
<b>Majedie</b>				6.2	6.5	7.6	20.1
<i>FTSE All Share + 2% p.a. Difference</i>				<b>6.6</b>	<b>3.4</b>	<b>7.1</b>	<b>21.2</b>
<b>Overseas Equities</b>	<b>167,829</b>	<b>26.2</b>	<b>25.0</b>	<b>(0.4)</b>	<b>3.1</b>	<b>0.5</b>	<b>(1.1)</b>
<b>MFS</b>				11.9	7.2	6.9	18.8
<i>MFS Custom Benchmark Difference</i>				<b>10.7</b>	<b>2.6</b>	<b>5.1</b>	<b>18.2</b>
<b>Dynamic Asset Allocation Mandates</b>	<b>153,629</b>	<b>23.9</b>	<b>25.0</b>	<b>3.3</b>	<b>4.8</b>	<b>5.9</b>	<b>12.8</b>
<b>Barings</b>	114,060	17.8	18.8	3.4	4.7	5.7	12.6
<i>3 month Sterling LIBOR + 4% p.a. Difference</i>				<b>1.3</b>	<b>5.0</b>	<b>4.9</b>	<b>4.9</b>
<b>Ruffer</b>	39,569	6.2	6.2	2.1	0.8	0.8	7.7
<i>3 month Sterling LIBOR + 4% p.a. Difference</i>				<b>3.0</b>	<b>4.8</b>	<b>6.5</b>	<b>13.3</b>
<b>Matching Fund</b>	<b>141,441</b>	<b>22.0</b>	<b>25.0</b>	<b>1.7</b>	<b>(0.2)</b>	<b>1.6</b>	<b>8.4</b>
<i>Liability Benchmark + 1% p.a. Difference</i>				<b>(1.0)</b>	<b>15.3</b>	<b>8.9</b>	<b>9.5</b>
<b>Goldman Sachs</b>	59,637	9.3	12.5	0.7	20.3	13.9	13.7
<i>3 month Sterling LIBOR + 2% p.a. Difference</i>				<b>(0.3)</b>	<b>(5.0)</b>	<b>(5.0)</b>	<b>(4.2)</b>
<b>Legal &amp; General</b>	81,804	12.8	12.5	2.6	0.7	1.3	4.2
<i>L&amp;G Benchmark Difference</i>				<b>0.8</b>	<b>3.0</b>	<b>2.9</b>	<b>2.8</b>
<b>Private Equity</b>	<b>13,131</b>	<b>2.0</b>	<b>0.0</b>	<b>1.8</b>	<b>(2.3)</b>	<b>(1.6)</b>	<b>1.4</b>
<b>Invesco</b>	7,600	1.2	0.0	3.5	28.9	15.6	14.2
<b>Unicapital</b>	5,530	0.9	0.0	2.2	56.6	30.8	27.3
				<b>(1.3)</b>	<b>(27.7)</b>	<b>(15.2)</b>	<b>(13.1)</b>
				<b>(3.3)</b>	<b>11.7</b>	<b>15.3</b>	<b>-</b>
				<b>(2.4)</b>	<b>19.3</b>	<b>18.0</b>	<b>-</b>
				<b>(4.5)</b>	<b>3.0</b>	<b>11.9</b>	<b>-</b>

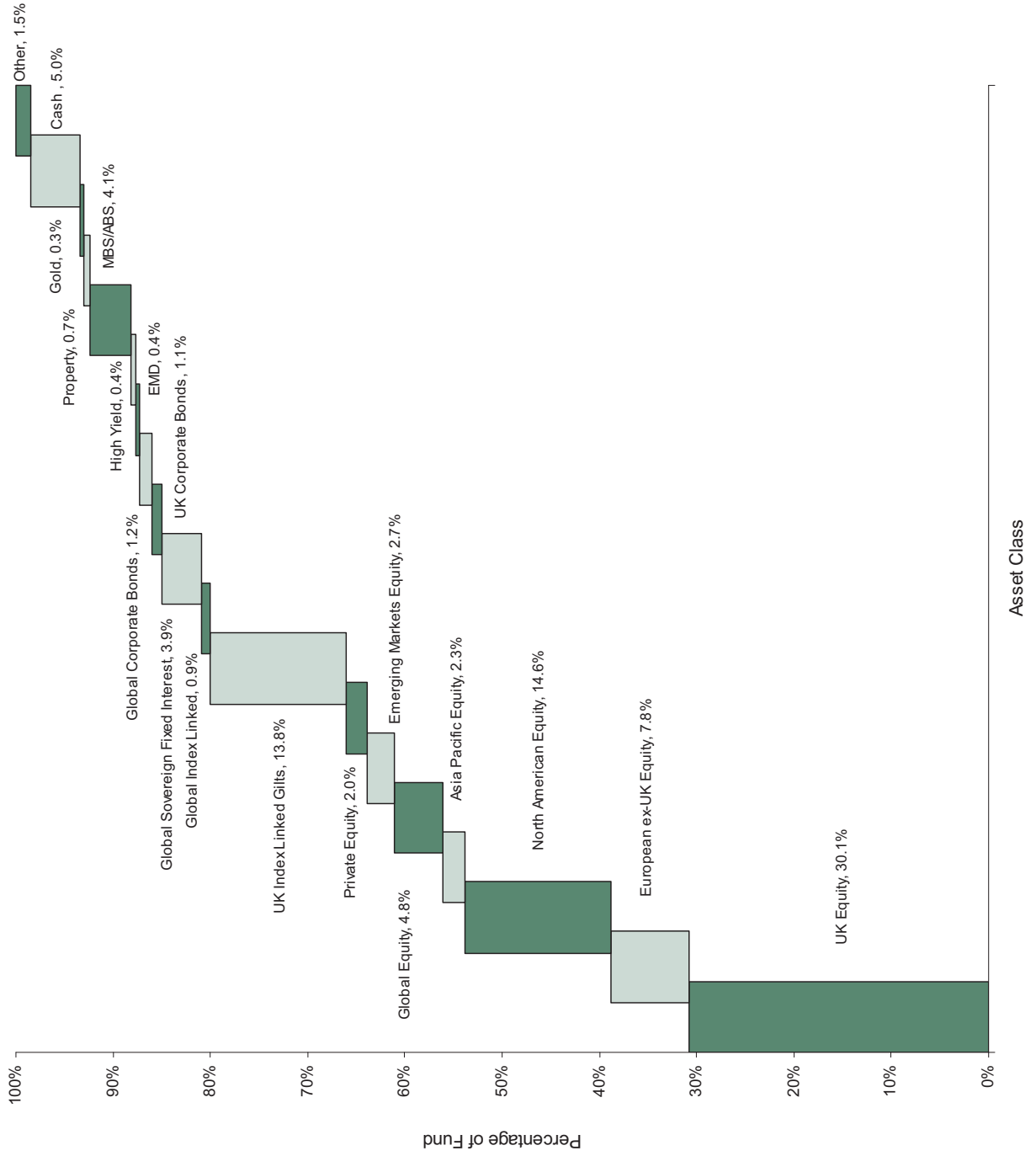
Notes:

1) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.

Fund	Manager	Closing Market Value as at 31st December 2011 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 31st March 2012 £000	% of Total Fund	Target % of Total Fund
<b>Total Fund</b>		611,722	100.0	(672)	28,045	2,461	-	641,524	100.0	100.0
<b>UK Equities</b>	Majedie	155,777	25.5	-	7,962	1,755	-	165,495	25.8	25.0
<b>Overseas Equities</b>	MFS	149,978	24.5	-	17,388	463	-	167,829	26.2	25.0
<b>Dynamic Asset Allocation Mandates</b>		148,760	24.3	-	4,626	243	-	153,629	23.9	25.0
	Barings	110,359	18.0	-	3,673	28	-	114,060	17.8	18.75
	Ruffer	38,401	6.3	-	952	215	-	39,569	6.2	6.25
<b>Matching Fund</b>		142,959	23.4	-	(1,485)	-	-	141,441	22.0	25.0
	Goldman Sachs	58,183	9.5	(27)	1,481	0	-	59,637	9.3	12.5
	Legal & General	84,777	13.9	(6)	(2,967)	-	-	81,804	12.8	12.5
<b>Private Equity</b>		14,247	2.3	(672)	(445)	-	-	13,131	2.0	0.0
	Invesco	8,184	1.3	(398)	(186)	-	-	7,600	1.2	0.0
	Unicapital	6,063	1.0	(273)	(259)	-	-	5,530	0.9	0.0

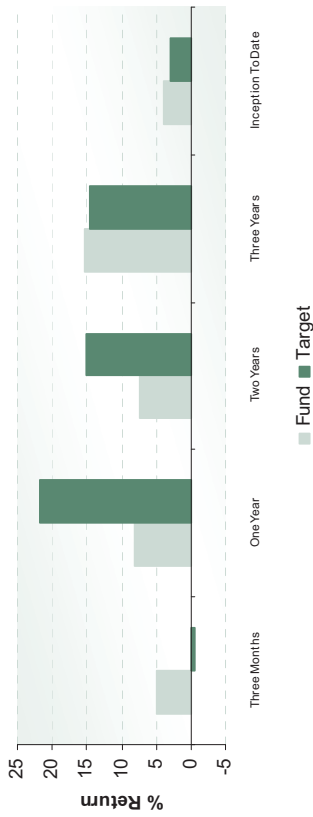
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.

Asset Class Breakdown as at 31 March 2012





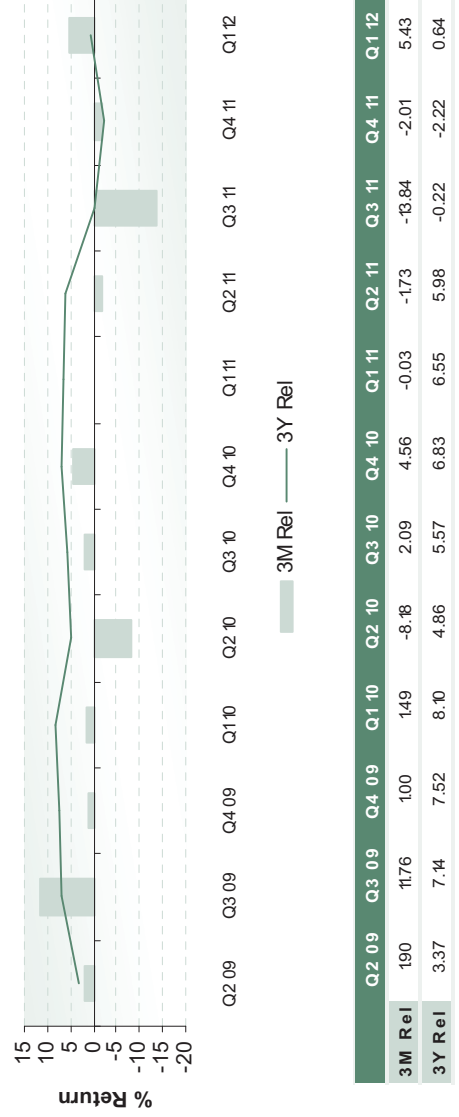
### Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	4.89	8.20	7.44	14.66	4.02
<b>Target</b>	-0.42	21.71	14.99	14.66	3.01

The Fund outperformed its liability benchmark by 5.41% over the quarter, returning 4.99% compared to the target of -0.42%. Whilst market volatility remains return seeking assets fared well over the quarter while gilt yields have risen from their low at the end of 2011 resulting in the outperformance. The Fund's performance of 8.20% over the year was behind its target by 13.51%, as it suffered from the underperformance of on-risk assets over the third quarter of 2011. The Fund has outperformed over the last 3 years and since inception.

### Three Years Rolling Relative Returns



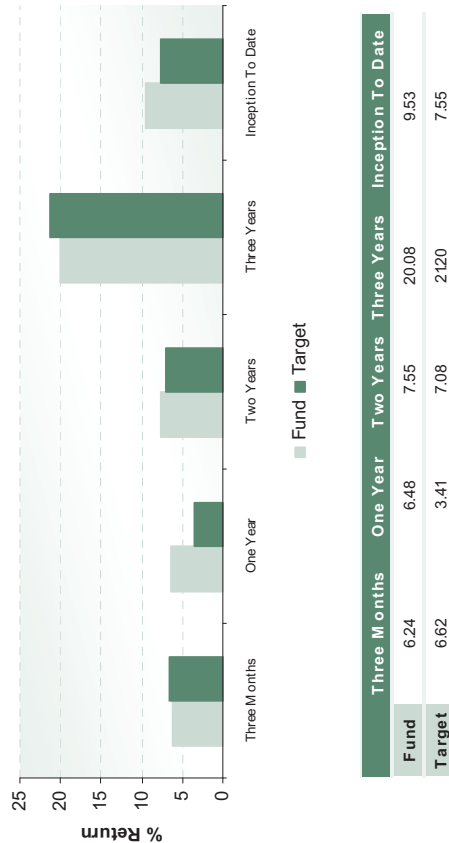
### Three Years Rolling Quarterly Returns



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

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

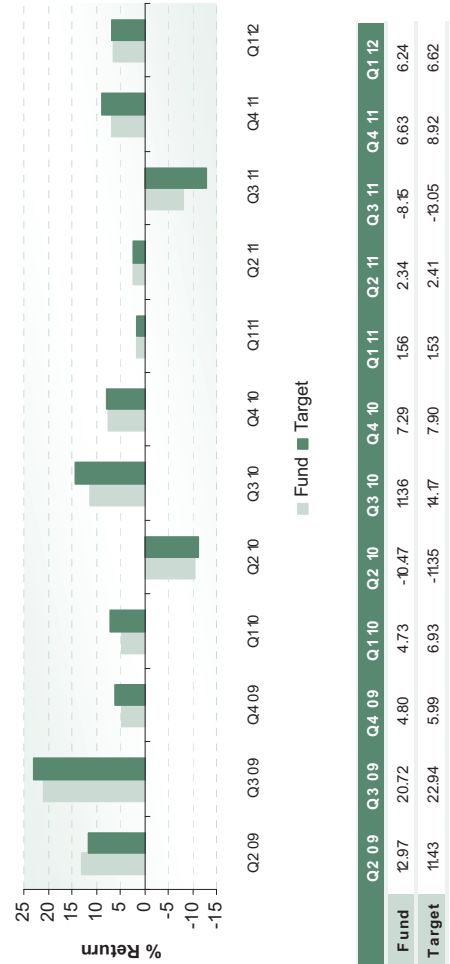
### Historical Plan Performance



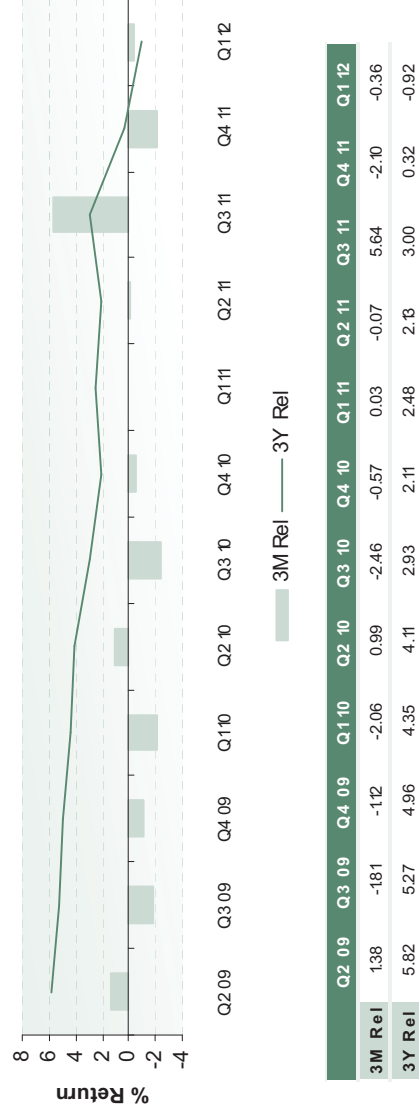
### Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 6.24% over the quarter, 0.38% behind its target. Over 12 months, the portfolio was 3.07% ahead of its target. The portfolio's short position in Apple, who continue to experience strong revenue growth, and long position in First Group, who have seen a deterioration in trading despite new management, harmed performance. However, the portfolios positions in Barclays and Marks & Spencer aided the overall performance.
Process	No significant changes over the quarter.

### Three Years Rolling Quarterly Returns

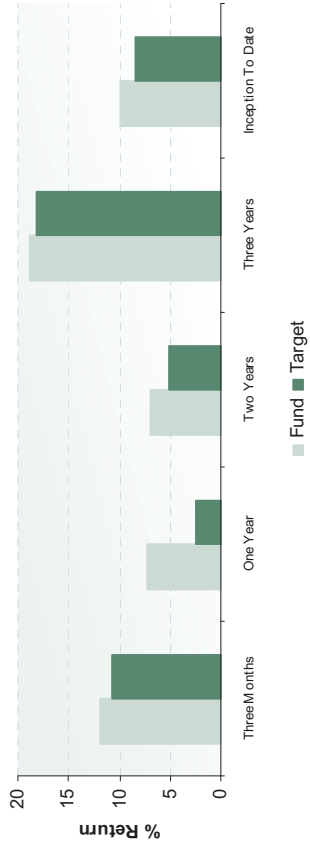


### Three Years Rolling Relative Returns



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.

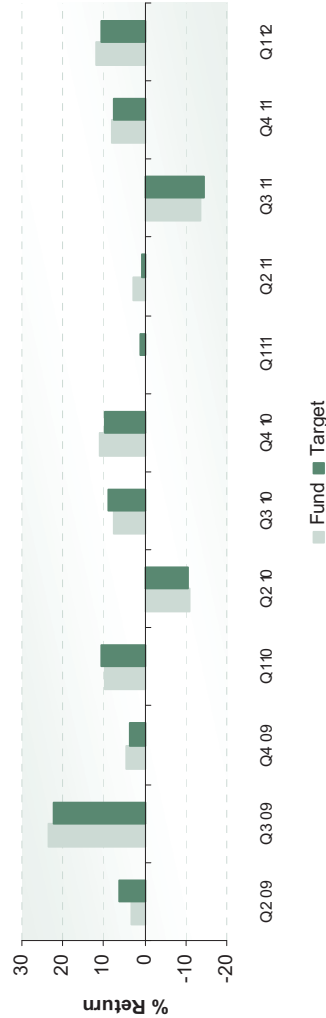
**Historical Plan Performance**



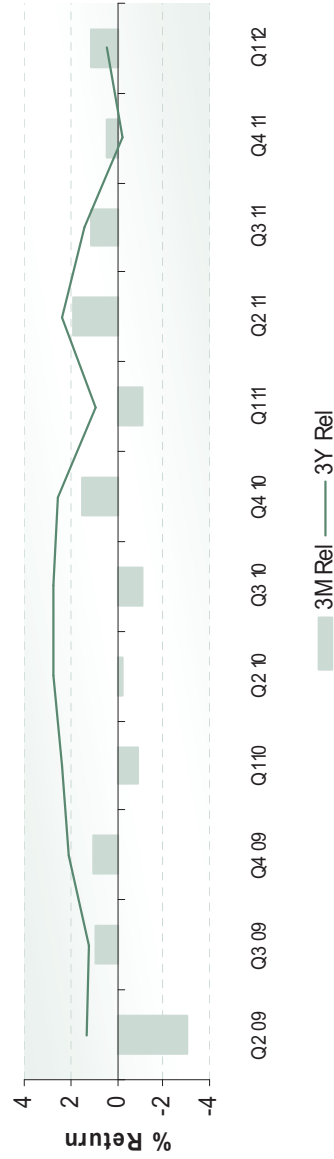
**Quarterly Manager update**

<b>Organisation</b>	No significant changes over the quarter.
<b>Product</b>	No significant changes over the quarter.
<b>Performance</b>	The performance over the quarter was 11.90%, 1.20% ahead of the target. Over 12 months, the fund was 4.66% ahead of its target. Stock selection in retailing, financial services and industrial goods & services aided performance. As did an underweight position in Japanese Yen and individual stock holdings in Autodesk, LPS Brasil-Consultoria de Imoveis, Thermo Fisher Scientific, EMC and not holding McDonalds. However, stock selection in technology and the funds cash holding was detrimental to performance. Individual holdings of Rio Tinto, Procter & Gamble, Julius Baer, Schindler Holdings, Sonova Holdings and not holding Toyota also detracted from performance over the quarter.
<b>Process</b>	No significant changes over the quarter.

**Three Years Rolling Quarterly Returns**



**Three Years Rolling Relative Returns**

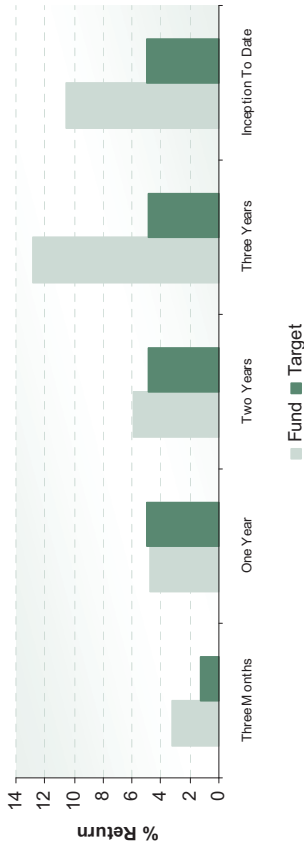


	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
<b>Fund</b>	3.23	23.43	4.74	9.83	-0.85	7.54	11.19	0.04	2.73	-13.61	7.96	11.90
<b>Target</b>	6.44	22.30	3.73	10.80	-0.65	8.77	9.57	1.16	0.86	-14.56	7.49	0.71

	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
<b>3M Rel</b>	-3.02	0.92	0.98	-0.87	-0.22	-1.13	1.48	-1.11	1.85	1.11	0.44	-1.07
<b>3Y Rel</b>	1.32	1.21	2.11	2.39	2.71	2.76	2.59	0.90	2.38	1.44	-0.25	0.47

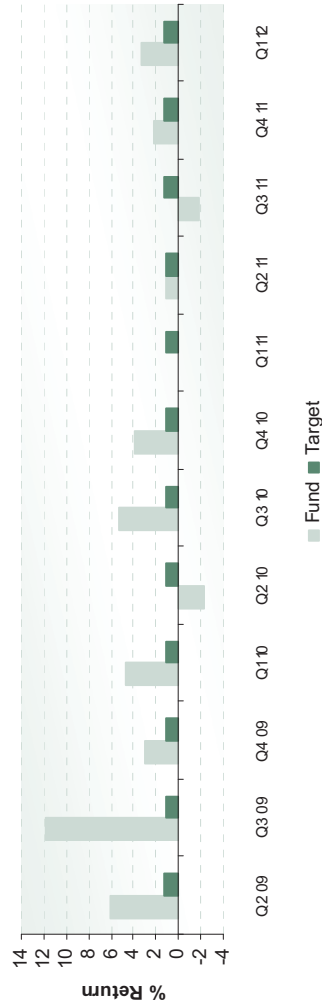
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised.

## Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	3.27	4.76	5.90	12.79	10.58
Target	1.25	4.98	4.88	4.88	4.98

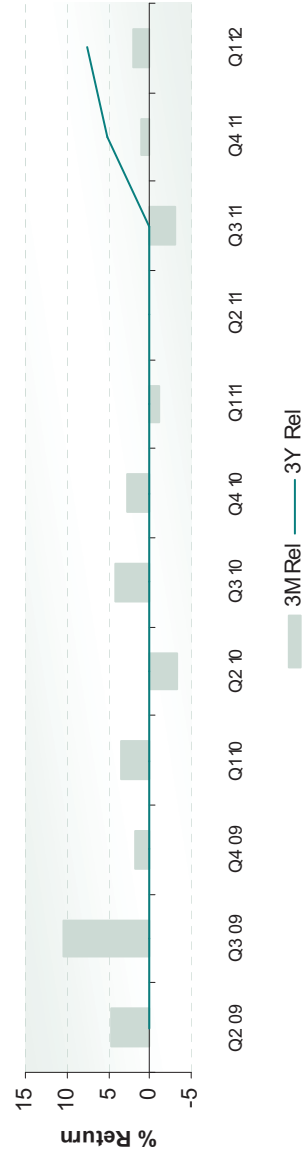
## Three Years Rolling Quarterly Returns



	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
Fund	6.10	1.82	2.99	4.73	-2.22	5.32	3.94	0.01	1.18	-1.86	2.16	3.27
Target	1.33	1.19	1.44	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25

The performance of the group over the quarter was 3.27%, the LIBOR-based target returned 1.25%. Both Barings and Ruffer enjoyed similar gains as a result of a general rally in global equity markets over the quarter. Over the past 12 months, performance has been 0.22% below target, as both managers have underperformed the target.

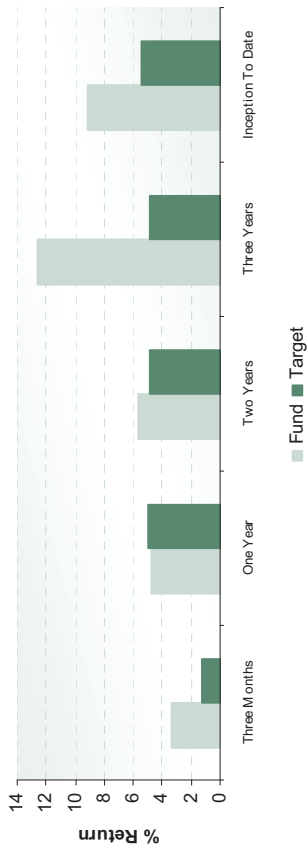
## Three Years Rolling Relative Returns



	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
3M Rel	4.71	10.51	1.83	3.54	-3.34	4.10	2.74	-1.16	-0.01	-3.03	0.91	2.00
3Y Rel	-	-	-	-	-	-	-	-	-	-	5.10	7.54

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.

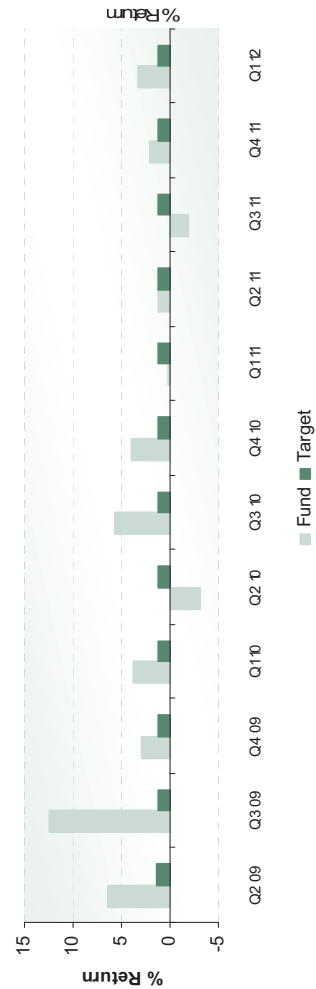
### Historical Plan Performance



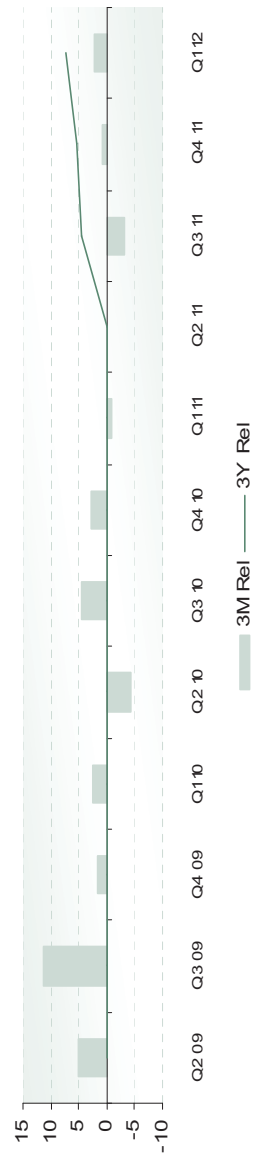
### Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 3.35% over the quarter, 2.10% ahead of its target. Over 12 months, the fund is 0.24% below target. The fund manager correctly identified that risk assets such as equity were going to continue their strong rally, despite a drop off in March. However, he was less successful in indentifying the best markets undermining the overall performance compared to what might have been achieved.
Process	No significant changes over the quarter.

### Three Years Rolling Quarterly Returns



### Three Years Rolling Relative Returns



	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
Fund	6.42	2.50	2.84	3.77	-3.12	5.73	3.88	0.22	1.19	-1.89	2.07	3.35
Target	1.33	1.19	1.14	1.14	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25

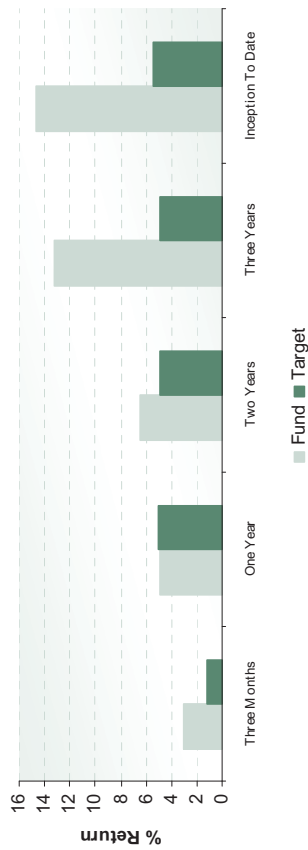
	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
3M Rel	5.02	1.18	1.78	2.59	-4.23	4.51	2.68	-0.95	0.00	-3.06	0.82	2.07
3Y Rel	-	-	-	-	-	-	-	-	-	4.51	5.26	7.38

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



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

Historical Plan Performance

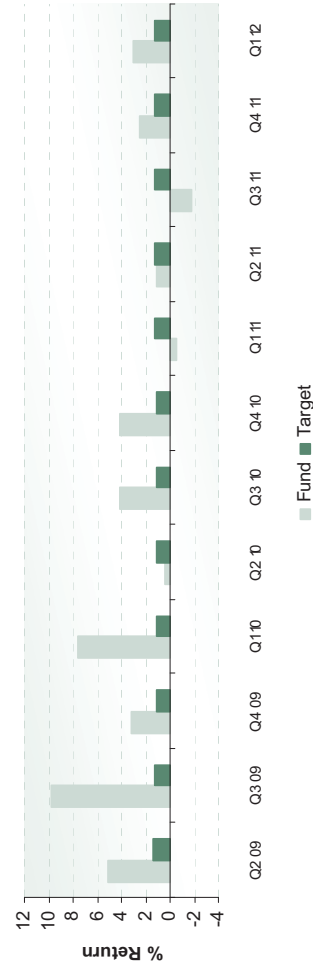


	Three Months	One Year	Two Years	Three Years	Inception To Date
Fund	3.04	4.83	6.50	13.28	14.67
Target	1.25	4.98	4.88	4.88	5.42

## Quarterly Manager update

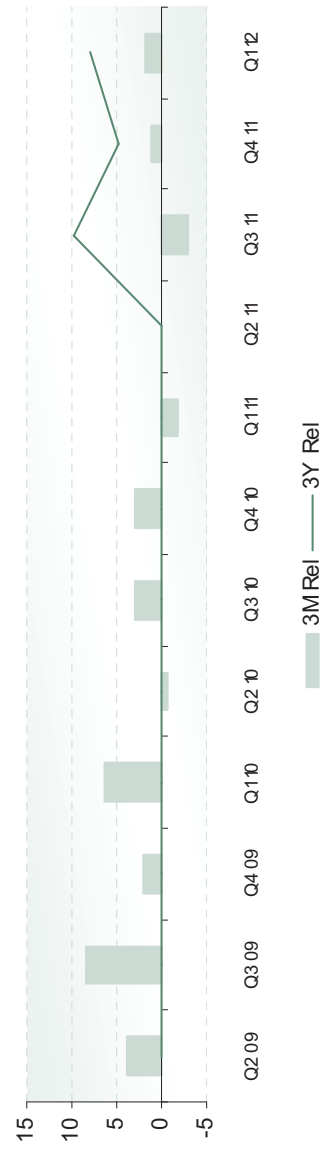
Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 3.04% over the quarter, 1.79% ahead of its target. Over 12 months, the fund was 0.15% below the target. The portfolio made gains from an increased exposure to equities, particularly in Japan. However, the portfolio's US Dollar position and its exposure to index-linked Gilts and Tesco tempered its performance over the quarter.
Process	No significant changes over the quarter.

Three Years Rolling Quarterly Returns



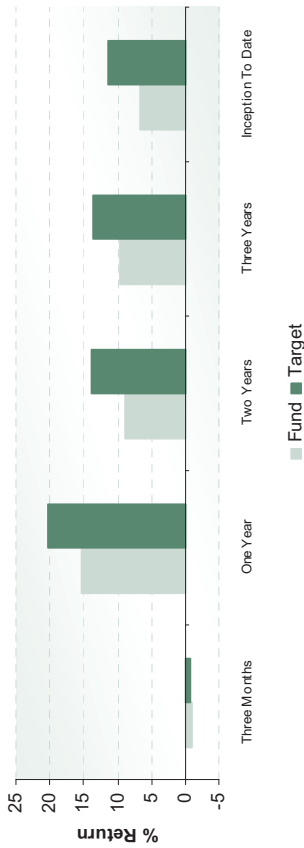
	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
Fund	5.7	9.81	3.2	7.64	0.41	4.3	4.1	-0.61	1.3	-1.80	2.44	3.04
Target	1.33	1.9	1.4	1.4	1.6	1.7	1.7	1.8	1.9	1.21	1.24	1.25

Three Years Rolling Relative Returns



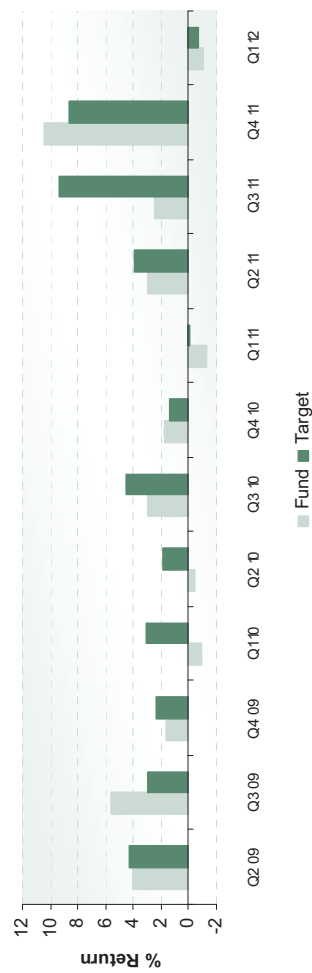
	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
3M Rel	3.79	8.52	1.96	6.42	-0.74	2.93	2.91	-1.77	-0.06	-2.97	1.19	1.77
3Y Rel	-	-	-	-	-	-	-	-	-	9.79	4.86	8.01

### Historical Plan Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	-1.04	15.25	8.90	9.52	6.55
<b>Target</b>	-0.71	20.31	13.90	13.66	11.25

### Three Years Rolling Quarterly Returns

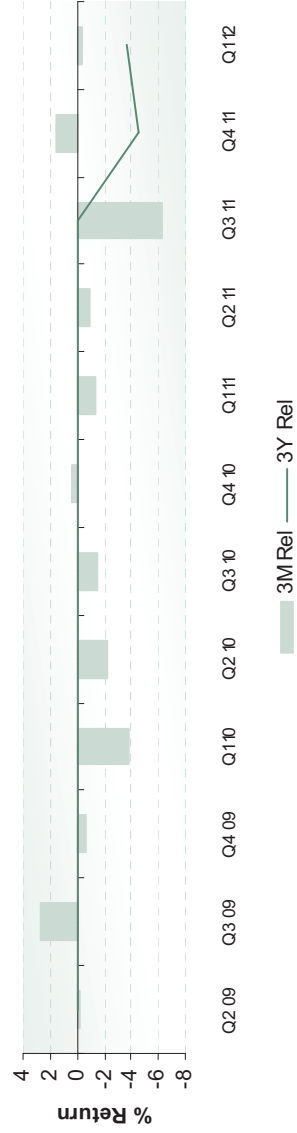


	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
<b>Fund</b>	4.04	5.66	1.67	-0.88	-0.48	2.98	1.75	-1.32	2.90	2.50	10.42	-1.04
<b>Target</b>	4.28	2.90	2.38	3.02	1.81	4.49	1.38	-0.01	3.88	9.35	8.67	-0.71

LGIM have implemented a new Matching Fund solution for the Fund, the solution has created a bespoke mandate within the confines of a pooled fund. This now allows the Fund access to use a broad toolkit of matching assets as appropriate for prevailing market conditions. It aims to enhance the ability to manage risk whilst also allowing for a slightly higher return from the matching assets.

The performance of the Matching Fund over the quarter of -1.04% was 0.33% below its gilts-based liability benchmark. The Matching Fund return of 15.25% over the year was 5.06% below target.

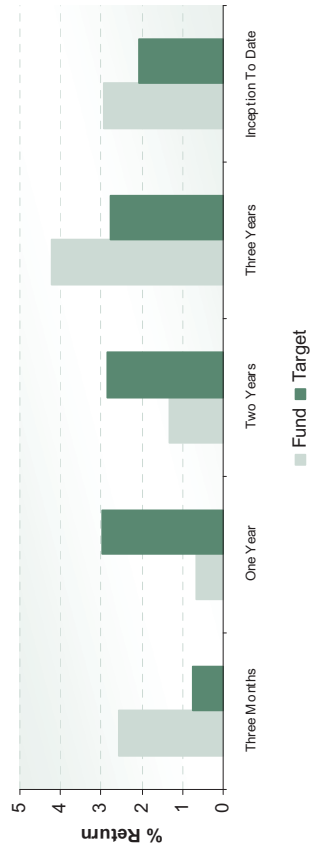
### Three Years Rolling Relative Returns



	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
<b>3M Rel</b>	-0.23	2.68	-0.69	-3.79	-2.25	-14.5	0.36	-1.31	-0.94	-6.26	1.61	-0.33
<b>3Y Rel</b>	-	-	-	-	-	-	-	-	-	-	-4.47	-3.64

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

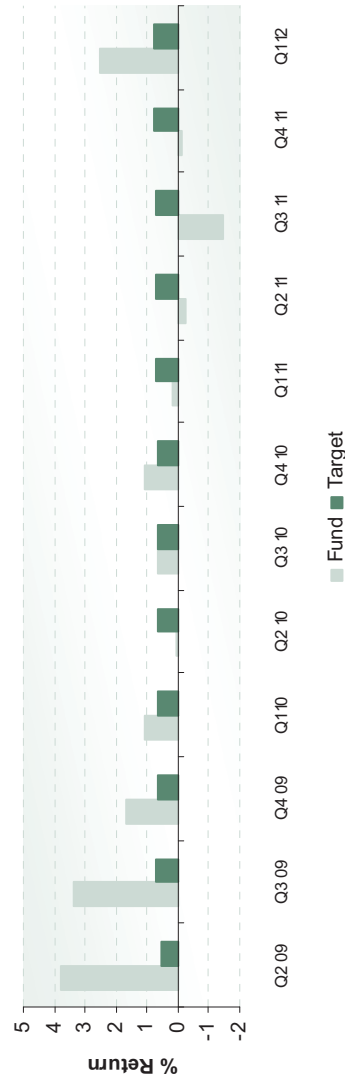


	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	2.55	0.68	134	4.23	2.92
<b>Target</b>	0.76	2.97	2.86	2.77	2.07

### Quarterly Manager update

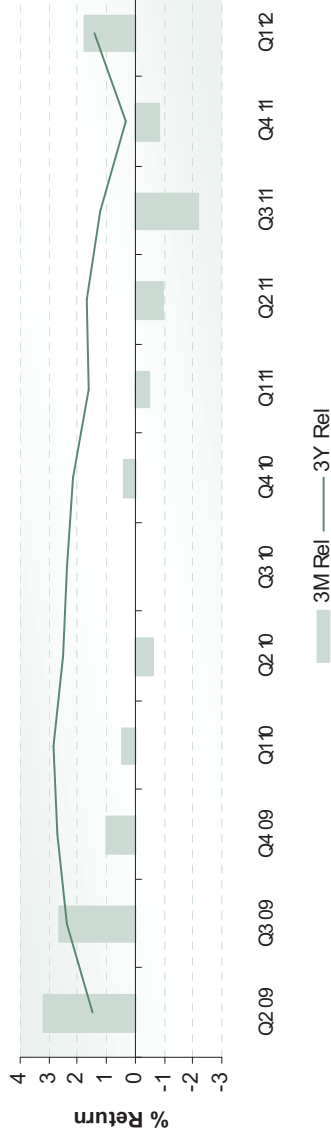
<b>Organisation</b>	No significant changes over the quarter.
<b>Product</b>	No significant changes over the quarter.
<b>Performance</b>	The fund performance was 2.55% over the quarter, 1.79% ahead of its target. Over 12 months, performance was 2.29% below the target. The outperformance was led predominantly by the funds cross-sector strategy with positive contributions also coming from duration and currency strategies. The country strategy marginally detracted over the period.
<b>Process</b>	No significant changes over the quarter.

### Three Years Rolling Quarterly Returns



	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
<b>Fund</b>	3.78	3.36	1.66	1.10	0.03	0.68	1.10	0.18	-0.27	-1.45	-0.11	2.55
<b>Target</b>	0.56	0.70	0.65	0.65	0.67	0.68	0.68	0.69	0.70	0.72	0.75	0.76

### Three Years Rolling Relative Returns



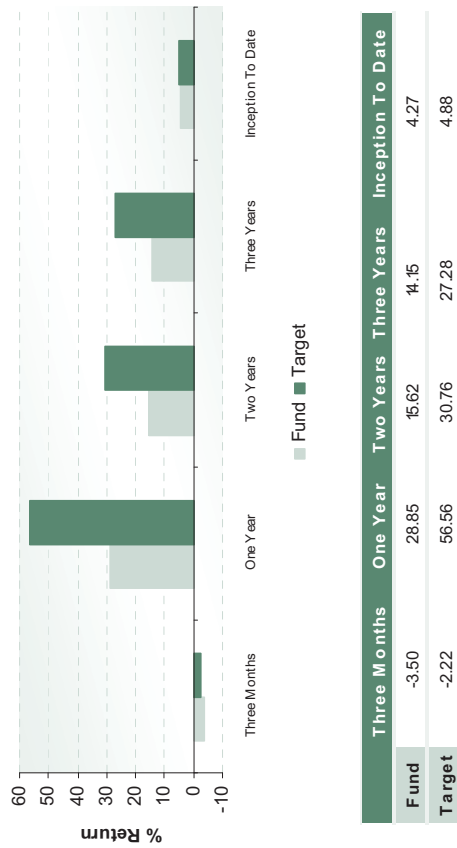
	Q2 09	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12
<b>3M Rel</b>	3.20	2.64	1.01	0.44	-0.64	0.00	0.42	-0.51	-0.96	-2.15	-0.85	1.78
<b>3Y Rel</b>	1.48	2.37	2.68	2.86	2.51	2.37	2.19	1.60	1.68	1.20	0.34	1.42

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 the first quarter of 2012, although performance has been blended with the previous holding in the LGIM 2055 Index-Linked Gilt Fund.

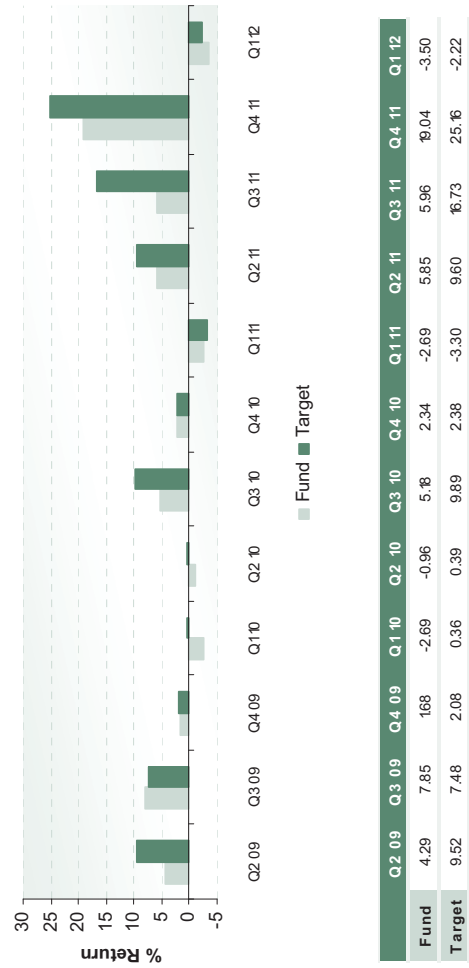
### Historical Plan Performance



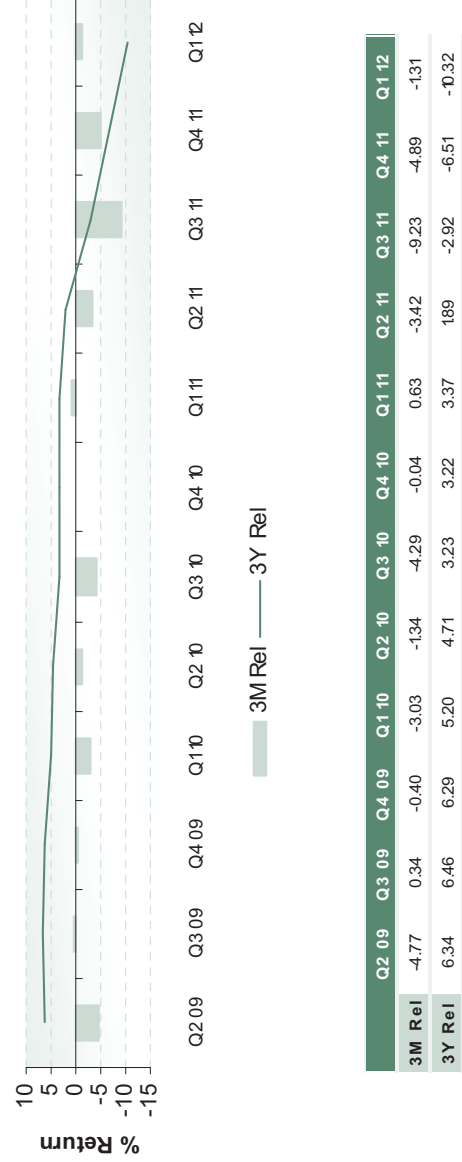
### Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	LGIM have implemented a new Matching Fund solution for the Fund.
Performance	The fund performance was -3.50% over the quarter, 1.28% behind its new bespoke target. Over 12 months, performance was 27.71% behind the new target. The underperformance can, in the main, be attributed to the Fund previously holding the 2055 Index-Linked Gilt Fund which was only an approximate match for the objective of the fund. Transition to the new mandate will also have had an impact on performance.
Process	The Fund now holds a bespoke mandate with LGIM within the confines of a pooled fund.

### Three Years Rolling Quarterly Returns



### Three Years Rolling Relative Returns



The first quarter of 2012 was dominated by the continuation of the European crisis. In a bid to restore order in Greece, the European Central Bank (ECB) announced it would exchange Greek Sovereign bonds for those in the new Eurozone bailout fund, European Financial Stability Facility (EFSF), thus reducing some of the burden on Greece. This move will eliminate up to €11bn from the Greek debt burden. Publicly held Greek bonds are to be exchanged for a combination of newly issued Greek bonds and cash. This will potentially cut a further €100bn of Greek debt. The Federal Reserve continued with “Operation Twist” in an attempt to keep longer interest rates low, and the ECB completed its second round of Long Term Refinancing Operations (LTRO) in February arguably heading off a full-blown credit crunch.

In the UK, the Bank of England (BoE) announced a further £50bn of Quantitative Easing, bringing the total purchases of gilts to £325bn. Over the quarter, interest rates have risen for all but the 1-5 year durations and this lead to UK Government debt and AAA corporate bonds experiencing negative returns (see figure 1). Looking at the annual returns, all UK debt sectors posted positive returns, the UK Gilts All Stocks Index returned 14.5%. The FTSE 100 had a strong quarter, returning 4.6% and is now in positive territory over the year, returning 1.2%.

In March, George Osborne delivered a fiscally neutral budget which should increase the probability of safeguarding the UK’s ‘AAA’ sovereign debt rating. However, he also managed to deliver a budget which should be taken positively by both sides of the coalition government and aid investment and growth.

Given poor growth prospects and recent news that the UK is back in recession, UK monetary policy has been constrained at the lower bound interest rate of 0.5%, therefore to stimulate growth the BoE may be forced to continue to focus on asset purchases or further quantitative easing going forward. There are rumours in markets that the Bank will move to buy index-linked gilts in addition to more conventional gilts. The corresponding fall in gilt yields could hit pension liabilities and cause large shortfalls in the income needed for pension funds.

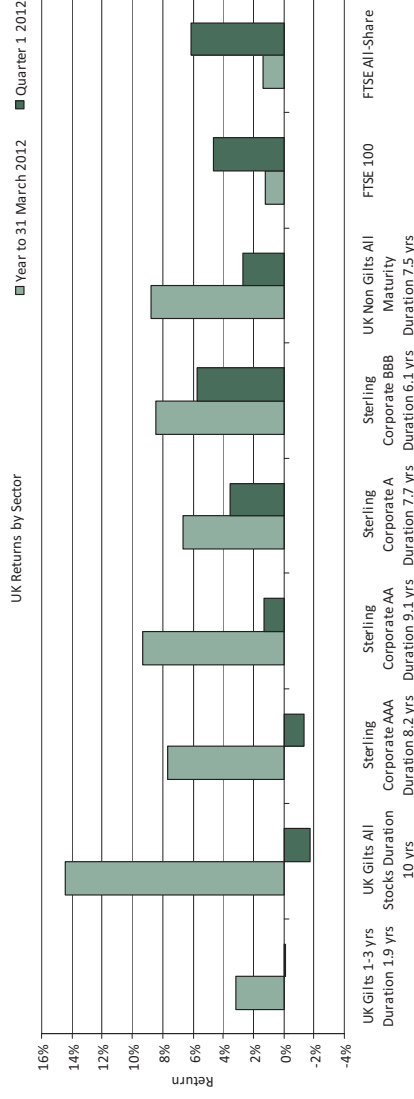


Figure 1 – UK returns by sector

In the US, the effect on financial markets of the central bank-fuelled liquidity and the slight pickup in employment over the first quarter has been obvious. The S&P 500 was up 12.6% in Q1 2012, which accords to Bloomberg is the best start to a year since 1928. Commodities such as gold and crude oil were also up 6.7% and 3.6% respectively.

There was less of an impact on the US by the Eurozone crisis during quarter 1. By the end of the quarter, credit spreads reduced to levels seen 12 months prior, however they still remain at elevated levels compared to before the credit crunch.

Looking at individual US sector performance, government and agency debt sectors posted negative returns for the quarter although all debt sectors are still in positive territory for the 12 months to 31 March 2012.

In Europe the debt crisis continued throughout the quarter, although the measures to stem issues in Greece alleviated some concerns. Corporate credit spreads in the Eurozone contracted to 2.8% above government bonds from highs of around 3.3% in January. This was attributed largely to the purchase of European sovereign debt by banks using a 3 year credit line offered by the ECB. This provided evidence that the intervention is having a positive impact on the state of the economy.

The credit line amounted to €489bn. In February the Greek parliament accepted the fiscal austerity package offered by government creditors, the conditions of the package included budget, pension and minimum wage cuts. Investor demand for peripheral bonds appeared to return over the quarter as a result of the ECBs intervention; Spanish and Italian 10 year yields fell substantially since the end of November when they were around the 7% mark (see figure 2).

ECB Action - Impact on Spanish and Italian Government Bonds

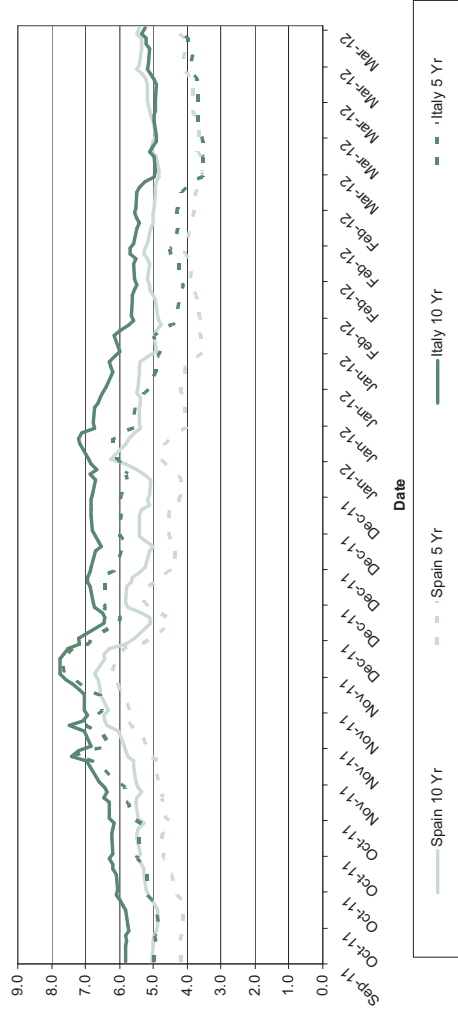


Figure 2 – ECB action driving down Italian and Spanish Government Bond Yields

Overall debt markets in Europe had a positive quarter. The strongest debt sector over the year was Sub Sovereign Debt, returning 8.6% over the year.

Eurozone equity markets also started the year on a strong note; the CAC40 had a positive quarter, but over the year the return was -10.3%. The FTSE World Europe (ex UK) Index posted a return of 9.8% over the quarter. However, over the year the return is negative at -11.4%.

The Bank of Japan recently expanded its asset purchase program resulting in a weakening of the Japanese Yen. Equity markets in Japan appeared to have rebounded in the first quarter of 2012 with the TOPIX rising 18.6% (in yen terms) due to higher industrial production and benefits of the weaker Yen which is expected to lead to growth for this export led economy. The FTSE World Japan Equity Index posted a return of 7.9% and 0.9% over the quarter and year respectively.

In the rest of Asia, the improved economic data from the US and expectations of monetary easing in China led to Asian equities posting their best quarterly performance since 2010. This was despite the fact that Beijing cut its annual GDP growth forecast to 7.5% which came as little surprise. Sentiment was boosted further in late March on evidence that manufacturing activity in China had been greater than expected.

An aspect of the current economic outlook is that the emerging market economies of China, Brazil and India are slowing as a result of past inflation fighting policy. However, the positive impact of the LTRO programme from the ECB and China's decision to lower banks' reserve ratio requirement led to a rally in Emerging Market equities. The FTSE All World Emerging Market Index posted a return of 10.6% over the quarter with the smaller markets such as Egypt, Turkey and Hungary being the main outperformers.

Sources: Datastream.



## CAMRADATA Contact

Operations Team

Operations@camradata.com

020 7533 6999

Marlow House, Lloyd's Avenue, London, EC3A 3AA

## Client Contact

Bob Pearce

Bob.Pearce@lbhf.gov.uk

020 8753 1808

2nd Floor, Town Hall Extension, King Street, Hammersmith, London W6 9JU

## P-Solve Contact

John Conroy

John.Conroy@psolve.com

020 7024 7414

126 Jermyn Street, London SW1Y 4UJ

## Scheme Actuary

Graeme Muir, Barnett Waddingham

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

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# AUDIT, PENSIONS AND STANDARDS COMMITTEE

28<sup>th</sup> June 2012

**CONTRIBUTORS**

**STATEMENT OF INVESTMENT PRINCIPLES**

**WARDS  
All**

DF

This report updates and amends the Statement of Investment Principles of the Pension Fund.

**RECOMMENDATION:**

1. To agree the Statement of Investment Principles.

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

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Statement of Investments File	B Pearce, Extn 1808	16 <sup>th</sup> Floor, Westminster City Hall,

## **1. INTRODUCTION**

1.1 Regulation 12(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 which came into force on 1<sup>st</sup> January 2010 requires administering authorities to prepare, maintain and publish a written statement of the principles governing their decisions about the investment of fund money. This is known as the "Statement of Investment Principles".

1.2 The regulations require the Statement to be updated within six months of any material changes in the pension funds investment policy. Consequently the Statement has been updated for the recent change to the fund's Liability Benchmark, for the recent change in the percentage of the fund managed by Majedie, MFS and Ruffer and has added paragraphs on risk in accordance with IFRS accounting practices.

1.3 The Statement includes the funds compliance with the principles of investment practice set out in the publication by CIPFA called "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A guide to the application of the Myners Principles" which was published on 11<sup>th</sup> December 2009.

1.4 The statement was last updated in March 2010 and the opportunity has been taken to make some minor amendments to update the Statement. It is proposed to publish the revised statement on the Council's website and intranet.

## **2. RECOMMENDATION**

2.1 That the Committee agree the Statement of Investments Principles.

# **LONDON BOROUGH OF HAMMERSMITH & FULHAM PENSION FUND STATEMENT OF INVESTMENT PRINCIPLES – JUNE 2012**

## **1. BACKGROUND**

### **1.1. Legal**

Regulation 12(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement of the principles governing their decisions about the investment of fund money. The purpose of this document is to satisfy the requirements of the regulations.

### **1.2. Scheme**

The Local Government Pension Scheme (“the Scheme”) was established in accordance with statute to provide death and retirement benefits for all eligible employees. The Scheme is a contributory, defined benefit occupational pension scheme. It is funded by employee contributions and by variable employer contributions, which are set every three years, following an actuarial valuation of the assets and liabilities of the scheme.

The benefits of the Scheme are defined by statute and they are inflation proofed in line with annual increases in the Consumer Price Index for September. The Scheme is operated by designated administering authorities, of which the London Borough of Hammersmith and Fulham is one such authority. Each administering authority maintains a Pension Fund (“the Fund”) and invests monies not required immediately to meet benefits.

### **1.3. Audit and Pensions Committee**

The Council has delegated the investment arrangements of the scheme to the Audit and Pensions Committee (“The Committee”) who decide on the investment policy most suitable to meet the liabilities of the Scheme. The Committee meets on a quarterly basis.

The Committee is made up of elected members of the Council who each have voting rights and invites representatives from the admitted and scheduled bodies within the Fund and from the trade unions, as observers. The Committee reports to the full Council.

### **1.4. Advice**

The Committee obtains and considers advice from the Executive Director of Finance and Corporate Governance, and as necessary from the Fund’s appointed actuary, investment managers, co-opted members and advisors.

### **1.5. Investment Management**

The Committee has delegated the management of the Fund’s investments to professional investment managers, appointed in accordance with the Scheme’s regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

## **2. INVESTMENT RESPONSIBILITIES**

### **2.1. The Audit and Pensions Committee is responsible for:**

- Determining overall investment strategy and ensuring that investments are sufficiently diversified, are not over concentrated in any one type of investment, and that the Fund is invested in suitable types of investments, as required by relevant regulations,
- Appointing the investment manager(s), custodian, actuary and any independent external advisors felt to be necessary for the good stewardship of the Fund,
- Monitoring the performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable.
- Preparing, publishing and maintaining the Statement of Investment Principles, and reviewing its contents,
- Preparing, publishing and reviewing the Funding Strategy Statement, the Governance Compliance Statement and the Communications Policy and Practice Statement,
- Receiving actuarial valuations of the Fund regarding the level of employers' contributions necessary to balance the Fund.
- Reviewing policy on corporate and social responsibility and on the exercise of rights, including voting rights,
- Approving the final accounts and balance sheet of the Fund.
- Approving the Business Plan of the Fund.

### **2.2. The Investment Managers are responsible for:**

- The investment of the Pension Fund assets in compliance with prevailing legislation and the detailed Investment Management Agreements,
- Tactical asset allocation and security selection around the strategic benchmark set by the Committee,
- Preparation of quarterly reports including a review of investment performance,
- Attending meetings of the Committee as required,
- Voting shares in accordance with the Council's policy except where the Council has made other arrangements.

### **2.3. The Custodian (*Northern Trust.*) is responsible for:**

- Its own compliance with prevailing legislation,
- Providing valuations and accounting data summarizing details of all investment transactions within the fund,



- Safe custody and settlement of all investment transactions, collection of income, tax reclaims, and the administration of corporate actions.
- Providing a performance measurement service of the investment managers against their specific benchmarks
- Voting the Fund's shares in accordance with the investment manager's instructions.

**2.4. The External Advisor (*P-Solve Asset Solutions.*) is responsible for:**

- Advising and assisting the Executive Director of Finance and Corporate Governance and the Committee on the investment objective and investment strategy of the Fund and its implementation,
- Assisting the Executive Director of Finance and Corporate Governance and the Committee in their regular monitoring of the investment managers' performance,
- Assisting the Executive Director of Finance and Corporate Governance and the Committee in the selection and appointment of investment managers and custodians,
- Advising and assisting the Executive Director of Finance and Corporate Governance and the Committee on other investment related issues, which may arise from time to time,
- Providing continuing education and training to the Committee and Officers.

**2.5. The Actuary (*Barnett Waddingham*) is responsible for:**

- Undertaking a triennial valuation of the Fund's assets and liabilities and interim valuations as required, including those to enable compliance with the International Accounting Standard IAS19
- Providing advice as to the maturity of the Fund and its funding level in order to aid the Committee in balancing the short term and long term objectives of the Fund,
- Providing advice on the admission to and withdrawal of admitted bodies in the Fund.

**2.6. The Executive Director of Finance and Corporate Governance is responsible for:**

- Day to day administration of the Fund
- Investment accounting and preparing the annual report and statement of accounts of the fund
- Monitoring compliance with statutory requirements and the investment principles set out in this document.
- Ensuring that this document is regularly reviewed and updated in accordance with the Regulations.

- Ensuring proper resources are available to meet the Council's responsibilities.

### **3. PENSION FUND LIABILITIES**

#### **3.1 Overview**

The Hammersmith and Fulham Pension Fund is broadly similar to other funds of comparable size in terms of its maturity. The actuary determined that the funding level was 74% at the 31<sup>st</sup> March 2010 valuation. The Committee has agreed with the actuary for the Council to make additional employer contributions over a period of 25 years to bring the funding level back to 100%.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. The Fund's liabilities are sensitive to inflation via pension and pay increases, to interest rates and to mortality rates. The assets that would most closely match the liabilities are a combination of index-linked gilts as the liabilities move in accordance with changes in the 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, which most match the fund's liabilities as measured at the actuarial valuation, in the following proportions: 45% Index-Linked Treasury Gilt 1 1/4%, 20% Index-Linked Treasury Gilt 1 1/4% 2027, 10% Index-Linked Treasury Gilt 1 1/8% 2037, 5% Index-Linked Treasury Gilt 0 3/4% 2047 and 20% Index-Linked Treasury Gilt 1 1/4% 2055.

#### **3.2 Scheme Benefits.**

The Scheme is a defined benefit scheme. Each member's pension is specified in terms of a formula based on salary and service and is unaffected by the investment return achieved on the Fund's assets.

Full details of Scheme benefits are set out in the regulations. The Council has also published a guide for members of staff who are eligible to join the Scheme.

#### **3.3 Funding the Benefits**

As defined in the Scheme regulations, all active members of the Scheme are required to contribute a percentage of their pensionable pay to the Fund on a sliding scale based upon their level of earnings.

The Council and other employers in the Fund are responsible for meeting the balance of costs necessary to finance the benefits payable from the Fund. Employer's contribution rates are determined triennially based on the advice of the Fund's actuary and are subject to inter-valuation monitoring.

#### **3.4 Actuarial Valuation**

The Fund is valued by the actuary every three years in accordance with the Local Government Pension Scheme Regulations and monitored each year by the Executive Director of Finance and Corporate Governance.

The next valuation will be based on the value and position of the Fund as at 31<sup>st</sup> March 2013 and any changes in the contribution rate payable by the Council due to that valuation will take place from 1<sup>st</sup> April 2014.

#### **4. INVESTMENT STRATEGY**

##### **4.1 Aims and Purpose of the Fund**

The aims of the Fund are to:

- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers and admitted bodies,
- Manage employers' liabilities effectively,
- Ensure that sufficient resources are available to meet all liabilities as they fall due,
- Maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- Receive monies in respect of contributions, transfer values and investment income, and
- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the Local Government Pension Scheme Regulations

##### **4.2 Investment Management Strategy**

The Committee, after advice from P-Solve, the Fund's advisor, has agreed an investment strategy consisting of having four portfolios, UK Equity, Global (ex UK) Equity, Dynamic Asset Allocation and a Matching Fund (to match some of the Fund's liabilities). The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk. Within the four portfolios the Committee has appointed external investment managers with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

The UK Equity portfolio is managed by Majedie Asset Management, the Global (ex UK) portfolio by MFS International (UK) Ltd, the Dynamic Asset Allocation portfolio is split between Baring Asset Management Ltd and Ruffer LLP and the Matching Fund is split between Goldman Sachs Asset Management and Legal and General Investment Management.

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

##### **4.3 Strategic Benchmarks and Performance Targets**

Each investment manager has been set a strategic benchmark in order to achieve the overall investment objective for the Fund. The current percentage managed, benchmarks and performance targets for each investment manager are set out below:

- UK Equity (22.5%) - Majedie Asset Management to produce a return of 2% after fees above the FTSE All Share index returns over rolling three-year periods.
- Global (ex UK) Equity (22.5%) - MFS International (UK) Ltd to produce a return of 2% after fees above the FTSE World (ex UK) index returns over rolling three-year periods.
- Dynamic Asset Allocation (30.0%) – Baring Asset Management Ltd (18.75%) and Ruffer LLP (11.25%) to produce an absolute return of 4% in excess of cash based on the 3 month sterling LIBOR over rolling three-year periods.
- Matching Fund (25%) - Goldman Sachs Asset Management (12.5%) to produce an absolute return of 2% in excess of cash based on the 3 month sterling LIBOR over rolling three-year periods and Legal and General Investment Management (12.5%) to produce a return of two times the Liability Benchmark Portfolio minus 3 month Libor over rolling three year periods, where the Liability Benchmark Portfolio is the combination of gilts chosen for the Fund to measure the movement in liabilities.

Investment management performance is reviewed quarterly and annually upon receipt of independent data from Northern Trust, the Fund's custodian.

#### **4.4 Reporting**

The investment managers' performance is reported quarterly to the Committee. The Committee publishes this Statement of Investment Principles, a Funding Strategy Statement, a Governance Compliance Statement, a Communications Policy and Practice Statement and minutes of their meetings.

### **5. INVESTMENTS AND RISK**

The powers and duties of the council to invest monies are set out in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The council is required to invest any monies which are not required immediately to pay pensions and any other benefits but must not invest any monies with its own cash balances. The Fund's cash is invested separately and since 1 April 2011, the Fund has been required to have a separate bank account. This bank account is with Northern Trust.

In making investments the regulations state that the Administering Authority must take account of the advisability of investing fund money in a wide variety of investments and the suitability of particular investments and types of investments. In doing so the council must obtain and consider the advice of persons properly qualified on investment matters.

#### **5.1 Types of Investment**

Investment can be made in accordance with the regulations in a broad spectrum of investments such as equities, fixed interest and other bonds, private equity fund of funds and property, both in the UK and overseas.

The regulations also specify other investment instruments that may be used such as bank deposits, stock lending, financial futures, hedge funds, traded options, insurance contracts, sub underwriting contracts and a contribution to a limited partnership in an unquoted securities investment partnership. The limits on the

amount of monies that can be invested in each individual type of investment are specified in schedule 1 of the Regulations.

## **5.2 Investment Management**

The Committee has appointed external investment managers under the terms of the Regulations whose roles are described in the Investment Strategy above. The managers are paid fees (one with a performance related element) based on percentage rates applied to the market value of the assets under management.

The Committee has appointed P-Solve Asset Solutions as the Fund's advisor. They are paid fees based on an agreed schedule of work. A fee is agreed with the advisor in advance for any additional work over and above the agreed schedule.

The Committee has appointed Northern Trust as global custodian. They are paid fees based on the market value of the funds under management and the number of transactions made by the investment managers.

## **5.3 Investment Risk**

The investment strategy of the Fund has been set so as to meet a return equivalent to the Liability Benchmark (see paragraph 3.1 above) plus 2.2% p a. The investment strategy aims to exceed this and targets a return of 2.5% in excess of the Liability Benchmark. To achieve this the Fund's assets are invested in a broad range of asset classes in terms of geographical and industry sectors and individual securities which are expected to produce returns above the Liability Benchmark over the long term albeit with greater volatility. This diversification reduces exposure to *price risk, currency risk, interest rate risk, credit and liability risk* to an acceptable level.

The aim of the investment strategy is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. Responsibility for the Fund's investment strategy rests with the Audit and Pensions Committee and is reviewed on a regular basis.

*Price risk* represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to *price risk*. This arises from investments held by the fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. The fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

*Currency risk* represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling.

*Interest rate risk* represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The

council recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

*Credit risk* represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities. In essence the fund's entire investment portfolio is exposed to some form of *credit risk*. However the selection of high quality fund managers, counterparties, brokers and financial institutions minimises *credit risk* that may occur through the failure to settle a transaction in a timely manner.

*Liquidity risk* represents the risk that the fund will not be able to meet its financial obligations as they fall due. The council therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash to meet the pensioner payroll costs; and also cash to meet investment commitments. The council has immediate access to its pension fund cash holdings. The fund also has access to an overdraft facility with Northern Trust for short-term cash needs. This facility is only used to meet timing differences on pension payments.

#### **5.4 Realisation of Investments**

The vast majority of the Fund's investments are readily marketable and may be easily realised if required. Some investments, such as private equity and limited partnership schemes are less easy to realise in a timely manner but the total value of these types of investments is not considered to have any adverse consequences for the Fund.

#### **5.5 Stock Lending**

The council does not engage in the lending of stocks or other securities from its pension fund.

### **6. CORPORATE SOCIAL RESPONSIBILITY**

This statement is an outline of the Fund's approach to shareholder engagement. It provides the basis for the broad policies which the Fund believes constitute best practice and provides the framework within which it will enter into engagement with companies in which it invests.

The Fund recognises that the neglect of corporate governance and corporate social responsibility (CSR) may lead to poor or reduced shareholder returns.

The Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund. Accordingly, the Committee has delegated CSR (social, environmental and ethical) policy to the appointed investment managers. The council believes this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and there is appropriate disclosure and reporting of actions taken.

Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

## **7. COMPLIANCE WITH THIS STATEMENT**

The Committee will review the Fund's compliance with this Statement of Investment Principles and issue a revised version following any material change in the Council's policy.

## **8. COMPLIANCE WITH THE SIX MYNERS PRINCIPLES OF INVESTMENT DECISION MAKING**

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the publication by CIPFA called "Investment Decision Making and Disclosure in the Local Government Pension Scheme: A guide to the application of the Myners Principles".

The principles, together with the council's position on compliance are set out below:

### **Principle 1 - Effective decision-making,**

#### ***Administering authorities should ensure that:***

- ***Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and***
- ***Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.***

**Fully Compliant** - The council has delegated the management and administration of the pension fund to the Audit and Pensions Committee ("The Committee") which meets quarterly. The responsibilities of The Committee are described in paragraph 2.1 above.

The Committee is made up of elected members of the council who each have voting rights and has representatives from the admitted and scheduled bodies within the Fund and from trade unions, as observers. The Committee has specific terms of reference which are reviewed and agreed annually, standing orders and operational procedures and reports to the full council. Members are not paid specifically for these duties.

The Committee obtains and considers advice from the Executive Director of Finance and Corporate Governance, and as necessary from the Fund's appointed actuary, investment managers and advisors.

The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

## **Principle 2 - Clear objectives**

***An overall investment objective(s) should be set for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.***

**Fully Compliant** - The Committee has agreed in conjunction with its advisor an investment objective that is directly related to the Fund's liabilities (See paragraph 3.1 above). The investment objective aims to enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers and admitted bodies,

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above).

The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.

## **Principle 3 – Risk and liabilities**

***In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.***

***These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.***

**Fully Compliant** - The Committee has agreed in conjunction with its advisor an investment Strategy that is directly related to the Fund's liabilities. The investment strategy is described in paragraphs 4 and 5 above.

The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk (see paragraph 5.3 above).

## **Principle 4 – Performance Assessment**

***Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors***

***Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members***



**Partially compliant** - The Committee has appointed investment managers with clear index strategic benchmarks (see paragraph 4.3 above) within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by P-Solve Asset Solutions, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given (see paragraph 2.4 above). The actuary is assessed on the quality and consistency of the actuarial advice received (see paragraph 2.5 above). Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures.

The Committee does not periodically make a formal assessment of its own effectiveness as a decision-making body but does receive quarterly reports as to how the Fund has performed against the investment objective set by the Committee. The performance figures are included in the extract from the accounts which is sent to stakeholders annually.

## **Principle 5 – Responsible Ownership**

### ***Administering authorities should:***

- ***Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents***
- ***Include a statement of their policy on responsible ownership in the statement of investment principles***
- ***Report periodically to scheme members on the discharge of such responsibilities***

### **Partially compliant –**

Majedie our UK Equity investment manager has adopted the Institutional Shareholders Committee Statement of Principles and MFS our overseas equity investment manager are signatories of the United Nations Principles of Responsible Investment (UNPRI).

Barings and Ruffer who manage our Dynamic Asset Allocation portfolios which have some equity exposure have not adopted the principles but have corporate governance and socially responsible investment policies which are broadly in line with the principles.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests (see paragraph 6 above). Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

This Statement of Investment principles is included in the Pension Fund Annual Report which is available to all scheme members.

## **Principle 6 – Transparency and reporting**

### ***Administering authorities should:***

- ***Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives***
- ***Provide regular communications to scheme members in the form they consider most appropriate.***

**Fully compliant** - The Governance Compliance Statement, the Statement of Investment Principles, the Funding Strategy Statement and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site and internal intranet. Monitoring results of the fund's performance are also included. An extract from the accounts is sent to stakeholders annually.



# AUDIT, PENSIONS AND STANDARDS COMMITTEE

28<sup>th</sup> June 2012

**ANNUAL REVIEW OF RETIREMENTS  
2011/2012**

<b>Contributors</b>	<b><u>Summary</u></b>	<b>Wards</b>
Director of HR Deputy Director of Finance EDFCG	<p>The report draws members attention to the Local Government Pension Scheme retirements that occurred in 2011/2012 and the consequential effect on the pension fund</p> <p>It also reports the number and value of redundancy payments made by the Council in 2011/12 for information.</p>	<b>All</b>

## **RECOMMENDATIONS:**

1. To note the contents of the report.
2. To note that the annual review of 2011/2012 specifically in relation to early retirements and ill health retirements does not give rise to an increase in the employer contribution rate for Hammersmith and Fulham Council.
3. To note that additional employer pension contributions are required from Family Mosaic Housing, Serco and Eden Food Services as a result of their ill health retirements exceeding their allowance and that arrangements are being made to collect these additional contributions.

## 1 Background

- 1.1 The last full triennial actuarial valuation of the pension fund was conducted in 2010/11 by Barnett Waddingham and it valued the fund's assets and liabilities as at the 31<sup>st</sup> March 2010.
- 1.2 The Valuation Report made an assessment of the contributions required from each participating employer in order to maintain the solvency of the pension fund. The certified total employer contribution rate for London Borough of Hammersmith and Fulham, including the staff who transferred from H&F Homes to LBHF on 1 April 2011 was calculated as 23.30% of pensionable pay from 1 April 2011 to 31 March 2014 :
- 1.3 In addition to the triennial valuation there is a requirement under regulation 38(5)b and 38(6) of the Local Government Pension Scheme Administration regulations 2008 to carry out an annual comparison of the early retirement costs with the costs that were anticipated in the full fund valuation.
- 1.4 The annual review provides the Committee with details of the number and value of retirements and recommends if employer contribution rates need to be adjusted.

## 2 Retirements in 2011/2012

- 2.1 Retirement data for 2011/2012 was supplied to the actuary in order to carry out the annual review. See Appendix 1
- 2.2 In summary the details were as follows:

Normal retirement age	23
Deferred benefits into payment	46
Late retirement	29
Flexible retirement	4
Ill health retirements	8
Redundancy	53
<b>Total</b>	<b>163</b>

## 3 Actuaries report

- 3.1 In accordance with Regulations 38(5)b and 38(6) of the Local Government Pension Scheme Administration Regulations 2008, the fund actuary, Barnett Waddingham has carried out an annual comparison of the early retirement costs that have arisen in the Fund, with the costs anticipated in the Fund valuation as at 31 March 2010. This report is attached as Appendix 3 and recommends no change to the employer contribution rate for LBHF

3.2 The actuary's report recommends new employer contribution rates in respect of three of the pension fund's scheme employers as a result of ill health retirements exceeding the allowance made in the last triennial valuation.

3.3 The employers concerned are Family Mosaic Housing, Serco and Eden Food Services, and the Pay and Pensions team will contact the employers to arrange payment of the additional contributions.

#### 4. Redundancy payments made in 2011/12

Appendix 2 shows all redundancy payments made by the Council in 2011/12, in respect of staff that left service from 1 April 2011 to 31 March 2012, for information.

4.1 Statutory redundancy is the amount the Council is obliged to pay under the Employment Rights Act based on the weekly earnings limit, which is currently £430.00 per week (pro-rated for part time employees).

4.2 Discretionary redundancy is the amount payable by waiving the earnings limit, so it is the amount calculated by using the employee's actual weekly pay, less the statutory redundancy amount.

4.3 Enhanced severance is paid under the Council's policy for managing organisational change, to low earning employees and it is the amount calculated by using a weekly pay figure equal to 1.5 x the Minimum Earnings Guarantee (pro-rated for part time employees), less the Statutory and Discretionary redundancy payments.

4.4 Taxable redundancy is the amount of the total statutory redundancy, discretionary redundancy and enhanced severance, which exceeds £30,000.00 and is therefore subject to income tax

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

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
<b>1</b>	<b>Actuarial files</b> <b>Annual Review file</b>	<b>Les Green</b> <b>X 1878</b>	<b>Finance and Corporate Services Dept</b> <b>Room 317 Town Hall</b>

# Early Retirements Report 2011-12

**Client** London Borough of Hammersmith and Fulham Pension Fund **Date** 14 June 2012

**Subject** Review of Early Retirements Allowance

**Prepared by** Alison Hamilton FFA – Alison.hamilton@barnett-waddingham.co.uk

**Prepared for** Les Green

## 1 Introduction

1.1.1 We have been requested by Les Green to undertake a review of the early retirements over the year to 31 March 2012, and advise whether certified contribution rates from the triennial valuation as at 31 March 2010 for any of the employers who participate in the London Borough of Hammersmith and Fulham Pension Fund will have to be revised as a result of the review.

1.1.2 This report complies with all Generic Technical Actuarial Standards (TASs).

## 2 Data

2.1.1 We have been provided with data by the London Borough of Hammersmith and Fulham of early retirements within the year to 31 March 2012 in order to carry out the review. We have not carried out any data validation checks on this data. The data categorised by type of retirement is summarised below.

Type of Retirement	Number	Total Pension in Payment (£)
Deferred to Pensioner	46	138,577
Ill Health Retirement	8	40,843
Normal Retirement	23	115,748
Flexible Retirement	4	71,246
Redundancy Retirement	53	612,048
Late Retirement	29	184,628
<b>Total</b>	<b>163</b>	<b>1,163,091</b>

2.1.2 In reviewing whether the certified contribution rate for any of the employers within the Fund should change in light of these early retirements, we only have to consider ill-health retirements.

2.1.3 When an employee or deferred member retires through normal age retirement, the Fund does not incur a cost in excess of what has been allowed for in the actuarial valuation.

2.1.4 When an employee retires early with employer consent or later than expected, the pension is actuarially reduced or increased and so is also expected to be close to cost neutral on the funding basis.

2.1.5 When an employee retires on redundancy or efficiency grounds, the employer is required to immediately fund the additional cost separately and so these retirements can also be ignored within this review.

2.1.6 Therefore we have only considered ill-health retirements in our analysis.

### 3 Calculation of Allowance

3.1.1 Our calculations have been based on the method and assumptions consistent with the funding model and assumptions adopted at the 2010 funding valuation.

3.1.2 For each employer within the Hammersmith and Fulham Pension Fund, we allow for a certain number of ill-health retirements in each year as part of the future service cost.

3.1.3 Where there are more retirements than this, it may be prudent to ask for additional funding. The Regulations require that local authorities should monitor the number of ill-health retirements arising over each Fund year and refer the position to the Actuary if numbers exceed the allowed levels.

3.1.4 However, it is more relevant to the funding position to consider the expected amount of pension that would come into payment as a result of ill-health retirement, rather than just the number of retirements.

3.1.5 The table below shows the number of retirements and pension expected to come into payment as a result of ill health for all employers in the London Borough of Hammersmith and Fulham Pension Fund.

Code	Employer	Expected Number of Ill Health Retirements in 2011/12	Expected IH Pension to come in to payment in 2011/12 (£)
80	London Borough of Hammersmith and Fulham	3.1603	22,525
81	Mortlake Crematorium Board	0.0175	44
83	Family Mosaic Housing	0.0598	246
84	Hammersmith and Fulham Community Law Centre	0.0024	35
88	Urban Partnership Group	0.0083	72
89	London Oratory School	0.0446	219
90	Disabilities Trust	0.0053	8
91	Medequip Assistive Technology Ltd	0.0028	13
92	H+F Homes	0.3458	2,887
94	Glencross Cleaning Ltd	0.0070	15
95	Inspace Partnerships Ltd - Fulham Repairs	0.0118	66
96	Inspace Partnerships Ltd - Voids Repairs	0.0027	25
97	Burlington Danes Academy	0.0487	202
98	H & F Bridge Partnership	0.0375	573
99	P H Jones Ltd	0.0021	9
830	Irish Cultural Centre	0.0004	2
831	Kier Support Services Ltd	0.0249	194
832	Quadron Services Ltd	0.0664	488
833	Serco	0.1614	719
834	Tendis	0.0012	13
835	Turners Cleaning	0.2150	543
836	FM Conway	0.0234	218
837	Family Mosaic - Supporting People contract	0.0040	22
840	Kier - Non Responsive Repairs contract	0.0001	1
841	Thames Reach	0.0015	5
842	Eden Food Services	0.2307	787
843	Financial Data Management Ltd	0.0008	9
844	EC Harris LLP	0.0055	74
845	Crime Reduction Initiatives (CRI)	0.0018	8

3.1.6 The pension amounts shown are the annualised payroll of the total pension paid to members who retire through ill-health, allowing for cash commutation on retirement.

- 3.1.7 We could then suggest that if ill-health pension comes into payment above the expected amounts shown above, then this triggers the Fund to seek extra payment from the employer. However this would mean for most small employers that one ill-health retirement would trigger an increase in their contribution rate, as statistically for these employers we expect significantly less than 1 retirement per annum.
- 3.1.8 We would suggest that the monitoring could allow a margin above the expected pension amounts, which if breached would trigger the Fund to seek extra payment. Technically, we suggest the margin would be approximately one standard deviation above the expected ill-health pension, rounded up to the nearest thousand pounds.
- 3.1.9 Based on this, we get the following allowances:

Code	Employer	Allowance for IH Pension to come into payment including margin (£)
80	London Borough of Hammersmith and Fulham	36,000
81	Mortlake Crematorium Board	1,000
83	Family Mosaic Housing	2,000
84	Hammersmith and Fulham Community Law Centre	1,000
88	Urban Partnership Group	1,000
89	London Oratory School	2,000
90	Disabilities Trust	1,000
91	Medequip Assistive Technology Ltd	1,000
92	H+F Homes	8,000
94	Glencross Cleaning Ltd	1,000
95	Inspace Partnerships Ltd - Fulham Repairs	1,000
96	Inspace Partnerships Ltd - Voids Repairs	1,000
97	Burlington Danes Academy	2,000
98	H & F Bridge Partnership	4,000
99	P H Jones Ltd	1,000
830	Irish Cultural Centre	1,000
831	Kier Support Services Ltd	2,000
832	Quadron Services Ltd	3,000
833	Serco	3,000
834	Tendis	1,000
835	Turners Cleaning	2,000
836	FM Conway	2,000
837	Family Mosaic - Supporting People contract	1,000
840	Kier - Non Responsive Repairs contract	1,000
841	Thames Reach	1,000
842	Eden Food Services	3,000
843	Financial Data Management Ltd	1,000
844	EC Harris LLP	2,000
845	Crime Reduction Initiatives (CRI)	1,000



## 4 Review of Retirements

4.1.1 The table below summarises the ill-health retirements that have come into payment over the year since 31 March 2011.

Code	Employer	Number of IH Retirements in 2011/12	Pension in payment
80	London Borough of Hammersmith and Fulham	3	6,541
83	Family Mosaic Housing	1	7,457
92	H+F Homes	1	5,797
833	Serco	1	6,110
842	Eden Food Services	1	13,599

4.1.2 These figures can then be compared with the allowances in table 3.1.9 to determine whether additional payment should be made into the Fund.

4.1.3 Of these employers, four (Family Mosaic Housing, H+F Homes, Serco, and Eden Food Services) have breached their limit. The cost of these retirements can be estimated as

((Total Payroll for actual ill-health retirements LESS Expected Payroll for actual ill-health retirements) X 20)

4.1.4 We can then decide whether this additional cost is large enough that the ongoing contribution rate for these employers needs to be revised, based on the recovery period remaining as at 31 March 2012.

4.1.5 We have shown the current ongoing contribution rates, and suggested new contribution rates as a result of the excess ill-health retirements in the table below

Code	Employer	Target Rate from 2010 valuation	Additional Contribution Required as a result of Ill Health Retirements	Suggested New Rate
83	Family Mosaic Housing	19.0%	1.1%	20.1%
92	H+F Homes	18.9%	0.0%	18.9%
833	Serco	15.1%	1.1%	16.2%
842	Eden Food Services	18.9%	9.7%	28.6%

- 4.1.6 As H+F Homes have transferred back to the London Borough of Hammersmith and Fulham, the combined salary of the two employers is large enough that there will not need to be an increase in contribution rate to cover the cost.
- 4.1.7 However the ill health retirement for the other three employers (Family Mosaic Housing, Serco, and Eden Food Services) are significant in comparison to their payroll.
- 4.1.8 Eden Food Services in particular have less than two years left on their contract (with an extension possible for a further year) to spread the cost over so the increase to their contribution rate is large when expressed as a percentage of payroll.
- 4.1.9 Please let us know if you wish for us to revise the contribution rates for these employers.
- 4.1.10 We would be happy to answer any questions in relation to this report.



**Alison Hamilton FFA**  
**Partner, Barnett Waddingham LLP**



# AUDIT, PENSIONS AND STANDARDS COMMITTEE

28<sup>th</sup> June 2012

**CONTRIBUTORS**

Audit Commission

**EXTERNAL AUDIT UPDATE**

This report updates the Committee on the work of the Council's external auditor, the Audit Commission.

**WARDS  
All**

**RECOMMENDATION:**

**That the report be noted**

# Audit Committee update

London Borough of Hammersmith & Fulham

Audit 2011/12

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

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# Introduction

- 1** The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2** This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3** If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4** Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Jon Hayes

Engagement Lead

June 2012

# Progress report

## Financial statements

**5** My audit of the financial statements is scheduled to take place in June and August. I will report the results to the September Audit Committee.

**6** I also received a draft of Hammersmith & Fulham Pension Fund financial statements in early June and have commenced the audit. The results of this audit will be reported to the September Audit Committee.

**7** I will also be auditing the Wormwood Scrubs Charitable Trust financial statements. We have undertaken to complete this audit earlier than in previous years to ensure the transfer of your audit supplier does not cause any delays. The results of this audit will be reported to the September Audit Committee. The Council can assist me in this by ensuring submission of the draft financial statements in a timely manner.

## VFM conclusion

**8** My work on value for money is complete. Subject to any additional information received up to the date of my opinion, I anticipate issuing an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness.

## Grant claims

**9** I am planning to complete the certification of all grant claims prior to the change in your audit supplier on 1 November. The Council can assist me in this by ensuring all claims that require external auditor certification are submitted in a timely manner.

## Housing benefits

**10** I have completed the initial testing of the housing benefits subsidy claim. My testing has been complicated by long periods taken to process amendments, known as changes in circumstances, to housing benefit and council tax benefit claims. DWP data, based on the first three quarters for 2011/12, shows the speed of processing changes in circumstances at the Council was 32 days which is relatively high when compared with other authorities. Delays in processing changes in circumstances can have the following implications on my certification work:

- Slow processing increases the incidence of local authority error and overpayments, reducing the amount of subsidy authorities can claim from the DWP.
- Slow processing can increase the complexity of cases, increasing the time required to complete certification work.



## Other matters of interest

### Update on outsourcing the work of the Audit Practice

**11** Following the award of geographical contracts for the audit of principal local authorities and NHS bodies, the Audit Commission has held meetings in each contract area to introduce the winning firms to audited bodies.

**12** It has in parallel commenced consultation on the appointment of auditors to individual bodies with a view to making those appointments at its Board meeting on 26 July 2012. Firms will take up audit appointments for the 2012/13 audit year from 1 September 2012 when the interim appointment of the current auditor will come to an end.

**13** Following consultation with audit suppliers, the Audit Commission has put in place arrangements to facilitate the smooth transfer of any part-completed 2011/12 work from the Audit Practice to incoming audit firms so that they can maximise reliance on the work of the Audit Practice and complete the work expeditiously.

### Update on the residual Audit Commission

**14** The Commission is reducing and reshaping its workforce so that it can deliver its remaining core functions of audit regulation, contract management and sector support.

**15** The Department of Communities and Local Government has advertised for a new Chairman of the Audit Commission to lead through the period of transition and downsizing. The new Chairman will take up post following the end of the term of office of the current Chairman in September 2012.

### 2012/12 audit fees

#### Fee scales for 2012/13 audits of local government bodies

**16** Following a consultation exercise, the Audit Commission has agreed the work programme and fee scales for 2012/13 audits of local government bodies. It sent out letters notifying organisations of the new fees on Wednesday 11 April 2012.

**17** As previously advised, the outsourcing of the Audit Commission's in-house Audit Practice means that these fees will be fixed for a five-year period, irrespective of the rate of inflation.

#### Fee scales for 2012/13 National Fraud Initiative

**18** The Audit Commission's consultation on its proposals for the 2012/13 National Fraud Initiative (NFI) work programme and scale of fees ended in March 2012 and the results of this exercise were published on 30 May 2012.

**19** The Commission did not propose to introduce any new mandatory data matches in the NFI for 2012/13, so the main work programme will remain unchanged from 2010/11.

**20** In recognition of the financial pressures that public bodies are facing in the current economic climate, the scale of fees for mandatory participants will also remain the same as for NFI 2010/11.

## 2010/11 National Fraud Initiative

**21** In May 2012 the Audit Commission published the results of the NFI for 2010/11.

**22** The NFI is a data matching exercise which is hosted on a secure website. It compares information held by around 1,300 organisations including councils, the police, hospitals and 77 private companies. This helps to identify potentially fraudulent claims, errors and overpayments.

**23** When there is a 'match', there may be something that warrants investigation and examples of the data matches the NFI undertakes are set out in the Table below.

Table 1: **Examples of data matches covered by the NFI**

Data Match	Possible fraud or error
Pension payments to records of deceased people.	Obtaining the pension payments of a deceased person.
Housing benefit payments to payroll records.	Claiming housing benefit by failing to declare an income.
Council tax records to electoral register.	A council taxpayer gets single person discount whilst living with other countable adults and thus being ineligible.
Payroll records to other payroll records.	An employee is working for one organisation while being on long-term sick leave at another.

**24** The latest NFI in England identified almost £229 million of fraud, overpayments and errors. This is made up of £139 million for 2010/11 plus £90 million not previously reported from earlier exercises. Over the same period, £47 million was identified in Scotland, Wales and Northern Ireland, raising the UK-wide total to £275 million.

**25** The highest value categories identified in England continue to be pensions (£98 million), council tax single person discount (£50 million) and housing benefit (£31 million).

**26** The latest report is accompanied by a series of case studies from the private and public sectors and a briefing for elected members. The briefing includes a series of questions that members can put to officers.

**27** Since the initiative's start in 1996, the programme has helped detect £939 million, taking it a step closer to achieving a £1 billion payback to the public purse.

## Public sector internal audit standards

**28** The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Chartered Institute of Internal Auditors (IIA) announced a formal collaboration in May 2011.

**29** This collaboration has recently led to the formation of the UK Internal Audit Standards Advisory Board, which will provide oversight and challenge to the development of UK-wide Public Sector Internal Audit Standards.

**30** The new unified set of internal audit standards will be based on the mandatory elements of the IIA's International Professional Practices Framework and it is proposed that they will apply across the UK to central and local government and the NHS (excluding foundation trusts).

## Payment by results

**31** The Audit Commission published *Local payment by results* on 5 April 2012. This is a briefing paper which considers potential issues arising from local authorities using payment by results (PbR) as a method of commissioning and paying for services.

**32** PbR is a new approach, where commissioners pay service providers according to how well they achieve specified outcomes, rather than by outputs or volumes of service. These outcomes may be social, economic, financial, or a combination of all three. PbR is not the only contract type that rewards good performance, and commissioners should always consider other options alongside PbR to choose the most suitable approach.

**33** What sets PbR apart from other contract types is that a significant amount of payment is withheld until the results are delivered. The payment is directly related to the level of success.

**34** National PbR schemes are developing quickly. Some early schemes include reducing reoffending; diverting young offenders from custodial sentences; helping the unemployed to find work; preventing children from

being taken into care; keeping frail older people in their own homes; and improving the management of chronic health conditions.

**35** The briefing sets out to help councils understand what PbR might entail. As most schemes are at an early stage, the Audit Commission has identified a range of issues that local commissioners should consider if they are to use PbR successfully, drawing on some national and international examples.

**36** The briefing suggests that there are five principles that any PbR scheme needs to meet if it is likely to succeed:

- a clear purpose;
- a full understanding of the risks;
- a well-designed payment and reward structure;
- sound financing; and
- effective management and evaluation.

**37** The Audit Commission has sent the briefing to council chief executives and other key stakeholders.

## The rights of local electors

**38** The Audit Commission has published an updated version of *Council accounts: a guide to your rights*. The publication aims to help local electors by explaining their rights and how to engage with auditors in relation to the accounts. It also points electors to other sources of advice and more information where they have concerns that are not about the accounts.

**39** The publication is accompanied by a Notice of an Objection form designed to assist electors wishing to present their objection to an item or items of accounts to the auditor.

**40** Members of the Audit Committee may find it helpful to familiarise themselves with the document which can be found on the Audit Commission's website.

## NAO role in local VFM studies

**41** The NAO currently carries out around 60 VFM studies on central government initiatives and programmes each year. From next year, it will produce an increasing number of studies focusing on the local government sector.

**42** A new Local Government Reference Panel has been set up to give councils an input to the NAO's programme of local government value for money studies. The panel, which will meet twice a year, includes representatives from nine local authorities as well as from CIPFA, Community Service Volunteers and the University of Birmingham.

**43** The programme comprises three studies in 2012/13, the first being communication between central and local government, rising to four in 2013/14 and six in 2014/15.

**44** Subject to Parliamentary approval, the NAO eventually expects to assume the Audit Commission's role in setting the framework for local audit, through a code of audit practice.

## **CIPFA's brief guide to Local Government Finance reforms**

**45** As the Local Government Finance Bill enters its concluding stages in the House of Commons, CIPFA has published a guide to some of the proposed changes.

**46** CIPFA's *Brief Guide to Local Government Finance Reforms* seeks to answer some common questions that local government officers and elected members may have surrounding the localisation of support for council tax and business rate retention.

**47** The guide explains the purpose of the proposals and their impact. It includes simplified examples of the proposed changes. At the time of writing, all the legislation and guidance has yet to be published, so the guide represents the latest known position. CIPFA will publish additional guidance once the detail becomes known.

# Key considerations

**48** The Audit Committee may wish to consider the following questions in respect of the issues highlighted in this briefing paper.

- Does the Committee understand the reason for the slow processing of Housing Benefits and Council Tax Benefits changes in circumstances?
- Has the Committee asked officers the questions set out in the Audit Commission's NFI briefing for elected members? Is the Committee satisfied with the answers?
- Have officers considered the Audit Commission's briefing paper on local payment by results agreements?

## Contact details

**49** If you would like further information on any items in this briefing, please feel free to contact either your District Auditor / Engagement Lead or Audit Manager.

**50** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

Jon Hayes

Engagement Lead

0844 798 2877

[j-hayes@audit-commission.gov.uk](mailto:j-hayes@audit-commission.gov.uk)

Julian McGowan

Audit Manager

0844 798 2655

[j-mcgowan@audit-commission.gov.uk](mailto:j-mcgowan@audit-commission.gov.uk)

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



Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131  
Fax: 0844 798 2945  
Textphone (minicom): 0844 798 2946

[www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)

June 2012





# AUDIT, PENSIONS AND STANDARDS COMMITTEE

**DATE OF MEETING**

**CONTRIBUTORS**

Chief Internal Auditor  
Internal Audit Manager  
Deloitte & Touche LLP

**Head of Internal Audit Annual Report 2011/12 year**

**WARDS  
All**

This Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2011/12 financial year and provides assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. In all cases a satisfactory assurance has been provided with the exception of the significant control weaknesses recorded in the report. The report is a key element of the evidence supporting the Annual Governance Statement (AGS).

**RECOMMENDATION:**

**To note the contents of this report**

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

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Internal Audit plans, documents, audit files and supporting papers	Geoff Drake Ext. 2529	Finance Dept, 4 <sup>th</sup> Floor Hammersmith Town Hall

# London Borough of Hammersmith and Fulham Head of Internal Audit Report For The Year Ended 31 March 2012

This management letter has been prepared on the basis of the limitations set out on page 22

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*This report and the work connected therewith are subject to the Terms and Conditions of the Engagement Letter dated 14 April 2011 between London Borough of Hammersmith & Fulham and Deloitte & Touche Public Sector Internal Audit Limited under an arrangement agreed with Croydon Council. The report is confidential and produced solely for the use of London Borough of Hammersmith & Fulham. Therefore you should not, without our prior written consent, refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. No other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.*

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## **1. Executive Summary**

### **1.1. Introduction**

1.1.1. The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006. The Code advises at paragraph 10.4 that the report should:

- a) Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
- b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
- c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
- d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement on internal control;
- e) Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and
- f) Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.

1.1.2. The Code of Practice also states at Paragraph 10.4.1 that:

1.1.3. "The Head of Internal Audit should provide a written report to those charged with governance timed to support the Statement on Internal Control."

1.1.4. Therefore in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Authority in meeting the requirements of Regulation 4 of the Accounts and Audit Regulations 2003 and amending regulations. These state that:

"The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

## **Head of Internal Audit Opinion on the Effectiveness of Internal Control 2011/12**

1.1.5. This opinion statement is provided for the use of the London Borough of Hammersmith & Fulham in support of its Annual Governance Statement.

### **1.2. Scope of Responsibility**

1.2.1. The London Borough of Hammersmith & Fulham is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

1.2.2. In discharging this overall responsibility, the London Borough Hammersmith & Fulham is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

### **1.3. The Purpose of the System of Internal Control**

1.3.1. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the London Borough of Hammersmith & Fulham's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

### **1.4. The Internal Control Environment**

1.4.1. The Internal Audit Code of Practice states that the internal control environment comprises three key areas, internal control, governance and risk management processes. Our opinion on the effectiveness of the internal control environment is based on an assessment of each of these key areas.

### **1.5. Review of Effectiveness**

1.5.1. The London Borough of Hammersmith & Fulham has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in the annual letter and other reports.

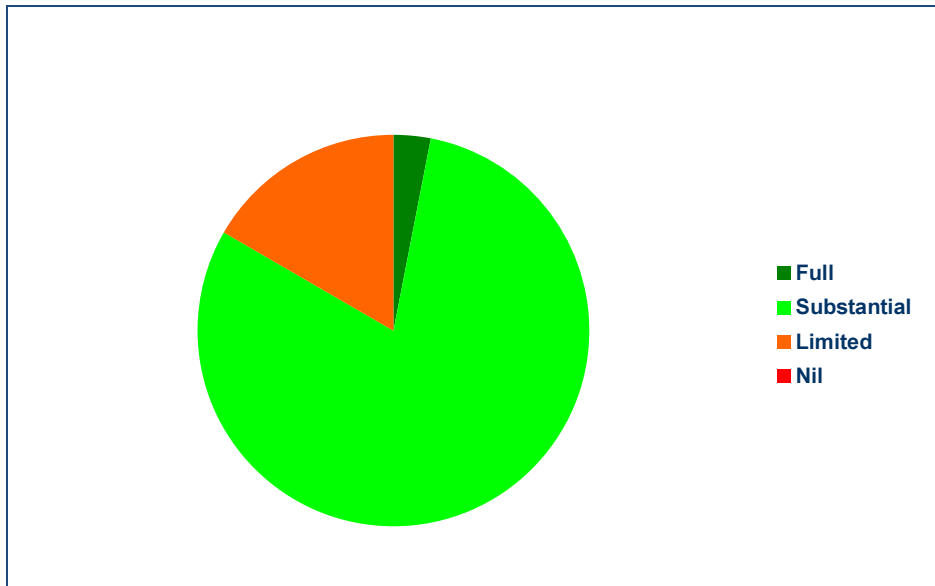
## **1.6. Head of Internal Audit Annual Opinion Statement**

- 1.6.1. Our opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2011/12 including our assessment of the London Borough of Hammersmith & Fulham's corporate governance and risk management processes.
- 1.6.2. The internal audit plan for 2011/12 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

## **1.7. Basis of Assurance**

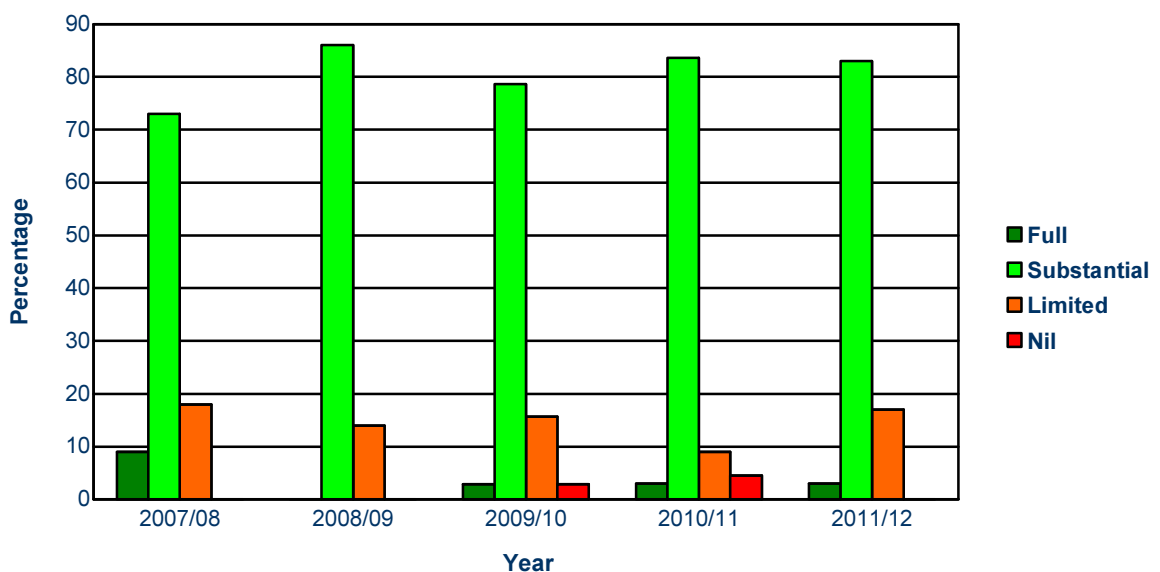
- 1.7.1. We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from our own internal quality assurance systems.
- 1.7.2. Our opinion is limited to the work carried out by Internal Audit based upon the internal audit plan. Where possible we have considered the work of other assurance providers, such as External Audit.
- 1.7.3. The audit work that was completed for the year to 31 March 2012 is listed in Appendices A, C and D. Appendix A lists all the audits where assurance opinions are provided.
- 1.7.4. No Nil assurance reports were issued in 2011/12.
- 1.7.5. It should be noted that External Audit will not be requiring any further testing from Internal Audit for this financial year. Failures in certain key controls highlighted through our mid-year testing mean that no further testing was required. However based on the cyclical programme of key financial system audits and follow up work undertaken in the last three years, and given the status of the control environment as a whole, we believe the financial system to be sound.
- 1.7.6. The pie chart below shows the levels of audit assurance achieved for the 2011/12 year. 83% of the systems audited achieved an assurance level of substantial or higher, of which two audits were full assurance (HF News and Out of Hours Service Market Testing). 17% received an assurance level of limited or lower.

### Assurance Levels for the year to 31 March 2012



1.7.7. The bar chart below shows the levels of assurance provided for all systems audited since the 2007/08 financial year. The distribution of assurance opinions has remained stable in comparison to the previous years, with an increase in Limited assurance reports being balanced out by a decrease in Nil assurance reports. Over a longer period the number of Nil and Limited assurance reports has remained stable despite better targeting of areas of high risk and control weakness. Given the significant changes that have already taken place and the ongoing major change programme, which would usually be expected to increase levels of control weakness, this is a positive result.

### Assurance Levels of Reports from 2007/08 to 2011/12



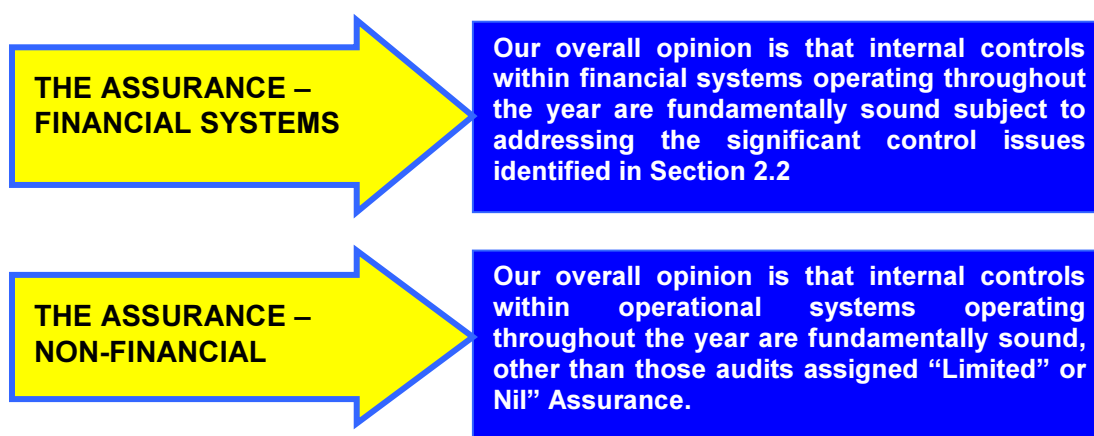
1.7.8. Recommendations to take corrective action were agreed with management and we will continue to undertake follow up work in 2012/13 to confirm that they have been implemented. The table below shows the percentage of recommendations past their implementation date reported as implemented for the last four years. Recommendations that have not been implemented that have passed their implementation deadline will continue to be reported to Departmental Management Teams and the Audit and Pensions Committee.

1.7.9.

Financial year	Recommendations Raised	Recommendations Implemented	% Implemented as at 31 March 2012
2011/12	208	175	84%
2010/11	248	236	95%
2009/10	471	460	98%
2008/09	576	576	100%

## 1.8. 2011/2012 Year Opinion

1.8.1. From the Internal Audit work undertaken in 2011/12, it is our opinion that we can provide reasonable assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham for the year ended 31 March 2012 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report. The assurance can be further broken down between financial and non-financial systems, as follows:



1.8.2. In reaching this opinion, the following factors were taken into particular consideration:

- The whole programme of internal audit work undertaken by Deloitte between the 1st April 2011 and the 31st March 2012. This included a review of the Council's Corporate Governance and Risk Management arrangements;
- Year end review of Internal Audit as part of the Annual Governance Statement (AGS) process in April 2012 provided a positive result;



- c) The outcome of audit work for which no assurance level was provided. A summary of work undertaken and key findings can be found in Appendix C; and
- d) Follow up of audits undertaken in the previous years. A summary of the outcome of these follow up visits can be found in Appendix D.

## **1.9. The System of Internal Financial Control**

1.9.1. The system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Council, in particular the system includes:

- Codes of practice and Financial Regulations;
- Standing Orders, Standing Financial Instructions and Schemes of Delegation;
- Comprehensive budgeting systems;
- Regular reviews of periodic and annual financial reports which indicates financial performance against the forecast;
- Setting targets to measure financial and other performance;
- The preparation of regular financial reports which indicate actual expenditure against the forecasts;
- Clearly defined capital expenditure guidelines; and
- Appropriate, formal project management discipline.

1.9.2. Our review of the effectiveness of systems of internal financial control is informed by:

- The work of internal audit as described in Appendices A, C and D; and
- The external auditors in their management letter and other reports.

1.9.3. From the above, we are satisfied that the Council has in place a sound system of internal financial controls, with the exception of those significant control weaknesses identified within this report. Based on the management responses provided to our recommendations, we are also satisfied that mechanisms are in place which would identify and address any material areas of weakness on a timely basis.

## **1.10. Corporate Governance**

1.10.1. In my opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This opinion is based on the work of Internal Audit as described in Appendix A, which provided a 'substantial' level of assurance as to the Corporate Governance systems in place.

## **1.11. Risk Management**

1.11.1. Two risk management audits were included within the 2011/12 audit plan:

- Risk Management – Departmental Review; and
- Children's Services Risk Register Control Verification.

1.11.2. Substantial assurance was provided for the Departmental Risk Management audit with no significant issues being identified. The audit work undertaken included visiting three departments: Residents Services (now known as Environment, Leisure and Residents Services), Community Services (now known as Adult Social Care) and Housing and Regeneration. Issues identified included:

- Training being developed but not being made available to staff; and
- The standard departmental risk register template not being used.

1.11.3. Through examination of eight divisional risk registers we found that the standard template was used consistently across divisions but a number of areas of non-compliance with the Corporate Risk Management Policy and Standard were identified.

1.11.4. An assurance opinion was not provided for the Children's Services Risk Register Control Verification audit. The main purpose of this work was to assess the adequacy of the stated existing controls to manage the risks and identification of additional proposed controls where appropriate and test the effectiveness of existing controls recorded against each risk. The results of our work have been fed back to the Children's Services department.

1.11.5. An exercise was also undertaken across all local authorities in the Croydon Framework with regards to implementing an assurance mapping framework and a programme of Control Risk Self Assessments (CRSAs). Meetings were facilitated by Deloitte's Knowledge and Risk Manager and attended by the Council's Internal Audit Manager.

1.11.6. In drawing together our opinion we have relied upon:

- Our assessment of risk management through individual audits;
- The role of the Risk Manager who has Council wide responsibilities for co-ordinating and implementing the risk management policies across the Council; and
- The work of Internal Audit as described in Appendices A, C and D.

1.12. We would like to take this opportunity to formally record our thanks for the co-operation and support we have received from the management and staff during the year, and we look forward to this continuing over the coming years.

## **HEAD OF INTERNAL AUDIT**

**May 2012**

## **2. Detailed Report**

### **2.1. Introduction**

2.1.1. This section outlines the following:

- Any significant control failures or risk issues that have arisen and been addressed through the work of Internal Audit;
- Any qualifications to the Head of Audit opinion on the Authority's system of internal control, with the reasons for each qualification;
- The identification of work undertaken by other assurance bodies upon which Internal Audit has placed an assurance to help formulate its opinion;
- The management processes adopted to deliver risk management and governance requirements; and
- A brief summary of the audit service performance against agreed performance measures.

### **2.2. Significant Control Weaknesses**

2.2.1. Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2011/12, the following significant issues were identified:

- Weaknesses were identified in the governance arrangements and system of controls over the MTFS Programme. Furthermore, the basis of a significant number of the savings examined could not be demonstrated. Although these weaknesses were identified, it should be noted that the proposed savings do appear to be on track to be delivered;
- The governance arrangements regarding application of the Equality Act continue to be poor with Limited Assurance being provided in both 2010/11 and 2011/12;
- Weaknesses were identified in systems managed in conjunction with the Council's IT Partners HFBP relating to IT Inventory Management, Management of Mobile Phones and use of Microsoft Access Databases;
- The Council has limited controls in place to detect or prevent theft of valuable metals from Council properties; and
- External Audit will not be requiring any further testing from Internal Audit for this financial year. Failures in certain key controls highlighted through our mid-year testing mean that no further testing was required. A number of control failures identified that were understood to have been resolved. Furthermore, Limited assurance opinions were provided for two of the Council's key financial systems (Accounts Payable and Accounts Receivable).

2.2.2. Other significant control weaknesses stated in the Council's Annual Governance statement include:

- **Reconciliation of financial systems** - The Council has progressed well in redeveloping financial systems and processes over the past few years through the journey to World Class Financial Management (which strengthens the resource dedicated to this area) and the adoption of International Financial Reporting Standards. Improvements made over recent years have been sustained and demonstrate greater co-ordination and centralisation. Whilst some issues remain they can be classified as operational and no longer significant.
- **Health and Safety** - Substantial progress has been achieved in the delivery of a reasonable Health & Safety environment. This has included enhanced training, support, resource and guidance provided by the Corporate Safety Team. Residual legacy risks, including a pending HSE prosecution, remain in relation to previously established control weakness and control of gas safety certification, however the improvements in this area are such to no longer consider this a significant matter. There is some evidence that health & safety action plans are not being implemented and that implementation is not effectively monitored. While proposals to improve the controls have been agreed and will be monitored by Hammersmith and Fulham Business Board, these arrangements are not fully established at this time.
- **Theft of materials** - Metal theft increases when worldwide prices for scrap metal rise. Metal items are stolen for their value as raw materials and are ultimately scrapped, or recycled to provide material for making new products. The recent instances of theft of metals in the White City Estate area affected 24 properties. The council is currently exploring the idea of using technology to mark valuable metals which would allow them to be identified as Council property. An Internal Audit report concludes that there is only a limited assurance in this area and that a number of control improvement recommendations need to be made.
- **Housing repairs and maintenance** - Following recent investigations undertaken by Internal Audit it has been established that there are some control weaknesses relating to the invoicing and charging of housing repairs and maintenance. This has resulted in the identification of a risk of overcharging. Work in this area is being conducted to measure the level of potential overcharging and the management procedures that need to be adopted to eliminate this risk.
- **Governance of MTFS savings** - Weaknesses were identified in the governance of Medium Term Financial Strategy Savings. Following fieldwork undertaken by Internal Audit a number of recommendations were made to improve the controls to the estimation of targets, change in savings targets protocol, background working papers and rationale process.

## **2.3. Key Issues**

2.3.1. There are a range of key issues that are likely to be of significance for the 2012/13 year and beyond, that Internal Audit need to be aware of. These include:

- Impact of the current economic climate on the Council's finances through reduced levels of income with some councils facing more than 16 per cent reductions in the amount of money they receive from Government. This is coupled with likely increases in demand for services;
- More transformation projects being undertaken to deliver MTFs savings. This brings challenges in implementing a series of interconnected transformation projects successfully without impacting on service delivery. There is likely to be increased Internal Audit involvement in transformation projects and new initiatives at an early stage, both to provide assurance and provide support for new systems being 'right first time';
- Continued cross borough working with Westminster Council and the Royal Borough of Kensington and Chelsea, whilst outsourcing of services may give rise to additional risks related to governance, delegation of powers, performance management and financial management of shared services;
- Following the announcement of its decision to abolish the Audit Commission in August 2010, the government consulted on its proposals for a new local public audit framework from 31 March to 30 June 2011. Those proposals were designed to deliver the government's objective for a new local public audit framework that places responsibility firmly in the hands of local bodies, giving them the freedom to appoint their own auditors, with appropriate safeguards for auditor independence, from an open and competitive market for local public audit services;
- Almost a third of councils have potential risks or weaknesses in their financial controls, according to a recent survey published by Grant Thornton. The accountants surveyed 24 English local authorities looking at four areas of financial management in light of the government's spending cuts. Each area was given a corresponding 'traffic light' rating. In the area of financial controls, 29% of the councils were rated 'amber'. This was often due to uncertainty over their approach to managing savings. Looking at the capability and capacity of the councils' finance department resources, Grant Thornton gave 22% the 'amber' rating; and
- On 15 November 2010 the Secretary of State announced the decision to immediately abolish FMSiS. From September 2011 The Schools Financial Value Standard (SFVS) was introduced. The SFVS replaces the Financial Management Standard in Schools (FMSiS) and has been designed in conjunction with schools to assist them in managing their finances and to give assurance that they have secure financial management in place. The Council must ensure that adequate monitoring and reporting procedures are in place.

## **2.4. Qualifications to the opinion**

2.4.1. Internal Audit has had unrestricted access to all areas and systems across the Authority and has received appropriate co-operation from officers and members.

## **2.5. Other Assurance Bodies**

2.5.1. In formulating their overall opinion on internal control, we took into account the work undertaken by the following organisation, and their resulting findings and conclusion:

- a) The annual letter from the Authority's external auditors.

## **2.6. Risk Management Process**

2.6.1. The principle features of the risk management process are described below:

### **2.6.2. Risk Management Policy**

The Authority has established a Risk Management Policy that sets out the Authority's attitude to risk and to the achievement of business objectives. The Policy:

- a) explains the Authority's underlying approach to risk management;
- b) documents the roles and responsibilities of the Authority and directorates;
- c) outlines key aspects of the risk management process; and
- d) identifies the main reporting procedures.

This Policy has been communicated to key employees and can be accessed on the Authority's intranet.

### **2.6.3. Risk Registers**

The Authority has departmental and divisional risk registers in place, as well as registers for specialist areas including IT, finance and fraud. Procedures are in place for risk registers to be reviewed at least on a bi-annual basis. We adopt a risk based auditing approach.

## **2.7. Audit Plan**

2.7.1. The Operational Plan for the 2011/12 year drew on corporate and departmental risk registers and other issues brought to the attention of Internal Audit. We agreed and discussed the audit plan with Directors, Assistant Directors and Heads of Service. We also consulted various other sources.

2.7.2. Our operational planning is designed to provide an even flow of work throughout the year, and to allow us to monitor progress. As a result, this information can be used as a key benchmark against which progress on individual assignments can be measured.

## **2.8. Internal Audit Assurance Levels**

2.8.1. Appendix A sets out the level of assurance achieved on each systems audit and the change in assurance opinion where the audit has been undertaken previously. This shows that no areas audited this year have shown deterioration in control since the last time they were audited. There is an ongoing programme of follow up work for all reports receiving a "Limited" or "Nil" audit assurance opinion to ensure that recommendations are implemented.

2.8.2. Of the 11 audits that received a limited audit assurance (five final and six draft reports) seven fell within the Finance and Corporate Services Department, two within the



Community Services Department and two within the Housing and Regeneration Department. In all cases, audit recommendations were agreed with management at the time of the audit along with an action plan to address the identified weaknesses. Follow up audits will be undertaken in each case to review the adequacy and effectiveness of the corrective action taken.

- 2.8.3. Three follow up visits were undertaken in 2011/12 to determine if recommendations raised within the 2011/12 audit visits have been implemented. A summary of our findings can be found in Appendix D.
- 2.8.4. We also undertook follow-ups on priority 1 recommendations raised in reports given 'Substantial' assurance and Management Letters where no assurance level was provided. Of the 45 priority 1 recommendations from Finance related reports, 25 were assessed as implemented, 11 as partly implemented, two as not implemented and seven were no longer applicable. The recommendations and results of our follow up work can be seen in appendix D.
- 2.8.5. In total, 62 recommendations have been followed up, of which 42 were either fully implemented or no longer relevant, representing 67% of all those tested. If partially implemented recommendations are added this totals 58 or 94% of all those tested. While this is a reasonable result, it also suggests that the follow up regime needs to continue at the current level.

## **2.9. Internal Audit Performance**

- 2.9.1. Appendix B sets out pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against targets. Overall performance of Internal Audit is broadly in line with 2010/11, with all targets being exceeded or narrowly missed. Focus will be given to maintaining or improving these performance standards in 2012/13.
- 2.9.2. The target of delivering 95% of the audit plan by 31 March 2012 was exceeded by three percentage points which represents the best year end position achieved since at least April 2004 when the service was contracted out. It should be noted that 88 audit days were deferred into the 2012/2013 audit plan compared to 104 in the previous year. Days carried forward are mainly due to changes or delays in the projects or initiatives being audited.

## **2.10. Compliance with CIPFA Code of Internal Audit Practice**

- 2.10.1. Internal Audit has comprehensive quality control and assurance processes in place and we can confirm that we comply with the CIPFA standards. Our assurance is drawn from:
  - a) The work of external audit;
  - b) Quality reviews carried out by both the Hammersmith and Fulham Internal Audit section and Deloitte; and
  - c) Annual review of Internal Audit introduced as part of CIPFA guidance on the Annual Governance Statement. This reports that the Internal Audit service is fully compliant with the CIPFA standards on Internal Audit.

## **2.11. Working with External Audit**

- 2.11.1. The Audit Commission was consulted regarding the audit plan for the 2011/2012 year, and a number of audits in the internal audit plan were identified by them as being key to the external audit programme of work.
- 2.11.2. In 2009/10 and 2010/11, failures in key financial controls were highlighted through our mid-year testing.
- 2.11.3. In order to avoid this situation again in 2011/12 Internal Audit prepared a schedule of all key controls that would be tested and guidance on what evidence would be required to demonstrate that the control was operating effectively.
- 2.11.4. Despite an increased level of internal audit support, 12 out of the 29 controls tested were not operating effectively. As a result of the failure of these controls, the Council was unable to secure a saving in the Audit Commission fee as they were unable to rely on the controls tested.
- 2.11.5. Internal Audit will continue to work with departments with the aim of improving the effectiveness of these controls in the 2012/13 financial year.

## **2.12. Internal Audit Provision Going Forward**

2.12.1. The following aspects will impact on the future delivery of the Internal Audit service:

- With the reduction in size of the contract with Deloitte since 31 March 2011, there is a need to maximise the assurance provided and seek opportunities to add value. This may involve sharing assurance with partners, placing more reliance on other sources of assurance and an increase in the reliance on self assessment;
- Joint working with Westminster and RBKC has led to arrangements for internal audit plans and assurances to be shared across the three boroughs. There is potential for this to increase the level of assurance received by the Council as well as better coordinating audit coverage across shared services. The challenge for Internal Audit will be to minimise disruption to services where audits are being undertaken;
- More transformation projects are being undertaken to deliver MTFS savings. This brings challenges in implementing a series of interconnected transformation projects successfully without impacting on service delivery. There is likely to be increased Internal Audit involvement in transformation projects and new initiatives at an early stage both to provide assurance and provide support for new systems being 'right first time'; and
- New external audit providers are now established from October 2012, with KPMG being awarded the contract by the Audit Commission.



## APPENDIX A - Assurance Levels 01/04/2011 – 31/03/2012

The table below provides a summary of the assurances assigned to each of our audits. Where the direction of travel column is blank, no similar audit has previously been conducted.

		Audit Opinion				
Department	Audit	Nil	Limited	Substantial	Full	Issued
<b>FINALISED</b>						
Finance & Corporate Services	Core Financials - Payroll			↔		09/01/2012
Finance & Corporate Services	CEDAR Pre implementation					31/08/2011
Finance & Corporate Services	Source Code					04/01/2012
Finance & Corporate Services	HFBP Inventory Management					13/03/2012
Finance & Corporate Services	eServices Project					27/02/2012
Finance & Corporate Services	Election Expenses			↔		28/11/2011
Finance & Corporate Services	Application of the Equality Act		↔			30/03/2012
IT	Lynx					07/02/2012
IT	Business Continuity Planning			→		06/03/2012
IT	Remote Working					23/01/2012
Project	Smartworking Project Management					12/01/2012
Projects	Safeguarding Project Management (part 2)					09/05/2012
Contracts	Market Testing - HF News					31/08/2011
Contracts	Market Testing – Out of Hours Service					06/10/2011
Contracts	Supported Housing contracts review and renegotiation					30/11/2011
Project	Project Management Framework (Adequacy Review)					16/01/2012
Children's Services	Bayonne Nursery School			↔		01/07/2011

		Audit Opinion				
Department	Audit	Nil	Limited	Substantial	Full	Issued
Children's Services	James Lee Nursery School			↔		11/05/2011
Children's Services	Vanessa Nursery School			↔		01/07/2011
Children's Services	Randolph Beresford Early Years Centre			↔		09/01/2012
Children's Services	Addison Primary School			↔		07/06/2011
Children's Services	Bentworth Primary School			↔		09/01/2012
Children's Services	Canberra Primary School			↔		09/01/2012
Children's Services	Flora Gardens Primary School			↔		20/06/2011
Children's Services	The Good Shepherd Catholic Primary School			↔		01/07/2011
Children's Services	Langford Primary School			↔		18/07/2011
Children's Services	Melcombe Primary School			↔		09/01/2012
Children's Services	Normand Croft Community School for Early Years & Primary Education			↔		14/11/2011
Children's Services	Queens Manor Primary School			↔		07/06/2011
Children's Services	St Augustine's Catholic Primary School			↔		01/07/2011
Children's Services	St John's CE Walham Green Primary School			↔		14/11/2011
Children's Services	St Peter's Primary School			↔		14/11/2011
Children's Services	Sullivan Primary School			↔		14/11/2011
Children's Services	Jack Tizard School			↔		18/07/2011
Children's Services	Holy Cross			↔		14/11/2011
Community Services	Reablement					30/11/2011
Community Services	Client Affairs Property Protection					30/11/2011
Community Services	Client Affairs Funerals					30/11/2011
Community Services	Client Affairs Appointeeships and Deputeeships			→		30/11/2011
Community Services	Direct Payments - Use of Funds		←			24/11/2011
Environment Services	iCasework					13/03/2012
Environment Services	SMART FM Professional Services					19/01/2012
Environment Services	Licensing Income					21/07/2011
Housing and Regeneration	Housing Options (Home Buy)			↔		20/01/2012

		Audit Opinion				
Department	Audit	Nil	Limited	Substantial	Full	Issued
Housing and Regeneration	Corporate Gas Safety regime					12/01/2012
Housing and Regeneration	NKA					06/03/2012
Residents Services	Emergency Planning					23/09/2011
<b>DRAFT</b>						
Finance & Corporate Services	Core Financials - Accounts Receivable		←			16/01/2012
Finance & Corporate Services	Core Financials - Creditors		←			22/12/2011
Finance & Corporate Services	Corporate & Partnership Governance			↔		23/03/2012
Finance & Corporate Services	Mobile Phones					26/01/2012
IT	IT Governance – Prevention and Malicious Attacks					05/04/2012
IT	ITIL					30/06/2011
IT	Cedar Application Audit					04/04/2011
Contracts	Vertical Audit: Linford Christie Stadium power and lighting					09/03/2012
Contracts	Vertical Audit: Miles Coverdale kitchen					09/03/2012
Contracts	Vertical Audit: Melcombe Primary School – Playground Security					09/03/2012
Cross-departmental work	MTFS Programme Management					09/03/2012
Cross-departmental work	Risk Management – Departmental Review			↔		05/04/2012
Children's Services	Fulham Cross Girls School			↔		09/03/2012
Children's Services	Henry Compton School			↔		09/03/2012
Children's Services	Early Years					27/02/2012
Environment Services	Water Hygiene Contract Management					23/03/2012
Housing and Regeneration	HAFFTRA					21/11/2011
Housing and Regeneration	Theft of Metals					23/03/2012
Residents Services	Out of Hours Contact Centre					12/03/2012
<b>NOT YET ISSUED</b>						

		Audit Opinion				
Department	Audit	Nil	Limited	Substantial	Full	Issued
IT	Council Website					-
Children's Services	Wormholt Primary School					-
<b>Total</b>		0	11	53	2	

<b>Total Reports (including those not yet issued)</b>	68
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\* Substantial Assurance opinion provided on adequacy of controls; however due to the number of outstanding CRB checks, limited assurance has been provided on the effectiveness of controls.

## Assurance Levels

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

<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
<b>Substantial Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	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.

## Direction of travel

→	Improved since the last audit visit. Position of the arrow indicates previous status.
←	Deteriorated since the last audit visit. Position of the arrow indicates previous status.
↔	Unchanged since the last audit report.
<b>No arrow</b>	Not previously visited by Internal Audit.

## APPENDIX B - Internal Audit Performance – 201/12

At the start of the contract, a number of performance indicators were formulated to monitor the delivery of the Internal Audit service to the Authority. The table below shows the actual and targets for each indicator for the period.

Performance Indicators		Annual Target	Performance	Variance
1	% of draft reports issued within 10 working days of exit meeting or end of fieldwork (whichever is later).	95	92	-3
2	% of final reports issued within 5 working days after agreement of management responses (this does not include reports which do not require director approval, e.g. FMSiS reports or follow up or other special deliverables).	100	98	-2
3	% of plan complete based on deliverables (draft reports, FMSiS and Mgmt letters). This does include FMSiS Reports.	95	98	+3
4	% of plan complete based on days delivered.	95	96	+1
5	% of audit briefs issued 10 days before start of audit (Accounting for Exceptions)	95	95	0
6	% of audit follow ups completed	100	100	0

## APPENDIX C: Internal Audit work for which an assurance opinion was not provided

The table below provides a summary of the scope and key findings of audit work for which no overall assurance level was provided.

Department	Audit	Issued
<b>Final</b>		
Corporate	Preliminary Test of Key Controls	30/09/2011
Finance and Corporate Services	Core Financials Self Assessments	31/10/2011
Corporate	Information Sharing - Partnerships	05/04/2011
Finance and Corporate Services	Data Handling – Benchmarking of IT Security Policies	25/08/2011
Finance and Corporate Services	Microsoft Access Databases	30/03/2012
Corporate	Assurance Mapping and CRSAs	20/02/2012
Finance and Corporate Services	Register of Gifts and Hospitality Benchmarking	11/11/2011
Finance and Corporate Services	Data Quality	02/06/2011
Finance and Corporate Services	MTFS Savings (2 parts)	20/10/2011 and 30/03/2012
Finance and Corporate Services	WCFM Balance Sheet Monitoring	15/08/2011
Finance and Corporate Services	Register of Officers Interests	18/07/2011
Finance and Corporate Services	Refund Processing	19/01/2012
Contracts	2011/12 Vertical Audits - Summary Report	12/03/2012
Contracts	Market Testing Summary Report	30/08/2011
Contracts	2010/11 Vertical Audits - Summary Report	23/03/2012
Children's Services	Children's Services Risk Management and Assurance	20/12/2012
Children's Services	Play Grant Finance Return	30/09/2012
Children's Services	CPTU Transport - Move to Self Service	29/07/2011
Children's Services	Early Years Compliance With Statutory Duties	11/05/2012
Children's Services	School Funding Criteria	02/09/2011
Community Services	Preventions	03/06/2011
Housing and Regeneration	Tenancy Verification	22/12/2011
Residents Services	Introduction of lean thinking (Trade Waste and Street Trading)	03/06/2012
Corporate	Follow up of Priority One Recommendations (3 parts)	29/07/2011, 19/12/2011 and 23/03/2011

## APPENDIX D - Follow up Audits

Follow visits were undertaken on the following audits that received a 'Limited' or 'Nil' assurance opinion in their 2008/09 or 2009/10 audit visit. The number of recommendations found to be implemented was as follows:

Department	Audit	Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
Environment Services	Parking Pay and Display	8	7	1	0	0
Housing and Regeneration	iWorld Repairs Module	7	2	3	2	0
Finance and Corporate Services	CRB Checks	2		1		1
Total		17	9	5	2	1
%			53%	29%	12%	6%

In addition to the follow up visits undertaken 45 priority 1 recommendations raised in substantial assurance reports and management letters where no assurance opinion was provided were followed up to confirm implementation. The results were as follows:

Priority 1 Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
45	25	11	2	7
%	56%	24%	4%	16%



<p><b>Statement of Responsibility</b></p>	<p>We take responsibility for this report which is prepared on the basis of the limitations set out below.</p> <p>The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.</p> <p><b>Deloitte &amp; Touche Public Sector Internal Audit Limited</b></p> <p><b>London</b></p> <p><b>May 2012</b></p> <p>In this document references to Deloitte are references to Deloitte &amp; Touche Public Sector Internal Audit Limited.</p> <p>Registered office: Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom. Registered in England and Wales No 4585162.</p> <p>Deloitte &amp; Touche Public Sector Internal Audit Limited is a subsidiary of Deloitte LLP, the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see <a href="http://www.deloitte.co.uk/about">www.deloitte.co.uk/about</a> for a detailed description of the legal structure of DTTL and its member firms.</p> <p>Member of Deloitte Touche Tohmatsu Limited</p>
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## AUDIT, PENSIONS AND STANDARDS COMMITTEE

28<sup>th</sup> June 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.**
- 2. Members are asked to note the inclusion of risk management in the TriBorough Corporate Services Programme.**

### 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. TRI-BOROUGH RISK MANAGEMENT DELIVERY**

**3.1.** H&F Risk Management has been included as a service, along with Internal Audit and Counter Fraud, in the Corporate Services Programme. It is expected that a target operating model will be developed following a review of risk management arrangements in each of the three boroughs.

**3.2.** TriBorough risks are an expression of our local Interconnectivity with the Royal Borough of Kensington and Chelsea and Westminster City Council and now form part of the H&F risk set. Increasingly risks that belong to Services that operate in a Tri or Bi borough environment that are shared or described as common are being considered and included in H&F risk & assurance registers. Specific work will be assigned, following the outcome of the Corporate Services review, to establish common risk registers and processes

## **4. H&F RISK MANAGEMENT- STRATEGIC RISKS UPDATE**

**4.1.** The Corporate Risk and Assurance Register has been reviewed by Hammersmith & Fulham Business Board and is an indicator of 'Corporate Preparedness'. The full version accompanies this paper for Members information at **Appendix 1**.

**4.2.** It is important to note that the extraordinary and unprecedented global economic changes and the impact associated with them nationally and locally, together with Tri Borough service re-modelling, have resulted in a period of significant change to the risk profile. These changes continue to be monitored as part of the usual risk management practice.

**4.3.** Risks have been reviewed in line with British Standard 31100 and have been compared and contrasted to the World Economic Forum (WEF) Global risks report 2012. Evidence and material for the report was drawn from interviews with a group of leading risk managers from some of Europe's biggest companies. The Global top risks identified, along with the views expressed, were;

- Economic-recurring liquidity crisis.
  - Key point – Changes to political administrations creating more uncertainty
- Geopolitical – terrorism
  - Key point – risks resulting from geographical tension is a big issue for multinationals
  - Key point – Geopolitical threats are affecting more organisations as they look to new markets
  - Key point – Business is taking risk from corruption more seriously
- Environmental – Unprecedented geophysical destruction (The Japan Earthquake and Tsunami demonstrated that economies are increasingly interconnected and impacted on the Private Sectors 'just in time' supply deliveries.
  - Key point – Last year was the costliest on record for natural catastrophes at around \$380bn £290bn
  - Key point – Insurers may no longer provide the same cover or limit it
  - Key point – Environmental regulations in Europe making business unprofitable
- Societal – Population ageing. ( Europe faces an increasing financial burden as the cost of healthcare and pensions for the elderly rises)
  - Key point – Societal risk being seen as inevitable
  - Key point – Water shortages could make water as valuable as oil
  - Key point – Pandemics have been the subject of false alarms in the past but still need to be prepared for.
- Technological – Cyber attacks ( Malicious hacks to bring down networks or steal private information, hactivists)
  - Key point – The effect of cyber crime may not be known immediately
  - Key point – Social networking has created a raft of new platforms for crusader consumers

**4.4.** The WEF remark that global interconnectivity is placing an increasing strain on well established control systems. Uncertainty heightens business risk and threatens business goals. The H&F Corporate risk set are not removed from some of the impacts of the risks identified by the World Economic Forum and has prudently had in place, for some time, a sound Governance structure that highlights its 'Corporate Preparedness' in meeting some of the future risks.

## **5. DEPARTMENTAL RISK MANAGEMENT**

**5.1.** All departments, including those Tri or Bi Borough Services hosted by H&F, have been involved in a refresh of the Financials risk and assurance register. This document, now approved by the H&F Financial Strategy Board, has been compiled following a risk identification workshop facilitated by the Principal Consultant (Risk Management). Key risks identified on the register will be monitored on a quarterly basis by the Board.

**5.2.** The Housing and Regeneration Department have completed a review of their Divisional (Service) risks. It is now proposed that they adopt a quarterly review, by exception, of those risks by their Department Management Team. The Bi Borough (H&F and RBKC) Environment, Leisure and Resident Services Department have also proposed to adopt a periodic quarterly review of the Corporate Risk Register by their Management Team. This supplements the already existing risk management processes existing within the department. Bi Borough (H&F and RBKC) Transport and Technical Services, and Finance and Corporate Services have agreed two key Risk Management review points in their departmental forward plan.

## **6. TRAINING AND THE DEVELOPMENT OF KEY RISK INDICATORS**

**6.1.** Training on the Annual Governance Statement process and risk management, for the purpose of raising awareness, will be delivered through e-learning in 2012 2013. Draft documentation has already been prepared in readiness for its development and this will be progressed with the assistance of the Organisational Development and Transformation Division.

**6.2.** A set of Key Risk Indicators (KRI's) has been established for H&F council. These cover a basic range of operational risk management activities and are based on a set of already known risk areas. They are currently being tested and will profile and produce trends analysis that will track the level of risk the organisation is exposed to and the residual risk the council is accepting. It is intended that the council's performance management system, Corvu will be used to manage the dataset. In addition to the suite of key risk indicators work has been undertaken to ascertain low high impact events likelihood and (HILL's). These are events that are historically managed through contingency or emergency planning, insurance and health and safety. An initial list of risk events has been compiled through the Emergency Planning and Business Continuity team

and Key Risk data is being tested to record significant Health & Safety issues.

## **7. CORPORATE RISK AND ASSURANCE REGISTER**

**7.1.** Risk and Assurance Registers are an expression of Departmental Governance arrangements. These have been used in support of the councils 2011 2012 Annual Governance Statement. Any issues identified in the supporting management assurance statements made by Executive Directors or Directors have been incorporated into the Corporate Risk Register.

### **7.2. Revision highlights include;**

**7.3. Corporate risk number 1. - Business Continuity - Medium risk – Stable**

**7.3.1.** In respect of Members of the Audit & Pension Committee enquiry at the 15<sup>th</sup> March 2012 a meeting was held with the BiBorough Business Continuity Officer and Emergency Planning Officer who have reviewed and refreshed the Business Continuity risk register. The risk register and briefing is attached as **Appendix 2** for consideration.

**7.4. Corporate risk number 2. – Managing Projects – Low risk – Stable**

**7.4.1.** The Hammersmith & Fulham Business Board receive periodic consolidated statistics on four Portfolios. The April highlight reports indicated a number of key risks that include, but are not limited to;

#### **7.4.2. Customer Access & Service Delivery**

Key risk – E-services (If customers are not made aware of the new services available through My Account and how to use them, usage of eService solutions will be limited.)

#### **7.4.3. Transforming the way we do business**

Key risk – World Class Financial Management - there is a risk that the people change element of this programme is not receiving sufficient attention.

Key risk - SmartWorking - there is a risk that the HRD SmartWorking Project will suffer from engagement issues impacting on timescales and effectiveness of the programme. This is based on the fact that the initial data gathering stage is currently taking longer than expected.

#### 7.4.4. Market management

Key risk – MTFS targets and change initiatives in departments at risk of competing against MM initiatives, ie. revenue development and contract renegotiation initiatives

Key risk – School resources social enterprise go-live has been revised to Sept 2012. There is a risk that competitive dialogue may end up delaying the start date even further, and therefore impacting MTFS savings. This risk may be higher if the current project manager is not replaced promptly.

Key risk – Tri-borough procurement is not coordinated across boroughs and takes place outside of H&F procurement arrangements, eg Managed Services Programme, potentially impacting on best advantage for H&F and effectiveness of value-adding assurance role of Competition Board.

Key risk – Tri-borough procurement is not coordinated across boroughs and takes place outside of H&F procurement arrangements, eg Managed Services Programme, potentially impacting on best advantage for H&F and effectiveness of value-adding assurance role of Competition Board.

Key risk - Lack of commercial skills in the organisation to consider and develop new models of service delivery (e.g. social enterprise etc), and develop income generation plans for services.

#### 7.4.5. Tri-borough Programme risks

7.4.5.1. Programme risk management is the responsibility of the RBKC programme management office (PMO). Information collated as part of the function of the PMO on risk is shared through Sharepoint with the H&F risk management consultant. Data drawn from the PMO highlight reports are considered as the H&F Corporate Risk & Assurance register is updated. As the activity of the PMO in delivery of TriBorough Objectives diminishes risks will migrate to form part of the business as usual function.

Key risk - If changes to the NHS hamper the design of new partnerships with Adult Social Care and Children's Services then integrated services may be delayed or not delivered and benefits may not be delivered. Regular meetings continue with

Clinical Commissioning Groups and NHS London, Inner North West London (INWL) and other community health providers to discuss, agree and progress changes.

## **7.5. TRIBOROUGH RISK REGISTERS**

**7.5.1.** A review of the composition and structure of departmental risk registers in order to compare and contrast how they can be aligned has been initiated by the Principal Consultant, Risk Management. TriBorough and BiBorough departments could and should retain ownership of sovereign risks however these may be a shared responsibility for their management and going forward may start to rely on common controls. It is possible to combine existing sets of risk & assurance registers across Tri and Bi Borough services, eliminating potential duplication or triplication of administration. A benefit of this exercise would be the use of risk and assurance registers from a common source to inform future internal audit plans.

**7.5.2.** Each key risk is accompanied with a proposed mitigation and updates the position on the Organisational Development and Transformation Division resource requirements, benefits realisation and plans to provide increased Programme Assurance continue to be reported.

**7.6. Opportunity** risk number 2. – Tri Borough, Merging of Education services with Westminster and the Royal Borough of Kensington & Chelsea.– Low risk of negative benefit realisation– Stable

Key Risk update – Inclusion of the CHS Employee Led Mutual (Social Enterprise) on the Corporate risk register

**8.** Detailed information on controls and assurances are 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.

## **9. H&F Programme and projects**

**9.1.** The Transformation Office has refreshed their project and programme governance reporting arrangements. This has been approved by the Hammersmith & Fulham Business Board. Departments will in future track



and report on progress of individual projects. Aspects of which will be discussed at their respective Department Management Teams.

Key Risk update – The number, scale and complexity of H&F initiatives are increasing possibly resulting in potential overload, competing priorities, lack of clarity on priorities.

## **10. Operational highlights**

**10.1.** The direction of travel for H&F departmental health and safety performance continues to be one of improvement and the commitment of management and Safety Champions remains high during a period of significant transition. The revised corporate safety policy, updated to account for recent organisational changes, is now signed and on the intranet. 'Statements of Intent' that link to sovereign policies as part of the Tri- borough operational arrangements for Children Services, Adult Social Care, and the Bi-borough Environment family are now drawn up with Children's Services expected to hold the first Tri-borough Safety Committee.

**10.2.** Hammersmith and Fulham Business Board approved the councils Anti- Bribery policy. Following its approval the councils Competition Board and Procurement Team were advised of the implications of the policy. A Risk Register has been developed and a reminder has been communicated to all staff via the intranet of the need to record details of gifts and hospitality in line with council procedures. The Human Resources Division and Procurement and Strategy Divisions have reviewed and refreshed guidance to Officers that incorporate requirements under the Act.

## **11. Market Testing**

**11.1.** 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. No significant issues were reported. Competition Board has asked the councils Contracts Register Group to continue 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.

Key Risk update – Competition Board were updated in the last quarter on the requirements of the Bribery Act and the potential

for Fraud or collusion in contracts. Risks associated with procurement are subject to an annual scheduled refresh conducted in June the results of the refresh will be presented to the council Competition Board.

**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

H&F CORPORATE RISK & ASSURANCE REGISTER Key Risks (refer to note 1)

APPENDIX 1

No.	Corporate Priorities	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
1.	Delivering high quality, value for money public services	<p><b>Business Resilience –</b></p> <p><b>Sub-risk IT resilience</b></p> <ul style="list-style-type: none"> <li>Systems not joined up and connected in the event of a H &amp; F or Tri-Bi Borough event</li> <li>Strategic Information technology framework not implemented effectively</li> <li>Lack of top tier response plans</li> <li>ISP version update to the infrastructure of the internet will have to move over to a new system, IPv6 previous versions not being compatible</li> <li>Electronic information storage capacity</li> <li>Mobile Communications technology provider service failure</li> </ul>	<p><b>If an event occurs</b></p> <ul style="list-style-type: none"> <li>Customers face delays in service provision</li> <li>Non compliance with statutory duties - indirectly</li> <li>Threat to life - indirectly</li> </ul> <p><b>Time to recover power and IT Services could be between 6 &amp; 8 weeks</b></p> <ul style="list-style-type: none"> <li>Loss of information</li> <li>Loss of productivity</li> <li>Increased cost of resurrecting services ( only partially insurable)</li> <li>Wasted resources &amp; staff duplication in recovery phase</li> <li>Cost of additional data storage capacity</li> </ul>	<ul style="list-style-type: none"> <li>Joint BCP Officer with the Royal Borough commenced 2012</li> <li>Corporate Incident Management Procedures incorporate Business Continuity</li> <li>Training has been delivered to local service plan leaders</li> <li>A corporate service resilience group has been formed and meet periodically</li> <li>Directors of Resources have been appointed as Departmental contact leads</li> <li>Local Service Plans have been compiled, reviewed and refreshed and quality checked by Emergency Services</li> <li>H &amp; F Bridge Partnership have submitted a Local Service Recovery, a major incident process has been established by HFBP as part of Data recovery is insured under the councils corporate insurance package ( but limited )</li> <li>the Service Desk Manual</li> <li>A threat assessment has been compiled</li> <li>Some ITC service has been moved to East London</li> <li>The Business Continuity (BC) project now involves provision of IT BC for approximately 30 First Order applications as identified by H&amp;F. The data is replicated from the primary data centre at East London to the secondary site at HTH. Additionally, there is local network switch resilience within HTH; resilience for the infrastructure elements such as profiles, home folders and printing; plus annual tests of parts of the BC solution.</li> </ul>	<p>HFBB</p> <p>Audit and Pension Committee</p> <p>Service Resilience Group</p> <p>ELRS DMT</p> <p>Substantial Assurance report 2011/12</p> <p>Emergency Planning</p> <p>Substantial Assurance Business Continuity Audit report 2011 2012</p> <p>Data storage &amp; back up audit Audit report 2009/10 ( Substantial assurance )</p>	3	4	12	Medium	<p>Lyn Carpenter ( Corporate Business Continuity )</p> <p>ELRS Bi Borough with the Royal Borough of Kensington and Chelsea</p> <p>Jane West ( Insurance &amp; H F Bridge Partnership contract monitoring )</p> <p>Jackie Hudson Tri Borough Information and Communication s Technology Lead Advisor</p>	<p>Review</p> <p>May 2012</p>

No.	Corporate Priorities	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
		<p><b>Contractor Liquidity</b></p> <p><b>2012 Olympics delivery risks to H &amp; F</b></p> <p><b>Terrorist attack/Civil disturbance</b></p>	<ul style="list-style-type: none"> <li>Delays/ interruption to the service as a replacement is found</li> <li>Cost and time of re-procuring the service</li> <li>Delays/ interruption to public transport system due to investment programmes in infrastructure</li> <li>Skills and resource shortage leading to commencement of the games</li> <li>Potential threat of a terrorist attack</li> <li>Service interruption</li> <li>Property loss or damage</li> <li>Injury or harm</li> </ul>	<ul style="list-style-type: none"> <li>Creditsafe Financial checks</li> <li>Corporate Finance credit checking</li> <li>Contractor Business Continuity Planning</li> <li>LBHF Olympic coordination team between the 25th July and the 14th September. The team, which will be operating an Olympic Control Room at the Town Hall, the hub for all LBHF Olympic issues, will be responsible for coordinating any Olympic related incidents and compiling regular situation reports.</li> <li>LBHF Olympic Operations and Resilience Group</li> <li>Borough Emergency Control centre</li> <li>Terrorism insurance cover</li> <li>Tri Borough councils are working together to prevent terrorism offering free interactive workshops to raise awareness of the Prevent Strategy</li> <li>Prevent aims to stop people from becoming terrorists or supporting terrorism by focusing on supporting and protecting those who might be vulnerable to radicalisation. The two and a half hour workshops are targeted at front line staff working primarily in Adult Social Care, Children's Services, Housing and Community Safety and will help them to use their expertise and professional judgement to recognise individuals who may need support and knowing where to refer their concerns to.</li> </ul> <p><b>NOTE</b> Please refer to BCP Risk Assessment for highlighted risks and controls</p>	<p>Competition Board</p> <p>Cabinet Office COBR</p>						



No.	Corporate Priorities	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
2.	Delivering high quality, value for money public services	<p><b>Managing projects</b></p> <p>Sub-risks</p> <ul style="list-style-type: none"> <li>Projects do not consider enough time to mobilise in the event services are awarded to the private sector</li> <li>Project implementation is delayed due to protracted discussions regarding pensions transfers</li> <li>The risk of challenge to contract awards may increase during the harsher economic climate</li> <li>Large scale high risk high return projects are not led by a qualified or experienced project manager.</li> <li>Too many projects are undertaken with unrealistic or unachievable targets</li> <li>Successful delivery of the World Class Financial Management Programme</li> <li>Housing Regeneration, Borough Investment Plan.</li> </ul>	<ul style="list-style-type: none"> <li>Customers needs and expectations are not fully met when projects are delivered</li> <li>Benefits of investment in creating toolkit not realised</li> <li>Threat of overspend on projects</li> <li>Benefits are not fully realised</li> <li>Delays in mobilisation of services through revised contracts</li> </ul>	<ul style="list-style-type: none"> <li>Transforming Procurement Programme with Agilysis undertakes to improve the knowledge base and skills throughout H&amp;F</li> <li>Programme and Project management is now supported by a recommended decision-making and governance process. This process sets out requirements for gate reviews with standard programme documentation. This approach has now been agreed by HFBB – April, 2012. To support this, presentation to DMTs as well as training of programme managers and projects managers is being progressed through the context of the Transformational portfolios. A centralised project register is also contributing this to goal by giving visibility of projects that are in department.</li> <li>Further training and capability is being advanced with the RBKC Programme management office.</li> <li>The Royal Borough PMO for TriBorough activity</li> <li>Project Management toolkit</li> <li>Transformation Office in Finance &amp; Corporate Services Department acts as a repository for project information and reports to HFBB but does not ensure compliance with any toolkit</li> <li>Senior Managers have all been briefed about the Project Toolkit</li> <li>Toolkit is available on desktop PC's</li> <li>Monthly transformation reporting to HFBB (dashboard)</li> <li>Competition Board monitor aspects of project management compliance</li> </ul> <p>Procedures for TUPE transfer have</p>	<p>The Royal Borough of Kensington &amp; Chelsea Internal Audit</p> <p>Corporate Programme &amp; project management audited in 2009 draft report issued ( Limited Assurance )</p> <p>Competition Board</p> <p>Transformation Board</p> <p>Internal Audit review of specific contracts under 2010/11 Audit Plan and of Use of Consultants ( Nil Assurance )</p> <p>HFBB, Pension and Audit Committee</p>	3	3	9	Low	<p>Jane West lead – All Executive Directors</p> <p>Tony Redpath (RBKC Tri &amp; Bi Borough)</p> <p>Marie Snelling (Tri Borough Portfolios)</p>	<p>Review</p> <p>May 2011</p>



No.	Corporate Priorities	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
				been included in project management instructions							


No.	Corporate Priorities	Risk	Consequence	Identified Control	Assurance	Likelihood (L)	Impact (I)	Exposure = L x I	Risk Rating	Responsible Officer – Group	Review
3.	Delivering high quality, value for money public services, Providing a top quality education for all, Tackling crime & anti-social behaviour, A cleaner greener borough, Promoting home ownership.	<p><b>Managing statutory duty</b></p> <p><b>Sub-risks</b>  <b>Non-compliance with laws and regulations</b></p> <p><b>Breach of duty of care</b></p>	<ul style="list-style-type: none"> <li>• Non compliance may result in prosecution or a Corporate Manslaughter charge</li> <li>• Financial compensation may be claimed</li> <li>• Injury or death to a member of the public or employee</li> <li>• A breach of information security protocols may result in fines, harm to reputation and personal liability of Directors</li> <li>• Inadequate level of service</li> <li>• Poor satisfaction with statutory services</li> <li>• Potential claims involving failures in Social Care ( Stamford House )</li> </ul>	<ul style="list-style-type: none"> <li>• Nigel Pallace appointed lead Sponsor on HFBB for Health &amp; Safety</li> <li>• Pro-active Health, Safety and Welfare culture across the council</li> <li>• TriBorough Health &amp; Safety protocols are being discussed and established</li> <li>• Contractors are managed within CHAS regime</li> <li>• Insurance cover is in place in the event of a claim for breach of duty of care and in respect of financial claims</li> <li>• Legislative changes are adopted and reflected in amendment to the council’s constitution, budget allocation through MTFs ( Now unified business &amp; financial planning process )</li> <li>• Training and guidance packages and newly agreed performance management indicators</li> <li>• Periodic reporting to HFBB</li> <li>• Health &amp; Safety campaign on slips, trips and falls</li> <li>• Health &amp; Safety guidelines have been reviewed, refreshed and communicated</li> <li>• Promotion of the Occupational Health Service and Workplace Options Employee Assistance Scheme</li> <li>• Housing and Regeneration have rolled out personal safety training to over 130 staff through the Suzy Lamplugh Trust Training</li> </ul>	<p>Health &amp; Safety Internal Audit undertaken in 2009/10 demonstrated improvements and substantial assurance</p> <p>Annual Assurance process</p> <p>Assurance required that actions are being taken to ensure compliance with the law and regulations</p> <p>HFBB, Audit and Pension Committee</p> <p>Education Committee</p> <p>Safety Committee</p>	3	4	12	Medium	Derek Myers	Review May 2012
		<p><b>Departmental assurances</b></p>	<ul style="list-style-type: none"> <li>• The Executive, Hammersmith &amp; Fulham Business Board, Executive Directors and Management Teams may not have been appraised of significant controls weaknesses that appear in the service area.</li> </ul>	<ul style="list-style-type: none"> <li>• FSB reviewed and approved a process to harmonise the Management Assurance process at Director and Divisional level with that of RBKC.</li> </ul>	<p>FSB, Executive Director of Finance and Corporate Governance, Chief Executive and Leader of the Council</p>						
		<p><b>Corporate Parenting</b></p>	<ul style="list-style-type: none"> <li>• Harm to reputation, potential harm or injury to individual</li> </ul>	<ul style="list-style-type: none"> <li>• All child protection cases have remained allocated to a social worker despite of the high</li> </ul>	<ul style="list-style-type: none"> <li>• Local</li> </ul>						









5.	Delivering value for money	<p><b>Managing budgets</b></p> <p><b>Sub-risks</b></p> <ul style="list-style-type: none"> <li>• Austere financial settlement from government is not favourable. The council is seen as a floor authority.</li> <li>• Impact of a double dip recession and cascade effect on social budgets * link to revenue forecast</li> <li>• Demand led services may occur mid year resulting in unanticipated additional costs</li> <li>• HMRC VAT claims regarding partnering activities</li> <li>• Grant application is incorrectly calculated</li> <li>• Unplanned growth</li> <li>• Failure to achieve VFM</li> <li>• Accruals &amp; reconciliations</li> <li>• Planned savings not implemented</li> <li>• Creditworthiness of some contractors may be downgraded as a result of the economic downturn</li> <li>• Increase in social welfare services as a result of the economic downturn may impact on projected spend.</li> <li>• Insufficient budgetary provision and/or budgetary under/overspend *</li> <li>• Incomplete/inaccurate accounting records linked to the World Class Financial Management Programme</li> </ul>	<ul style="list-style-type: none"> <li>• Pressure on the authority to manage overspends</li> <li>• Departments have to manage cost pressures</li> <li>• Pressure to meet target savings and Administrations commitment to cut Council Tax</li> <li>• HMRC recovery of VAT from the council affecting cash flow</li> <li>• Repayment of Grants</li> <li>• CEDAR 5.1 will no longer be supported by the product supplier</li> </ul>	<ul style="list-style-type: none"> <li>• High risk &amp; volatile budget areas identified by H &amp; F Finance</li> <li>• E-Learning package for Finance Managers now live</li> <li>• Collaborative Planning system now live with supported training for budget holders</li> <li>• Medium Term Financial Strategy and Business Planning Processes have been combined and is re-modelled</li> <li>• MTFS Officer &amp; Member Challenge</li> <li>• Efficiency programme management in place identifying statutory v discretionary services</li> <li>• Leader's monthly monitoring reports</li> <li>• Financial Strategy Board (FSB) periodically evaluates the effectiveness of the financial management arrangements</li> <li>• Partnership activity now includes a VAT trace and has been raised at FSB</li> <li>• Grant Claims &amp; returns record is tracked at FSB</li> <li>• Monthly corporate revenue &amp; capital monitoring to cabinet</li> <li>• Reports to the Leader identify where spend levels exceed a tolerable level during the year</li> <li>• Credit check of contractors is being undertaken through the Competition Board</li> <li>• Disposal of Assets</li> <li>• Sponsorship and advertising opportunities risk &amp; reward exercise</li> </ul>	<p>Annual Audit Letter</p> <p>Select Committees are given the opportunity to fully scrutinise budgets during January.</p> <p>Assurance required that complete and accurate accounting records are being maintained *</p> <p>HFBB, Audit and Pension Committee, External Audit</p>	3	4	12	Medium 	Jane West lead – All Executive Directors	Review May 2012
6.	Putting residents first, Setting the framework for a healthy borough	<p><b>Successful partnerships &amp; Major Contracts</b></p> <p><b>Sub-risks</b></p> <ul style="list-style-type: none"> <li>• Partnering activity with other boroughs and the NHS may blur the lines of responsibility, accountability or liability in the event of service failure</li> <li>• Plans to remodel the</li> </ul>	<ul style="list-style-type: none"> <li>• Joint objectives are not met</li> <li>• Community expectations are not met</li> <li>• Relationship deteriorates or liability in the event of underspend</li> </ul>	<ul style="list-style-type: none"> <li>• Governance arrangements are in place</li> <li>• Performance monitoring reports reported to Select Cttee's</li> <li>• H &amp; F Bridge Performance Monitoring</li> <li>• Financial creditworthiness</li> </ul>	<p>H &amp; F Bridge Partnership Assurance process</p> <p>Internal Audit Substantial Assurance report</p>	4	3	12	Medium 	Derek Myers	Review May 2012



		<p>delivery of health services through GP's as per the White Paper – Liberating the NHS</p> <ul style="list-style-type: none"> <li>Local Housing Company</li> </ul>		<p>checks at Competition Board</p>	<p>2011/12 Partnership Governance</p> <p>Competition Board</p> <p>HFBB, Audit and Pension Committee</p>							
7.	Delivering value for money	<p><b>Maintaining reputation and service standards</b></p> <p><b>Sub-risks</b></p> <ul style="list-style-type: none"> <li>Multiplicity of external forces and initiatives</li> <li>Breach of Officer or Member code of conduct</li> </ul> <p><b>Information Management and Governance</b></p> <ul style="list-style-type: none"> <li>Inappropriate Data released</li> <li>Poor data quality internally or from third parties, breaches of information protocols, information erroneously sent to third parties.</li> <li>Auto forwarding of information ( Information control and threat of leakage )</li> </ul>	<ul style="list-style-type: none"> <li>Threat to the status of the council</li> <li>Failure to deliver plans &amp; savings.</li> <li>Ability to effectively lead and resource the transformation agenda is diminished</li> <li>Service delivery deteriorates</li> <li>Potential adverse media reporting</li> <li>Potential adverse media reporting</li> <li>Potential fine for loss of data</li> <li>Quality and integrity of data held in support of Performance Management &amp; Financial systems leads to under or over estimation</li> </ul>	<ul style="list-style-type: none"> <li>A review of the corporate governance arrangements has been conducted by Internal Audit and a revised Local Code of Corporate Governance has been produced</li> <li>Annual Complaints review report April 2010 to March 2011 produced to Committee</li> <li>Risk &amp; assurance registers have been developed for all departments and divisions</li> <li>Combined Finance &amp; Service Planning processes</li> <li>New Information Management Security Protocols published on the Intranet</li> <li>Regular reporting on Security Incidents by the Information Management Team</li> <li>Performance statistics are scrutinised by Select Committee's, HFBB &amp; DMT's</li> <li>Corvu Performance Management System is able to pick up anomalies</li> </ul>	<p>Cabinet Ofsted, Care Quality Commission, Annual Audit letter</p> <p>HFBB, Audit and Pension Committee, Overview and Scrutiny Board</p> <p>ITSOG</p> <p>Data quality review conducted by Internal Audit and a Management Letter has been issued with low level recommendations</p>	4	3	12	Medium		All Executive Directors	Review May 2012
8.	Delivering value for money	<p><b>Managing fraud ( Internal &amp; External)</b></p> <p><b>Sub-risks</b></p> <p><b>Misappropriation of assets * Appointeeship/custodian or guardian</b></p> <p><b>Contracting</b></p> <p>Gifts &amp; Benefits Manipulation of performance</p>	<ul style="list-style-type: none"> <li>Loss of reputation</li> <li>Financial loss</li> <li>Loss of asset</li> <li>Adverse regulatory /audit report</li> <li>Inadequately resourced fraud unit</li> </ul>	<ul style="list-style-type: none"> <li>Corporate Anti Fraud Service has been established</li> <li>CAFS team now use a risk assessment to assist in targeting and workload prioritisation</li> <li>New model being piloted to collate information from fraud cases and disseminate the recommendations through risk &amp; assurance registers</li> <li>Literature and training has been</li> </ul>	<p>Audit and Pension Committee receive quarterly reports on Fraud</p> <p>Deloitte Fraud Survey 2008</p> <p>Substantial Assurance report 2010/11 Personal</p>	2	3	6	Low		Jane West lead – All Executive Directors	Review May 2012

		<p>data, collusion, billing</p> <p><b>Misrepresentation of Personal Circumstances</b></p> <p><b>Payroll</b></p> <p><b>Cheque</b></p> <p><b>Imprests or petty cash</b></p> <p><b>Grant award</b></p> <p><b>Treasury</b></p> <p><b>Tenancy or Benefit</b></p>		<p>delivered to all levels of the authority</p> <ul style="list-style-type: none"> <li>Information and guidance has been published on the corporate intranet</li> <li>Level of fraud is being tracked through FSB</li> <li>Close working relationship is established with the Police</li> <li>Bribery Act Policy and Risk Register</li> </ul>	<p>Budgets, Housing Benefits</p> <p>Substantial Assurance reports 2010/11 Contract Management, Management &amp; Monitoring of Contractors(Env.)</p> <p>HFBB</p>							
9.	Delivering value for money	<p><b>Successful cultural change</b></p> <ul style="list-style-type: none"> <li>Right staff not available for this work due to increasing workloads while also downsizing and restructuring.</li> </ul>	<ul style="list-style-type: none"> <li>Change consumes more resource than VFM/efficiency gains realise</li> <li>Uncertainty leads to low staff morale and lower productivity.</li> </ul>	<ul style="list-style-type: none"> <li>Open channels to communicate with the Executive Directors and the Chief Executive</li> <li>Transforming the way we do business, Market Management and other Portfolio Transformation Programmes</li> <li>Effective communications programme</li> <li>Staff Survey undertaken and follow up actions are being delivered</li> <li>Career development discussions</li> <li>Smartworking</li> </ul>	<p>Staff survey</p> <p>Corporate Workforce Group</p> <p>HFBB, Audit and Pension Committee</p> <p>Transformation Board</p>	3	3	9	Low 	Jane West	Review May 2012	

10.	Putting residents first	<p><b>Managing the Business Objectives (publics needs and expectations)</b></p> <p><b>Sub-risks</b></p> <ul style="list-style-type: none"> <li>A successor integrated financial and business planning process is not delivered</li> </ul>	<ul style="list-style-type: none"> <li>The Public or section of the public may not receive the service that they need or to the quality they expect</li> <li>Reputation of the service may be affected</li> <li>Services are delivered in an unplanned way</li> <li>Services start to do their own thing - Maverick decisions</li> <li>Inconsistencies in service delivery start to emerge</li> <li>Lack of transparency</li> <li>Duplication of effort</li> <li>Communication of objectives and values is lost</li> <li>Target and Objective setting is diminished reducing the effectiveness of the performance management regime for officers</li> </ul>	<ul style="list-style-type: none"> <li>Implementation of Lean Thinking principles putting the voice of the customer at the heart of service design</li> <li>Performance monitoring and feedback through local media</li> <li>Customer experience and satisfaction surveys</li> </ul>	Cabinet Members Scrutiny Cttee review performance Ofsted Care Quality Commission	3	3	9	Low 	All Executive Directors	Review May 2012
11.	Delivering value for money	<p><b>Market Testing of Services ( refer to Competition Board Roadmap )</b></p> <p><b>Sub-risks</b></p> <p>Tri Borough or Bi Borough procurement risk appetite may vary</p>	<ul style="list-style-type: none"> <li>Increase in threat of legal challenge on contract awards</li> <li>Officers time away from other projects</li> <li>Timescale of project is tight</li> <li>Insufficient numbers of Officers designated to the project</li> <li>Benefits are not realised</li> <li>Data Quality ( Accuracy, timeliness of information ) results in variation to original contract spec</li> </ul>	<ul style="list-style-type: none"> <li>TOR's for Competition Board</li> <li>Lean thinking exercise of procurement processes to make them slicker and more efficient</li> <li>Consultation with other boroughs</li> <li>Project managing the process</li> <li>Separation or joining of projects to maximise benefit potential</li> <li>Realistic timetables agreed and reviewed at Competition Board</li> <li>Market Testing progress report to HFBB</li> <li>Programme &amp; Project Management – Risk Logs being maintained, periodic risk reviews</li> </ul>	Competition Board Transformation Board HFBB Audit review conducted for Use of Contractors Internal Audit Substantial Assurance reports 2011/12 Market Testing H & F News, BTS, Legal Services Full Assurance report 2011/12 Market Testing Out of Hours Service	3	3	9	Low 	All Executive Directors	Review May 2012
12.		<p><b>Scrutiny of Public Health Service</b></p>	<ul style="list-style-type: none"> <li>Department of Health is creating a governing body ( Public Health England ) where a joint appointment of a Director with the Council – would be necessary. Currently the appointment is jointly with the NHS trust</li> <li>Maintaining an audit trail of</li> </ul>	<ul style="list-style-type: none"> <li>Director of Public Health attends Housing, Health and Adult Social Care Select Committee</li> <li>Dedicated officers implementing the setting up of a Health &amp; Well Being Board</li> <li>Pilot council before full delivery which is due ( start</li> </ul>	HFBB Education Select Committee	3	3	9	Low 	Derek Myers, Director of Public Health	Review May 2012

			<p>financial expenditure</p> <ul style="list-style-type: none"> <li>• Monitoring of financial spend against performance targets to achieve financial credit or top ups</li> <li>• Mayor of London seeks increased responsibility for some Public Health work areas in competition to Local Authorities that could reduce the amount allocated to the Council</li> <li>• Setting up a Health and Wellbeing Board attendees would need to include Councillors and managing their time demands</li> <li>• Three Boroughs merged services may result in functions being delivered to support the new responsibilities jointly</li> <li>• H&amp;F currently jointly fund the Director of Public Health post, RBKC don't fund Westminster to jointly fund</li> <li>• Deprivation statistics could affect the distribution of financial settlement unevenly</li> <li>• Public Health budgets will be ring fenced however local authorities seek unringfencing of the monies</li> <li>• Commissioning of services responsibilities for some health inequalities ( healthy eating, smoking cessation, immunisation, screening, air pollution, drugs and alcohol, teenage pregnancy)</li> <li>• Provision of audit and resilience services i.e. managing environmental hazards and emergency planning</li> </ul>	<p>April 1<sup>st</sup> 2013)</p> <ul style="list-style-type: none"> <li>• HM Government Healthy Lives Healthy People Nov 2010</li> <li>• Joint meetings with K &amp; C &amp; Westminster</li> <li>• Officer meetings with Department of Health</li> </ul>							
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OPPORTUNITY RISKS											
2.	Delivering high quality, value for money public services	<p><b>Merging of education services with Westminster Council and the Royal Borough of Kensington and Chelsea</b></p> <p><b>Sub-risks</b></p> <p><b>Social enterprise</b></p>	<p>Savings due to removal of duplication across the councils</p> <ul style="list-style-type: none"> <li>The procurement for an ISP to help establish and support a employee-led mutual is highly innovative, and is being supported by the Cabinet Office as a national pilot.</li> <li>The Council will have a contractual arrangement with the Employee- Led Mutual ELM for it to provide some of the services, supplies and works for a period of not less than four years.</li> <li>As a commercial organisation the ELM will also offer its services to non-maintained schools, such as Academies and Free schools. The services,</li> </ul>	<ul style="list-style-type: none"> <li>Tri Borough Mandate approved for Childrens Services at Cabinet 05-12-11</li> <li>Combined Senior Management Team</li> <li>A single education commissioning function responsible for raising standards</li> <li>A single commissioning function responsible for arranging services for early years, children, young people, social care, health, disability and workforce development.</li> <li>Three Borough-based delivery units with responsibility for protecting children, supporting families and delivering early help in the most efficient manner possible. However, where appropriate, specialist services will be combined to share overheads and expertise (e.g. the Youth Offending Service).</li> <li>The councils have published a Prior Information Notice (PIN) in the Official Journal of the European Union (OJEU) for an independent partner company to set up and support the employee-led mutual. The PIN also invited bidders to participate in a “Meet the Buyers” event. The proposal is the first nationally to develop a strategy to meet European procurement rules to establish an employee-led mutual.</li> <li>It is envisaged that the ISP will provide support and assistance for the creation and operation of the Employee- Led Mutual (ELM), which is currently anticipated will be structured as a joint venture company with the share holding shared</li> </ul>	<p>Cabinet</p> <p>Transformation Board</p> <p>Education Select Committee</p> <p>External Audit (review 2012)</p> <p>Competition Board</p>	2	4	8	Low	<p>Andrew Christie</p> 	<p>Review</p> <p>May 2012</p>


			supplies and works to the relevant educational facilities will include either direct provision by the ELM or the sub-contracting to other providers	<p>between the ISP and the employees (held on the employees' behalf in an employee benefit trust).</p> <ul style="list-style-type: none"> <li>Under a joint venture structure, the maximum holding for any independent sector partner will be capped to balance ownership in favour of employee ownership.</li> </ul>								
3.	Delivering high quality, value for money public services	<p><b>Merging of services with Westminster &amp; RB Kensington and Chelsea</b></p> <p><b>Sub-risks</b></p> <p>ICT provision is developing to ensure a seamless transition to TriBorough working in support of services</p> <p>Appropriate accessible information and data security and governance</p> <p>Co-ordinated procurement strategies in readiness for commissioning of services</p> <p>Programme Management</p>	<b>Savings due to removal of duplication across the council</b>	<ul style="list-style-type: none"> <li>Tri Borough Mandates for Adult Social Services and Libraries approved by Cabinet 05-12-11</li> <li>Monthly Tri Borough Portfolio risks and issues summary report</li> <li>Review of opportunities with contracts</li> <li>Risk Registers compiled and presented to the Programme Management Office</li> <li>Portfolios, Tri-borough Portfolio Director appointed</li> <li>Programmes being managed consistently from the Royal Borough PMO including the ICT Programme</li> <li>TriBorough Portfolio Management Office responsibilities established including the lead programme contacts.</li> <li>TriBorough Programme Management Officer Appointed</li> <li>Terms of reference produced for the Members Steering Group</li> <li>Senior Officer appointments made on a Bi Borough and/or Tri Borough basis</li> <li>TriBorough Managed Services Programme ( Corporate Services - Review of corporate and back office functions )</li> </ul>	<p>Cabinet</p> <p>Overview &amp; Scrutiny Board</p> <p>External Audit ( Audit Commission review 2012)</p>	2	4	8	Low 	Derek Myers, Mike More, All Executive Directors	May 2012	
4.	Delivering high quality, value for money public	<b>Regeneration of Shepherds Bush Market and former Shepherds Bush Library</b>	<b>Community benefits through improved market area, social housing and use of buildings</b>	<b>Section 106 possible funding and partnering with developer over scheme</b>	0Cabinet	2	4	8	Low 	Mel Barrett	October 2011	

5-	services Delivering high quality, value for money public services	<p><b>Re-integration of H &amp; F Homes</b></p> <p><b>Sub-risks</b></p> <p>There is an increased risk that staff will continue to apply legacy procedures from the ALMO.</p> <p>Where the HF Homes risk management framework is not effectively integrated into the Council's framework, this may lead to key risks being lost in the integration or duplication of effort where the same risk appears on multiple registers or against multiple risk owners.</p>	<p><b>Savings due to the removal of duplication in back office functions</b></p> <p>There will be some immediate savings of circa £700k that flow from the integration of the ALMO as a result of the deletion of vacant posts, which would otherwise be duplicated in the new structure, and the elimination of agency workers and contractors to whom TUPE does not apply.</p> <p>This may lead to key management tasks not being undertaken due to confusion over responsibilities</p> <p>A formal action plan for integrating the HF Homes risk management framework within the Council's framework should be established.</p> <p>The plan should include but not be limited to:</p> <ul style="list-style-type: none"> <li>• Adapting risk register templates;</li> <li>• Identification of risk owners within the Housing and Regeneration Department;</li> <li>• Reporting procedure for risks and their mitigation;</li> <li>• Ensuring that risks are not lost or duplicated; and</li> <li>• Appointing a Risk Management representative for the department.</li> </ul> <p>The Housing and Regeneration Department should also appoint a representative to the Corporate Performance Group.</p> <p>Where a post integration communication strategy and channels of communication are not established, there is an increased risk that staff will not fully engage in the integration process. This may impact on the</p>	<p>Consultation exercise has demonstrated public opinion to re-integrate and a report recommending re-integration presented to Cabinet 10-01-2011</p> <p><b>Appointment of development agent services to support the delivery of new affordable homes</b></p> <p>Briefings or training sessions are provided to line managers</p> <p>An individual has been identified to lead and respond on the risk management process.</p> <p>Representative of the department has been invited to attend future Corporate Performance Group Meetings</p> <p>Post-integration communication channels have been established to secure staff buy-in into the integration.</p> <p>The communication channels enable staff to express concerns and seek advice on any issues in respect</p>	<p>Cabinet</p> <p>Internal Audit review of Integration September 2011 Final Substantial Assurance</p> <p>Corporate Safety Committee</p> <p>Housing and Regeneration DMT</p> <p>HFBB</p> <p>FSB</p>	2	4	8	Low	Mel Barrett	October 2011
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			morale of staff from both HF Homes and the Council.	of them adapting the Council's working practices and culture.							
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6.	Delivering high quality, value for money public services	<p><b>Regeneration of King Street and Civic Offices</b></p> <p><b>Sub-risks</b></p> <p><b>GLA do not approve the proposals</b></p>	<p>The Town Hall extension has come to the end of its life and needs to either be demolished or refurbished. An estimated cost of around £18m in temporarily accommodating staff through a relocation to facilitate repairs</p> <p>New office accommodation at no cost is being provided in exchange for land</p> <p>A new modern building is also expected to save around £150,000 in energy costs</p> <p>Jobs will be created in King Street</p> <p>A new community-sized supermarket and a range of new restaurants and other retailers, alongside a council 'One Stop Shop', will draw more people down King Street and encourage more investment in the area</p> <p>Successful redevelopment would enable the council to terminate contracts for various costly leased buildings around the borough savings around £2 million a year.</p>	<p>Hammersmith &amp; Fulham Council has agreed to work with the GLA on a further independent rigorous assessment on viability</p> <p>Exhibition of 3 bid schemes 2007</p> <p>Statement of Community Involvement – Two public consultation exercises Private meetings with residents Stakeholder Forums Flyer to 15,000 homes Pre application meetings with GLA and local amenity groups 1800 letters sent to individual properties in the wider area.</p> <p>Consultation with statutory groups; GLA, HAFAD, Port of London Authority, LFEPA, Metropolitan Police, English Heritage &amp; Archaeology, Natural England,CAA, BAA Airports, Thames Water, Environment Agency, TfL</p> <p>Residents Groups &amp; Landowners; Thomas Pocklington Trust, Tesco, Quakers, Amenity Groups, Brackenbury Residents Assoc. The Georgian Group, HAMRA, the Hammersmith Soc. H &amp; F Historic Buildings Group, Ravenscourt Action Group, Ashchurch Residents Assoc. Old Chiswick Protection Soc. Digby Mansions 39-58a Residents Assoc. For further detail please refer to Planning Applications Committee Agenda 30-11-11</p> <p>Submitted by the Planning Applicant; Environmental Statement, Energy Statement, Flood Risk Assessment, Air Quality Assessment, Environmental Noise Assessment, Lighting Strategy, Equalities impact assessment</p> <p>Phase 1 Habitat Survey &amp; ecological database search</p> <p>Telecommunications assessment</p>	<p>Cabinet</p> <p>Planning Applications Committee</p> <p>Mayor of London</p> <p>Greater London Authority</p> <p>Port of London Authority</p> <p>English Heritage</p>	3	4	12	Medium 	Nigel Pallace	December 2011
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7.		<p><b>Earls Court regeneration</b></p> <p><b>Sub-risks</b></p> <p><b>GLA do not approve the proposals</b></p>	<ul style="list-style-type: none"> <li>The comprehensive regeneration of three land holdings, Transport for London (freeholder of the Lillie Bridge Depot and Earls Court) - Capital &amp; Counties (CapCo) leaseholders of Earls Court 1 and 2 and freehold owners of Seagrave Road Car Park - H&amp;F, freehold owners of the West Kensington and Gibbs</li> <li>Green housing estates. offers the opportunity for the council to secure major estate renewal across the West Kensington and Gibbs Green estates as well as offering the opportunity to deliver substantial benefits for local residents and the wider community. This includes securing new modern homes for all existing residents of the West Kensington and Gibbs Green estates,</li> <li>new additional affordable homes generating greater housing choice for Borough residents and in particular local families,</li> <li>new efficient schools, leisure and health facilities, new open and play space and a significant increase in job opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>The Opportunity Area is identified in the Core Strategy (2011) for potential major residential-led mixed use regeneration. The core development area lies between Warwick Road and the West London Line to the east, West Cromwell Road (A4) to the north, North End Road to the west and Old Brompton Road/Lillie Road to the south and covers the Earl's Court Exhibition Centres (owned on long lease by Capital and Counties), the TFL Depot (freehold of TfL), the Empress State building (freehold of Capital and Counties) and the West Kensington and Gibbs Green estates (freehold of LBHF). Seagrave Road car park (owned on long lease by Capital and Counties) is also within the Opportunity Area, situated south of Lillie Road and bounded by Seagrave Road and the West London Line</li> <li>H&amp;F's Core Strategy (2011) indicates the potential for an indicative 2,900 additional homes and 5,000 to 6,000 new jobs in LBHF.</li> <li>The London Plan (2011) indicates the potential for 4,000 additional homes and 7,000 new jobs across both H&amp;F and RBKC.</li> <li>The council is in discussions with other landowners (Transport for London and Capital &amp; Counties) regarding the potential redevelopment of Earl's Court after 2012. This is intended to bring substantial benefits to the wider area, including more and better</li> </ul>	<p>Cabinet</p> <p>Housing, Health And Adult Social Care Select Committee</p> <p>Planning Applications Committee</p> <p>The Royal Borough Major Planning Development Committee</p> <p>The Royal Borough Planning Applications Committee</p> <p>Housing &amp; regeneration DMT</p>	3	4	12	<p>Medium</p> 	Mel Barrett	May 2012
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				<p>quality homes, new jobs and improved open spaces. The plans could include the West Kensington and Gibbs Green Estate and a key concern for the Council is that any scheme must provide 760 new homes for the residents.</p> <ul style="list-style-type: none"> <li>• The council recently received £15m from Capital and Counties (CapCo) for signing an exclusivity agreement relating to the Earl's Court Regeneration site. Of this receipt, £10m is refundable should a conditional land sale agreement (CLSA) not be possible; the remaining £5m is not refundable under any circumstances.</li> <li>• Establishment of a formal West Kensington and Gibbs Green Steering Group, established by residents of the West Kensington and Gibbs Green estates, constituted by establishing a non-profit Company Limited by Guarantee to allow them to deliver their agreed objectives.</li> <li>• Earls Court project risk register initially compiled in 2009</li> <li>• Development specification, Parameter plans, Community engagement report, Design and access statement, Design guidelines</li> <li>• Planning statement</li> <li>• Environmental Statement</li> <li>• Transport assessment</li> <li>• Retail and leisure assessment</li> <li>• Office assessment</li> <li>• Housing statement</li> <li>• Sustainability strategy</li> </ul>						
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				<ul style="list-style-type: none"> <li>• Energy strategy</li> <li>• Waste strategy</li> <li>• Utilities and services infrastructure strategy</li> <li>• Cultural strategy</li> <li>• Estate management strategy</li> </ul>							
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Note 1. All key risks have been extracted from( but not limited to) a number of sources for analysis by the Corporate Management Team. The sources include;

- i. Previous Corporate Risk & Assurance Register
- ii. World Economic Forum Global risks 2012
- iii. Information identified from Departmental Risk & Assurance Registers
- iv. Officers Knowledge and experience
- v. Tri-Borough & H&F Portfolio Summary reports
- vi. Procurement exercises
- vii. Significant Weaknesses established from the Annual Assurance process
- viii. Audit & Fraud Reports
- ix. Knowledge and experience of public sector risks from the Principal Risk Consultant
- x. Data Quality and Integrity
- xi. Cabinet, Scrutiny and Public Domain reports.
- xii. WCC and RBKC Risk knowledge pooled information

Note 2. Categorised under the PESTLE methodology as published in the Hammersmith & Fulham Risk Standard. Compliant with Audit Commission/ ALARM/IRM/CIPFA best practice.

Score	Key
16-25	 <b>RED</b> - High and very high risk - immediate management action required
11-15	 <b>AMBER</b> - Medium risk - review of controls
6-10	 <b>GREEN</b> - Low risk - monitor and if escalates quickly check controls
1-5	 <b>YELLOW</b> - Very low risk - monitor periodically

## **Emergency Planning & Business Continuity Risks**

### **APPENDIX 2**

**Emergency Planning & Business Continuity Risks**  
Brief for Audit and Pension Committee - May 2012

**Introduction**

This report provides an overview of the main risks to council service delivery (business continuity risks) and the risks related to emergencies that could affect the wider community in the borough (emergency planning risks).

The council's business continuity programme is focussed on ensuring the council reduces the risk of service disruptions where practical while ensuring the council and its services are ready to manage the impact of service disruptions as soon as they occur.

The council's emergency planning programme is focussed on ensuring a core team of services and individuals are prepared and have the resources in place to support the community should they be affected by an emergency - such as a gas leak. Both areas of work are governed by the Civil Contingencies Act 2004.

This submission is intended as a conversation starter to clarify what future information in relation to risks, resilience or preparedness the committee would like to monitor.

**Emergency Planning - Risks**

Emergency Planning Risks are identified and assessed at a national, regional (London) and local level (borough). The London Regional Community Risk Register is the statutory register for emergency risks in our area and is published on the London Fire Brigade website. It does not contain issues in relation to terrorism or other hostile threats.

The Hammersmith & Fulham Borough Risk Register (enclosed) contextualises some of the regional risks for our borough and includes lower level risks that although would not have an impact on the region, would affect the borough. This has been compiled and agreed by the emergency response partners within the Borough. Risks are identified on a "worst likely" basis.

London Local Authorities have mapped all identified risks against a set of emergency plans and emergency response capabilities. The result is an agreed set of plans and capabilities called "Minimum Standards for London" that all boroughs need to maintain to ensure they are prepared to respond to all identified risks.

Our council has a generic emergency plan that sets out the core arrangements for dealing emergencies and a set of specific plans for some risk specific and capability specific arrangements. All council plans dovetail into a range of London multi-agency plans.

The main measure for performance for Emergency Planning is based on how well we respond to incidents in the Borough. We have a peer review process that measures preparedness on a Red, Green and Amber basis and we set our own targets in relation to activity, for example the number of emergency exercises delivered.

The emergency planning programme received substantial assurance from an internal audit in 2011.

## **Business Continuity Risks**

The key themes in relation to business continuity risks are clearly set out in good practice guidance and an annual Chartered Management Institute survey (below) demonstrates the types of disruptions that business experience on a day by day basis. The main business interruption risks can be grouped in to four themes: disruptions to people, premises, resources (ICT, information, equipment) and suppliers.

The Business Continuity Risk Register (enclosed) sets out the main disruption risks for Hammersmith and Fulham and the principle controls in place.

The council works to reduce the risk of service disruption by building resilience into systems and services and by preparing and exercising plans for how to cope if a business disruption event were to occur. Last year Table Top exercises were undertaken on 1<sup>st</sup> Point of Contact Critical services - Contact and Assessment Service, Careline, CSC Fulham North Area Office, Rochdale Out Of Hours BS25999 audit, H&F Direct, Registrars, Mental Health and Learning Disabilities.

Our council has a corporate business continuity plan that sets out the core arrangements for responding to a major business disruption which always includes convening the corporate Service Resilience Group to coordinate council actions. The corporate plan is underpinned by a set of service level continuity plans which set out the arrangements and workarounds for dealing with disruptions at a service level.

The main measure of performance for business continuity is based on how well we have avoided service disruptions. This may be because we have put arrangements in place to cope with an expected event i.e. snow or because we have responded to a no notice event and ensured services are maintained or recovered quickly. We also measure the status of service continuity plans and set activity targets in relation to service exercises or training delivered.

The business continuity programme received substantial assurance from an internal audit in 2011.

The below extract is from the Chartered Management Institute 2012, where research has tracked the levels of disruption caused by a wide range of potential threats since the series began, across a range of organisations. Extreme weather overtook the loss of IT as the most commonly experienced source of disruption in 2010 and has continued to occupy the top position since then. Nevertheless, loss of IT remains the second most common cause of disruption, followed by loss of people.

Emergency Planning and Business Continuity have recognised these threats, and have ensured the council's approach is to analyse the risks at both Corporate and Service level, and implement appropriate risk reduction contingencies.



<b>Disruptions experienced in the previous year</b>						
<b>Threats</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Extreme weather e.g. flood/high winds	28	29	25	58	64	49
Loss of IT	39	43	40	35	34	39
Loss of people	32	35	24	28	34	34
Loss of telecommunications	25	30	23	20	20	24
Industrial action	7	7	7	4	6	22
School/childcare closures	-	-	-	18	17	22
Transport disruption	-	-	-	22	30	20
Loss of access to site	13	16	13	22	26	20
Loss of key skills	20	21	14	15	18	19
Employee health & safety incident	17	17	16	14	15	16
Supply chain disruption	13	12	9	13	19	15
Loss of electricity/gas	-	-	-	15	16	14
Negative publicity/coverage	19	18	14	9	11	13
Damage to corporate image/reputation/brand	11	10	11	22	10	10
Loss of water/sewerage	-	-	-	6	9	8
Pressure group protest	7	6	7	6	6	8
Customer health/product safety incident	6	7	4	6	7	7
Environmental incident	6	7	7	5	7	6
Fire	6	5	5	4	4	6
Malicious cyber attack	-	-	-	-	4	6
Terrorist damage	3	3	2	1	2	2
Base: 1021 respondents (2012)						

**Table 2** Disruptions experienced by organisations (2007-2012)

# Hammersmith & Fulham Borough Risk Register (Emergency Planning)

Last Updated May 2012

Risk Ref	Hazard Category	Lead	Borough or WL Risk	Description	Consequence	Likelihood	Impact	Score
	Utilities Failures - Mains Burst	Local Authority	Borough	Water Main Burst causing traffic disruption, localised flooding of up to 40 residential or business premises,		5	2	Medium
	Utilities Failures - Gas	LFB	Borough	Rupture in gas main	Evacuation of up to 200 properties	5	2	Medium
	Utilities Failures - Electricity	Local Authority	Borough	Localised power cut resulting in up to 1000 properties without power supply		5	2	Medium
	Security Incident - Suspect IED	MPS	Borough	Suspect package reported in a crowded or business area.		5	1	Low
	Fire / Explosion - Gas Leak	LFB	Borough	Gas explosion in residential accommodation	up to 5 fatalities, 10 casualties and evacuation of up to 30 residential premises	4	3	High
	Severe Weather - Surface Water	Local Authority	Borough	Extreme Rainfall event causing flooding and backsurgings of basement properties	Up to 100 properties evacuated,	4	2	Medium
H31	Industrial Action - Fuel Disruption	MPS	WL Risk	Significant or perceived significant constraint on the supply of fuel at filling stations	Filling stations, depending on their locations, would start to run dry between 24 - 48 hours. Panic buying would exacerbate the situation. Replenishment of sites would take between 3 - 10 days depending on location.	4	2	Medium

	Utilities Failures - Acetylene	LFB	Borough	Acetylene Cylinder affected by fire or incident	Evacuation cordon of up to 200 metres for 24 hours.	4	2	Medium
	Security Incident - Suspect VBIED	MPS	Borough	Suspect Vehicle reported in a crowded or business area.		4	1	Low
HL11	Transport accidents - Train Crash	LFB	WL Risk	Train Crash on line running East / West through Borough	Up to 30 fatalities and up to 100 casualties	4	3	High
H30	Industrial Action - Emergency Services: loss of emergency fire cover because of industrial action	LFB	WL Risk	A series of strikes by firefighters takes place spread over a period of 2 months, perhaps lasting up to 24hrs each	LFB contingency arrangements put in place, cover provided by private company with 27 operational tenders	4	3	High
	Fire / Explosion - Residential Fire	LFB	Borough	Fire in high density residential area i.e block of flats	up to 100 properties evacuated with up to 10 casualties suffering smoke inhalation and burns	4	3	High
H22	Human Health - Flu Epidemic	Health	WL Risk	A serious epidemic of much greater severity than the usual seasonal flu.	Weekly GP consultations for new episodes of flu-like illness likely to double.	3	4	Very High
	Transport Failure	MPS	MPS	Strikes, Weather or Security Situation results in severe disruption to transport network for up to 3 days		3	4	Very High
	Security Incident - VBIED Detonation	MPS	Borough	Detonation of vehicle borne IED in a crowded place		3	4	Very High
H40	Utilities Failures - Telecoms	MPS	WL Risk	Loss of telecoms service to up to 100,000 people for up to 72 hours due to a local fire, flood or gas incident		3	4	Medium
H49	Utilities Failures - Water Supply	Local Authority	Borough	Water Main burst results in the loss of water pressure or supply to 5000 people - need TW clarification	Could lead to suspension of services at hospitals, schools, and businesses, vulnerable resident requiring assistance	3	3	Medium
HL10	Transport accidents - Motor Vehicle Crash	LFB	WL Risk	Accident on A40 / A4	Multiple vehicle incident causing up to 10 fatalities and up to 20 casualties	3	2	Medium

H26	Zoonotic Notifiable Animal Disease	Local Authority	WL Risk	Zoonotic Notifiable animal diseases (e.g. Highly Pathogenic Avian Influenza (HPAI), rabies and West Nile virus). Culling of livestock - potential to cause human infections		3	2	Medium
H37	International Incident - Influx of British Nationals	Local Authority	WL Risk	International security incident resulting in influx of British Nationals with no residence or means and may require medical attention	Up to 200 national placed in H&F Borough	3	1	Medium
	International Incident - Repatriation of deceased British Nationals	Local Authority	Borough	International security incident or natural hazard resulting in the repatriation of multiple deceased British nationals	more than 30 whole bodies or a smaller number of disrupted bodies requiring post mortem and inquest requiring additional mortuary facilities	3	1	Low
H46	Biological Substance Release	Health	WL Risk	Biological substance release during an unrelated work activity or industrial process e.g legionella	Up to 10 fatalities and serious injuries or off site impact requiring up to 1000 hospital admissions.	3	5	High
H18	Severe Weather - Low temperatures and Heavy Snow	Local Authority	WL Risk	Snow severely affecting the borough for over 1 month.	Severe disruption to council services and local businesses. Increase presentation with minor injuries at A&E/Walk-in	3	3	High
	Security Incident - IED Detonation	MPS	Borough	Detonation of IED in a crowded place		3	3	High
	Security Incident - Public Disorder	MPS	Borough	Hostile crowd or widespread disorder resulting in fires, looting and increased localised crime and violence		3	3	High
H17	Severe Weather - High Wind	Local Authority	WL Risk	High Winds (55-85mph) affecting borough for at least 6 hours.	Consequent damage to infrastructure (e.g. telecommunications, power, transport)	3	2	High
H23	Human Health - Flu Pandemic	Health	WL Risk	Clinical attack rate of 25 to 50% spread over one or more waves with case fatality of up to 2.5%. 10,000 healthcare contacts per 100,000 population per week at peak		2	5	High

H43	Utilities Failures - Telecoms	MPS	WL Risk	Loss of all telecoms for region for up to 5 days		2	5	Very High
	Fire / Explosion - UXB	MOD	Borough	Explosion of Unexploded Ordnance	Evacuation of local area for up to 24hrs and some damage to local properties.	2	2	Medium
H12	Biological Substance Release	Health	WL Risk	Biological substance release from facility where pathogens are handled deliberately	Up to 10 fatalities and serious injuries or off-site impact causing up to 1,000 casualties.	2	4	High
	Transport accidents - Aircraft crash	LFB	Local	Plane crashes in borough on approach to Heathrow or Helicopter crashes on approach/departure to West London helipad	Up to 300 fatalities and up to 250 casualties.	2	4	High
HL12	Transport accidents - Haz Chem	LFB	WL Risk	Local accident involving transport of hazardous chemicals	Up to 50 fatalities and up to 500 casualties	2	4	High
	Transport accidents - public transport failure	Local Authority	Borough	Incident, Severe Weather or industrial action results in shut down of Public Transport System for up to 3 days	Severe disruption to staffing levels	2	4	High
H48	Severe Weather - Heatwave	Health	WL Risk	Heatwave. Daily maximum temperatures above 32°C and minimum temperatures above 15°C over most of the area for at least five consecutive days.	Increased death rates	2	4	High
H50	Severe Weather - Drought	Thames Water	WL Risk	Periodic water supply interruptions affecting all borough businesses for up to 10 months. Emergency Drought Orders in place authorising rota cuts in supply according to needs of priority users as directed by Secretary of State		2	4	High
HL22 a)	Large Building Collapse	LFB	WL Risk	Collapse of a large building.	Up to 100 fatalities depending on the size and construction of building, and occupation rates, and 350 casualties	2	4	High
H89	Utilities Failures - Water Supply	Local Authority	WL Risk	Loss of or non-availability for drinking, of the piped water supply,	Up to 50,000 people, for more than 24 hours and up to 3 days.	2	4	High
H41	Utilities Failures - Electricity	Local Authority	WL Risk	Loss of regional electrical supply for 48 hours		2	4	High
	Air Quality / Toxic Release incident	LFB	Borough	Toxic Release of chemicals affecting borough	Some fatalities and serious respiratory complications across borough	2	3	High

	Transport Incident - Ferry	Maritime and Coastguard Agency	Borough	Incident causing capsizing or sinking of passenger ferry on Thames	up to 10 fatalities and 30 casualties - mb	2	3	High
HL14	Transport accidents - Road	LFB	WL Risk	Local road accident involving transport of fuel/explosives	Up to 30 fatalities and up to 20 casualties within vicinity of accident/explosion. Area would require evacuating up to 1 km radius depending on substances involved	2	3	High
	Severe Weather - Thames Overtop	Environment Agency	Borough	Sea surge, high tides, gale force winds affecting the Thames estuary, Thames barrier fails.	Overtopping of river defences along Thames. up to 60,000 properties within flood risk area, catastrophic impact on the borough and its infrastructure.	1	5	Medium
H7	Fire / Explosion - Gas Pipe	LFB	WL Risk	Explosion at high pressure gas pipeline running through borough	Local to site causing up to 200 fatalities and up to 200 casualties.	1	4	Medium
H11	Radiation Incident	Health	WL Risk	Accidental release of radioactive material from incorrectly handled or disposed of sources.	Up to five fatalities and up to 100 contaminated people requiring medical monitoring. Many worried people may present at hospitals. Radiation may be spread over several kilometres but most concentration where source is opened	1	4	Medium
	Security Incident - PLATO style attack	MPS	Borough	Attack on a crowded place by multiple assailants with small arms		1	4	Medium
HL28	Fire / Explosion - Fuel Site	LFB	WL Risk	Localised fire or explosion at a Wandsworth Bridge Road Maritime Diesel Storage Site	Up to 15 fatalities and 200 casualties.  Impact on air quality up to 1km from site. Environmental pollution	1	3	Medium
HL30	Fire / Explosion - Gas Pipe	LFB	WL Risk	Localised explosion along a natural gas pipeline	Causing up to 100 fatalities and hospitalising up to 100 people	1	3	Medium

	Severe Weather - Thames breach	Environment Agency	Borough	Failure of thames defence at weak location durring an unusually high tide event.	Rapid inundation of localised area around breach. 100s of properties affected by flooding. Up to 5 fatalities and 20 casualties.	1	3	Medium
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## RISK LOG - H&F Perspective

Project	Business Continuity Risk Register
Document Owner	Ian Cairns

Ref	Class of Risk	Subject	Risk Description "If....., then....."	Current Controls	Likelihood 1 = Low 5 = High	Impact 1 = Low 5 = High	Exposure	Risk Accepted?
4	Premises	Building Closures	The building closure programme is having a severe impact on the council's ability to provide alternative sites for a denial of access / devastation of a main service premise. The risk for a large 1st point of contact service (H&F Advice) to re-locate to an alternative site and continue to deliver the service is severely restricted.	Local 1st point of contact Service Continuity Plans exercised in 2011. Gaps were identified for the 1st point of contact activities, background activities could use Smart areas / Lynx.	4	4	Very High	TBA

	People	Staff absence levels Pandemic Flu	Clinical attack rate of 25 to 50% spread over one or more waves with case fatality of up to 2.5%. 10,000 healthcare contacts per 100,000 population per week at peak. Risk significant impact over a wide range of services over a protracted period, and to the general public at large.	Specific Flu Plans - Corporate and ASC. The borough emergency control centre will be activated should staff absences for any staff scenario rise to an unacceptable level. The staff re-allocation scheme would also be activated. H&F Business Corporate and individual Service Continuity Plans cater for staff absence scenarios, and would be invoked. Lynx ICE license would be invoked.	4	5	Very High	TBA
2	Processes	Business Continuity Bi / Tri Borough Working	Business Continuity processes for the categorisation of services are different across the three boroughs. Service information is stored in 3 separate locations and is becoming fragmented. There is a risk that during an incident it will be difficult to centrally collate impact information to assist in a corporate response across a bi / tri borough incident.	3 boroughs operate their normal Business Continuity processes for dealing with incidents.	4	2	Medium	TBA
7	Programme	Business Continuity Programme	Business Continuity Programme of work. There is a risk that due to organisational change / service delivery drivers, the BC programme will be watered down leading to various operational compromises.	Service Resilience Group (SRG) acts as the programme governing board.	4	2	Medium	TBA



	Processes	Local holding of hard copy information.	Various Critical and Key services hold local hard copy information. Risk afforded to this information is from fire, flood and theft. Impact would be total loss of information if not backed up in any manner, and impact to the service provided.	Minimum processes in place to back up hard copy information to electronic media. Archiving of hard copy information should be done on a regular basis. HFBP encryption and disabling of PC ports limits risks of holding silo information and having an impact on shared users.	4	3	High	TBA
	People	Staff absence levels Olympics	Olympics 2012 may present a staffing issue at short notice. The risk is staff unwilling to attend during this period, where a deterioration of service(s) could arise for a short period of time. The risk to service provision over a short period of time.	Critical and Key service owners have reviewed additional contingencies required to cope with the additional demands presented during the Olympics. HR advice regarding leave during the Olympics has been published. The borough emergency control centre will be activated should staff absences for any staff scenario rise to an unacceptable level. The staff re-allocation scheme would also be activated. H&F Business Corporate and individual Service Continuity Plans cater for staff absence scenarios, and would be invoked. Lynx ICE license would be invoked.	3	2	Medium	TBA
3	Providers	Business Continuity in the Procurement Cycle	As outsourcing is increasing dependency on suppliers is far greater. The risk is the supplier failing due to a disruption to their services and having an impact to a H&F Critical / Key service.	Limited Business Continuity Clause and specification inserted in contracts.	3	3	High	TBA

6	People	Skill loss as a result of tri borough merger.	There is a risk of losing key employees and their skill sets if the transition programme is not managed effectively by looking at service delivery in sufficient detail. It is highly likely that where service numbers and skill sets have been substantially reduced, service delivery will be impaired.	Transformation Board.	3	3	High	TBA
	People	Transport Disruption	Adverse weather, security situation or industrial action severely disrupts transport network and reduces staff attendance to work by up to a 50% for up to a week.	Services activate continuity plans and prioritise activities. Service Resilience Group initiates Staff Re-allocation Scheme if required. Lynx access increased to allow for up to 1000 remote logins	3	4	High	TBA
	Processes	IT Cyber Attack	Councils face up to 200 Cyber Attacks per second. With Home Office figures suggesting e-crime is now a £27bn a year industry in England and the attacks becoming increasingly complex, council chiefs have expressed fears they may not be able to keep up with the cyber criminals in the coming years. The attacks are designed by criminals to exploit the treasure-trove of personal information that councils hold, as well as sending out spam email messages, spreading viruses, committing fraud and disrupting computers and servers. Risk is loss of confidential information, fraud, exploitation of financial applications and bad media coverage. Corruption of data by viruses would have a significant impact on service provision by changes in confidentiality,	HFBP Firewall controls. Disabled PC ports and encrypted USB sticks. Users guidance for internet use, and file transfer. Open Systems Interconnection (OSI) model inbuilt integrity, confidentiality and availability controls at all levels.	3	4	High	TBA

			integrity and availability.				
Processes	Loss of access to IT for up to 2 days	A range of IT scenarios could result in the loss of access to IT for a short term period. If this were to happen services that rely on IT based information would not be able to operate or would be severely affected unless they had developed a local contingency. Although IT information is backed up services would need to utilise local workarounds until IT can provide backed up information in a useable form.	IT disaster recover plan. Some services have developed local workarounds however local arrangements are less common as a result of restrictions with saving information to USB or CDs.	3	3	High	TBA

	Premises	Power Failure	Failure of power supply affecting main civic accommodation for up to 3 days. Services reliant on IT severely affected. Possible building closure.	Town Hall has back up generator that is connected to Emergency Control Room. CCTV Control Room, Smart Space, Assembly hall, Committee Rooms (with standby network points), and "churn space at room 204 and 205. Where necessary Lynx capacity utilised for remote working and low priority services to be evicted from accommodation to make space for critical functions.	2	3	Medium	TBA
	Premises	Water Supply Failure	Failure if water supply affecting civic accommodation for up to 3 days. Drinking water, toilets and cleaning facilities severely affected.	Emergency water supply contractor on standby and portaloos available to ensure buildings can be kept open	2	2	Low	TBA
1	Processes	Openscape Application	Openscape has not been categorised as a 1st order application, thus the application would not be replicated at an alternative data centre. Impact would be borough wide telephony disruption until the full recovery of Openscape.	Normal HFBP recovery processes. Service users could use mobile phones.	2	4	High	TBA
	Processes	Loss of a Data Centre	Fire, flood, sabotage to a data centre (East London / HTH) Impact on a 1st order application would be up to 8 hours, and limit full service capabilities for critical / key services (Most applications serving these services have been defined as 1st order). All applications not defined as 1st order could be out of order for months and would depend on full recovery procedures for the application servers, with an impact on some key and possibly all tertiary services.	SRG meet and invoke the Corporate Business Continuity Plan, services affected would invoke individual Service Continuity Plans, IT would invoke their IT Disaster Recovery Plan.	2	4	High	TBA

	Processes	Denial of access to main Civic Building	An evacuation or partial damage of building services results in denial of access to main civic accommodation for up to a week	Low priority services moved out of other office accommodation to make way for Critical and Key Services where necessary. Lynx access increased and lynx tokens moved to staff that are required to work from home.	2	4	High	TBA
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# Agenda Item 13



## AUDIT, PENSIONS AND STANDARDS COMMITTEE

28<sup>th</sup> June 2012

### CONTRIBUTORS

Head of Fraud Service  
Chief Internal Auditor  
Director of Finance

Corporate Anti Fraud Service Annual  
Fraud Report 2011/12.

**WARDS**  
**All**

This is the annual report on the progress made in delivering the 2011/12 year service plans; key results of the work undertaken, and the performance achieved

### RECOMMENDATION:

To agree the contents of this report

### LOCAL GOVERNMENT ACT 2000- LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Corporate Anti Fraud Service operational investigation files and performance reports	Kirsten Quinn	Corporate Anti Fraud Service, 4th Floor, Town Hall, Hammersmith

Hammersmith & Fulham Council

Corporate Anti Fraud Service

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## **Fraud Report**

**The Council's Annual Fraud Report to 31<sup>st</sup> March 2012**

## Management Summary

- 1 This report details the counter fraud work undertaken during the year to 31<sup>st</sup> of March 2011 by the Council's Corporate Anti Fraud Service (CAFS) and the plans for the next financial year.
- 2 CAFS was restructured in April 2011 and as a result of reduced budget and withdrawn grant funding the unit has 6 less staff to investigate allegations of fraud.
- 3 CAFS has delivered a very respectable performance this year achieving 24 successful prosecutions, plus a further 185 sanctions (these include administrative penalties, recovered properties, removals from the council's Housing Register, etc). This total of 209 successful outcomes compares to a target of 127. Each officer exceeded their target by over 10% as well as improving their skills to the point where this year they are truly generic investigation resources. The team identified fraud and error to the value of £8,577,442 and were responsible for the recovery by the council of £700k. A further £1 million is recoverable.
- 4 The work undertaken by the team has continued to expand with increased referrals for tenancy fraud and internal fraud, plus joint work undertaken with the police. We have three qualified Financial Investigators and a fully functioning Proactive resource and a new legal officer.
5. In the 2012-13 we will be using our intelligence more effectively working with our Tri Borough Partners. We will be increasing our non benefits investigations and working more closely to quantify our fraud risk. .



## 1. Introduction

- 1.1 Counter fraud services are provided by Hammersmith and Fulham Council's Corporate Anti Fraud Service (CAFS). The scope of the service's work includes suspected fraudulent Housing Benefit and Council Tax Benefit claims, suspected fraudulent tenancies and circumstances of tenancy related matters, and investigating allegations of fraud or irregularity committed within or against the Council. Further coverage is provided by undertaking pro active projects which are based on the risks identified within the fraud risk register.
- 1.2 The CAFS unit also has responsibility for raising fraud awareness across the Council, managing participation in the Audit Commission's National Fraud Initiative, providing advice and guidance and qualified staff in such areas as Money Laundering and Whistleblowing, and maintaining close working relationships with the police and other partnership organisations in order to facilitate the effective combating of fraud directed against the Council, whilst contributing to the reduction of crime overall.

## 2. Performance

- 2.1 CAFS performance is measured on outputs which are successful outcomes including the number of sanctions successfully applied and the number of fraudulent issues stopped or prevented. We also keep under review the value of fraud and error identified plus the amount of recovered and recoverable losses identified for the Council and the public purse. The CAFS target for the year was 127 successful outcomes, which has been exceeded significantly with a final outturn of 209. **Figures 2 and 3** in Appendix 1 show the breakdown of sanctions achieved.
- 2.3 The number of successful prosecutions achieved in the year was 24. In order to manage the quality of our court presence and reduce the legal costs which criminal prosecutions attract CAFS have created a new role for a legal officer. This officer will manage all the prosecutions going forward and her input will reduce our legal fees and any delays going

forward CAFS. This new role will be in place from Aril 2012 and progress will be monitored. Copies of some of the press releases for the prosecution cases are provided at **Appendix 2** for information.

2.4 It is worth mentioning the volume of referrals received which shows that the service continues to receive more volumes than it can investigate. CAFS received 588 referrals comprised of 267 benefit cases, 295 tenancy related cases, 26 internal or corporate cases. We carried forward 802 open cases from the year before. 260 cases were rejected for investigation either because of insufficient quality of information or due to insufficient capacity to proceed. We have carried 560 cases into the New Year. This is summarised in **Figure 1** of Appendix 1.

2.5 The measurable financial value of CAFS work involves cash recoveries received from the application of penalties or court awards, Housing Benefit overpayments which become a debt owed to the Council plus a 40% 'bounty' on these overpayments which is paid to the Council from subsidy, the recovery of property or removals from the Housing Register which the Audit Commission have put a value of £75,000 per property, the prevention of fraudulent Right to Buy applications which would attract a discount of £16,000 per property, and other overpaid benefits which are recoverable and while bringing no specific value to the Council do represent a saving made to the public purse. The analysis of the value of fraud identified and recovered is contained in the table at **Figure 4** in Appendix 1.

2.6 The value of the savings to the council (8,577,442) identified by fraud compare well to the cost of the service which was an operational cost of £950k, and a gross cost of £1.1 million.

### **3. Service Review**

3.1 CAFS have removed the reliance on temporary staff and now have a reduced, but permanent structure. The management structure has been flattened and the teams condensed. The new structure has run for a year and has been successful.

- 3.2 The core CAFS work covers housing benefit, fraudulent tenancies, and corporate fraud. Additional activities include investigating applications on the Housing Register, and a significant amount of fraud and error identified through management of the National Fraud Initiative exercise. The deterrence effect of the publicised work of the Service cannot be ignored, which includes the press releases made for every successful prosecution. The unit has appeared on prime time television this year and in most of the leading daily papers. A selection of articles is at Appendix 3 however should you wish more details or to see the full collection of articles please contact the head of Service in CAFS who will arrange for you to have access to the correct folder
- 3.3 The profile of the Service, the Council, and the fight against fraud in Hammersmith and Fulham has been raised as a result of joint working with the police. The close relationship has been maintained even though the office is no longer permanently seconded to the police
- 3.4 In order to maximise the realisable benefits from work of this nature, three CAFS officers have trained as accredited Financial Investigation Officers. Two senior officers have trained as senior authorising officers. We now apply to the courts to make restraints ourselves, rather than being dependant on the police. The advantage is that previously we divided any assets seized and confiscated and allocated by the court between the Council and the police. As we apply the restraints and bring proceedings ourselves, we have the opportunity to maximise income to the Council.
- 3.5 Following a small trial CAFS now offer the Financial Investigation service out to other units and organisations. With the help of the legal unit we have developed a contract to be used for this purpose and we will be paid for our services. We will report on the progress of this project throughout the year
- 3.6 Tenancy fraud is being widely recognised as a growing area of concern and the NFA, national government and the Audit Commission make strong recommendations that Local Authorities do all in their power to crack down on an estimated 50,000 unlawful tenancies or sublets nationwide (although unofficial estimates place the figure at closer to 200,000 properties. *Source: National Fraud Authority Annual Fraud*

*Indicator Report, January 2010*). In November 2009 the Minister for Housing announced a national crackdown on tenancy fraud with a series of measures including tenancy data matching. We have been actively pursuing Tenancy fraudsters and will continue to do so this coming year. Hammersmith has been involved in a large scale data match project in partnership with Experian and this year will be part of the innovative programme launched by call credit to create a “London Hub”, the first of its kind country wide. Prevention and better use of intelligence are high on all political agendas and we are, and have been prioritising these areas

- 3.7 The unit has developed a pro active plan to focus resources on new areas of concern and to develop

#### **4. Future Plans**

##### **Single Fraud Investigation Service (SFIS) – Universal Credit (UC)**

Changes in governmental policy around social benefits will have a significant effect on the way welfare benefits are delivered from April 2013. LBHF are involved in the forefront of these changes and CAFS are involved in the shaping of the service that will investigate any payments made under UC. We plan to bid to run a pilot of the scheme and to actively take part in the consultation which is ongoing

##### **Tri Borough Programme**

CAFS is currently in scope for active involvement with the tri borough process. We are liaising closely with our counterparts in the other two boroughs and will work to increase joint working, share resources and prioritise shared risks

##### **Fighting Fraud Locally**

The recently published Local Government Fraud Strategy supported by James Brokenshire MP, Baroness Hanham CBE and The Rt Hon Francis Maude MP encourages local government to use local knowledge, flair and a determination to tackle fraud. It encourages local authorities to organise its Anti Fraud processes around three themes, Acknowledge, Prevent and Pursue and provides a checklist to use as a standard to measure ourselves against. CAFS will be measuring

ourselves against this checklist. Identifying any weaknesses and working to improve performance in these areas.

### **Using our intelligence more effectively**

We will be working in partnership with other West London Authorities and a software company (Call credit) to create the first intelligence hub for Tenancy fraud. We will be exploiting the possibilities presented by the PRISM data base and sharing its usage with other units within LBHF and our Tri Borough Partners. We have worked with the risk manager to create a Fraud Risk register and linked that to our proactive programme which then links with our Internal Audit colleagues creating a seamless approach to identifying weaknesses in our systems, putting in place solutions and making sure those solutions are implemented

## **5. Conclusion**

- 5.1 2011-12 has been a successful year for counter fraud investigation since the formation of CAFS. We have restructured, flattened the management structure, reduced the cost and increased the out put of the unit. The level of referral continues to increase due in part to the work of the CAFS team in raising awareness and improving liaison between the Council and its partners, coupled with a long overdue raise in awareness at a national level on tenancy fraud.
- 5.2 The aim of the Corporate Anti Fraud Service going forward is to continually improve on results to date. With reduced funding in this area, the intention is to focus on achieving better results with the resource to hand, by improving the referral and risk scoring process, making better use of intelligence and increasing our focus on proactive work such as data mining, and by improving the deterrence effect by focussing on delivering sanctions and prosecutions.
- 5.3 CAFS are involved in the more towards Tri Borough. We will be working closely with our colleagues in the other two boroughs and establishing joint projects and shared resource programmes throughout the year
- 5.4 The work of local government fraud units will be substantially altered by the proposed national government changes in 2013. CAFS will work

together this year to redirect their resources into non benefits related investigations which add value at a more local level. We are also closely following the publicised changes and involving ourselves in the consultation. A full pro active programme will be run which will concentrate on areas of risk within the council which are unrelated to the payments of national benefits. The NFA has raised the profile of procurement fraud and the unit will be involving itself in the business re engineering processes which are taking place round the council with a view to designing out as much fraud as possible.

- 5.5 The unit attracted income of over £170k which helped the overall savings required by the council. The financial investigators will be actively pursuing opportunities with other organisations to sell their services and we will be considering the use of more civil court actions to recover losses to the council where possible

## Appendix 1

### Performance Tables

**Fig. 1 Cases Opened, Rejected, and Closed 2011 -12**

Fraud Area	B/fwd from 2011//12	Referred	Rejected (no resource)	Closed	C/fwd into 2012/13
Benefit Fraud	364	267	165	176	290
Tenancy Fraud	304	295	95	295	209
Housing Register	42	0	0	20	22
Other Housing Fraud	0	0	0	0	0
Internal or Corporate Project	92	26	0	79	39
<b>Total</b>	<b>802</b>	<b>588</b>	<b>260</b>	<b>570</b>	<b>560</b>

**Fig. 2 Performance by Outcome Achieved**

	Prosecutions Successfully Undertaken	Caution, Penalty, Recovery or Disciplinary Sanction	Positive Outcome / Action Achieved	Totals
Housing Benefit	23	19	27	69
Tenancy	1	25	77	103
Tenancy projects	0	0	0	0
Corporate	0	19	18	37
<b>Total</b>	<b>24</b>	<b>63</b>	<b>122</b>	<b>209</b>

**Fig. 3 Performance Outturn against Target**

	Annual Outturn
	Total
<b>Total 2011/12 (Target 127)</b>	<b>209</b>
Total 2010/11	286
Total 2009/10	278
Total 2008/09	186
Total 2007/08	130
Total 2006/07	132
Total 2005/06	96

Financial Benefits of CAFS Work		Recovered		Recoverable	Additional value to public purse	Speculative Income
		Recovered by CAFS	Recovered to LBHF	Recoverable by LBHF	Value of properties recovered or lets avoided	Value of Assets Currently Restrained
<b>Benefits</b>	Penalties	18,350				
	Costs, Compensation, POCA	259,608****				
	HB Overpayments			650,898		
	40% Bounty on HB O/Ps		260,359			
<b>Tenancy</b>	Tenancies recovered (25)				1,875,000*	
	Housing Register removals (66)				4,950,000**	
	Right to buys (2)		32,000***			
	Housing other					
<b>Corporate</b>	Corporate cases			£27,932		
<b>NFI</b>	HB Overpayments			£358,610		
	40% Bounty on HB O/Ps		£143,444			
	Pay & pensions			£1,241		
	Creditors			£0.00		
Assets Restrained: Benefits cases						102,450
Assets Restrained: Corporate cases		0	0	0		
<b>Total</b>		<b>277,958</b>	<b>435,803</b>	<b>1,038,681</b>	<b>6,825,000</b>	<b>102,450</b>
<b>Total recovered</b>		<b>713,761</b>				
<b>Total balance recoverable</b>		<b>0</b>		<b>1,038,681</b>		
<b>Total overall recoverable value to the council</b>		<b>1,752,442</b>				
<b>Total value to council due to CAFS work</b>		<b>8,577,442</b>				

- \* Valued at £75k/property as per the Audit commission guidance
- \*\*Valued at £75k/removal as per the Audit commission guidance
- \*\*\*Valued at £16k/application
- \*\*\*\* Within this total £149,880 was from POCA payments. The MOU in place to cover this with police and CDRP meant that £49960 was forwarded to the police and £49960 to CDRP



## APPENDIX TWO

### Press Coverage

There has been substantial press interest in public sector fraud this year and LBHF has benefited from the renewed interest I have included two examples of the written coverage we received this year are included below however we do have a DVD of our appearance on 'Saints and scroungers' and numerous other examples of positive press. (If you wish to see additional coverage please contact the head of Service who will facilitate your access

We have agreed to work with the BBC on a new programme for the autumn which will be focused on Tenancy fraud and its associated problems



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must pay £143,000   House sales drop as rental demand soars   Government places private rented sector at 'top of agenda'   Land

### Landlord who lived as subsidised council tenant facing jail



Learn how to make the system work for you

Tuesday 22nd November 2011

A man who conned more than £10,000 of housing and council tax benefit out of one council had enough money to buy a house – which he let out to another council.

He claimed on his mortgage application to have a business making a profit of more than £80,000 a year.

Ganiyu Anifowose, of Fulham, London, is now facing a prison sentence. In total Anifowose defrauded Hammersmith and Fulham Council out of £8,151 of housing benefit and £1,925 of council tax benefit.

He was in receipt of benefit from the council since at least April 2002 on the basis of a low income and that he lived with his wife and children at a council property.

However, the council's anti-fraud service uncovered that Anifowose, 42, held four bank accounts into which regular deposits were made, showing that he was too wealthy to be entitled to benefit. The property he bought with a mortgage was rented out to Havering Council.

At Kingston Crown Court, Anifowose said he had no knowledge of the information on the mortgage application form and that a man called 'Sanny' just asked him to sign.

He also stated that he was told that the property was for free and he did not have to pay anything. Anifowose was convicted of four counts of benefit fraud and is due to be sentenced on Friday.

The judge warned him: "Anyone who has the mind to obtain benefits fraudulently from a local authority steals from every right-minded member of society. It is very likely these convictions will result in immediate imprisonment."

Cllr Greg Smith, cabinet member for residents' services, said: "This fraudster thought that he was untouchable and assumed that he could do what he wanted without repercussions.

"Our corporate anti-fraud service work round the clock to catch benefit cheats and the message to anyone who is considering acting in such an unscrupulous fashion is that you will be caught and brought to justice just like Anifowose."

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Events



THE PROPERTY INVESTOR SHOW  
EXCEL LONDON, 19 &



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## Breast implant conman jailed

Mark Glendon

08 March 2012

A psychologist who faked his own death after swindling £43,000 in benefits while paying for his wife's breast enlargement was jailed for 32 months today.

Stephan Kollarey, 54, claimed housing benefit despite having property worth £1 million and a £100,000 salary. His wife Nail claimed he had died on a trip to her native Russia where she had enlargement surgery.

She returned to Britain with a fake death certificate and an urn supposedly containing his ashes. After faking his death in 2008, Kollarey was caught sleeping rough at an airport in Bangkok with a fake Irish passport.

Prosecutor Mark Himsworth told Croydon crown court: "When she was arrested she said: 'I'll tell you everything.' Found on her person were three life insurance documents valid at the time of his purported death which would have paid out £1.7 million."

Kollarey, a father of two, admitted three charges of benefit fraud and one of identity fraud. He and his 43-year-old wife, his third, owned five properties in Richmond and Hammersmith and Fulham. She was given a 24-week suspended sentence after she said her "abusive" husband had coerced her.

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# Agenda Item 14



## **AUDIT, PENSIONS AND STANDARDS COMMITTEE**

28<sup>th</sup> June 2012

### **CONTRIBUTORS**

Chief Internal Auditor  
Internal Audit Manager  
Deloitte & Touche LLP

**Internal Audit Quarterly report for the  
period 1 January to 31 March 2012**

**WARDS  
All**

This report summarises internal audit activity in respect of audit reports issued during the period to 31<sup>st</sup> March 2012, as well as reporting on the performance of the Internal Audit service.

### **RECOMMENDATION:**

**To note the contents of this report**

# CONTENTS

<b>1. Introduction</b>	<b>1</b>
<b>2. Internal Audit Coverage</b>	<b>1</b>
<b>3. Internal Audit Service</b>	<b>2</b>
<b>4. Audit Planning</b>	<b>3</b>
<b>Appendix A</b> <b>Audit reports issued 1 January to 31 March 2012</b>	<b>4</b>
<b>Appendix B</b> <b>Revised 2012/13 internal audit plan incorporating bi and tri-borough work</b>	<b>6</b>

## 1 Introduction

- 1.1 This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2012 as well as reporting on the performance of the Internal Audit service.
- 1.2 In order to minimise the volume of paperwork being sent to Committee members, the appendices detailing outstanding recommendations and reports, as well as the full text of all limited or nil assurance reports have not been appended to this report. However, the information which would have been contained in these appendices has been made available to all members separately.

## 2 Internal Audit Coverage

- 2.1 The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner
- 2.2 A total of 19 audit reports were finalised in the fourth quarter of 2011/2012 (see **Appendix A**). In addition 8 management letters 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 March 2012, 10 recommendations were reviewed. 7 were found to have been fully implemented whilst the remaining 3 were found to have been partly implemented.
- 2.4 Three audit reports issued in this period received limited assurance. The *HFBP Inventory Management* audit made 8 recommendations of which 3 have been reported as implemented. A further 3 (1 P1 & 2 P2) are due to be implemented by 31 May and the remaining 2 (both priority 2) are due to have been implemented by the end of June. The *Debtors* report made 10 recommendations all of which have been reported as implemented. The final report related to *Change Management – NKA Contract*. 6 recommendations were made which relate to the management of similar contracts. Implementation of these recommendations is not being monitored *per se* but the recommendations have been agreed by the Competition Board and will be monitored through future contract management audits. Full copies of 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.

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 once again very pleased to report that there are currently no reports still outstanding that were due to be signed off on or before 31 March.

- 2.6 We are delighted to report that there are once again no made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation.
- 2.7 This is the second consecutive quarter we have been able to report no reports or recommendations outstanding and represents a significant improvement on previous years. We continue to work with departments and HFBP to maintain this position.

### 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 January to 31 March 2012 are shown below.

#### Performance Indicators 2011/12

Ref	Performance Indicator	Target	Pro rata target	At end of March	Variance	Comments
1	% of deliverables completed (2011/12)	95%	95%	98%	Achieved (+3%)	104 reports delivered out of a total plan of 106 (accounting for audits carried forward)
2	% of planned audit days delivered (2011/12)	95%	95%	96%	Achieved (+1%)	823 days delivered out of a total plan of 861 days (accounting for audits carried forward)
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	95%	Achieved	52 out of 55 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%	92%	Not achieved -3%	61 out of 66 draft reports issued within 10 working days of exit meeting.

- 3.3 The year-end delivery figures (indicators 1 & 2) constitute the best year-end position achieved since the Deloitte contract began. We currently expect to be able to confirm 100% completion of the 2011/12 plan at the next meeting of the committee.

#### **4 Audit Planning**

- 4.1 Further to the plan agreed by the Committee at its last meeting, and following consultation with our internal audit colleagues in the Royal Borough of Kensington and Chelsea and Westminster City Council we have revised the audit plan to incorporate coverage within the developing tri and bi-borough environment. A revised plan is shown at Appendix C for the Committee to note. In addition to this plan we also have reserve plans for potential tri-borough, bi-borough and single borough work which will be used as and when resources become available.
- 4.2 We are also working with our tri-borough colleagues on the way in which Internal Audit, anti-Fraud and Risk Management services might be delivered in the future. We will be bringing a proposed target operating model for an integrated tri-borough service to the next meeting of the Committee in September. It is intended that this model will be submitted to the cabinets of each of the three councils for approval in December 2012.

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

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
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 January to 31 March 2012

We have finalised a total of 19 audit reports for the period to 1 January to 31 March 2012. In addition, we have issued a further 8 management letters and 1 follow up.

#### 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	Payroll	Jane West	Substantial
2	2011/12	Source Code	Jane West	Substantial
3	2011/12	Smartworking Project Management (Stage C)	Jane West	Substantial
4	2011/12	Programme and Project Governance	Jane West	Substantial
5	2011/12	Remote Working	Jane West	Substantial
6	2011/12	Lynx Application	Jane West	Substantial
7	2011/12	eServices Project Management	Jane West	Substantial
8	2011/12	HFBP Inventory Management	Jane West	Limited
9	2011/12	iCasework	Jane West	Substantial
10	2011/12	Debtors	Jane West	Limited
11	2011/12	Business Continuity Planning	Jane West/Lyn Carpenter	Substantial
12	2011/12	Bentworth Primary School	Andrew Christie	Substantial
13	2011/12	Canberra Primary School	Andrew Christie	Substantial
14	2011/12	Randolph Beresford Primary School	Andrew Christie	Substantial
15	2011/12	Melcombe Primary School	Andrew Christie	Substantial
16	2011/12	Corporate gas Safety	Nigel Pallace	Substantial
17	2011/12	Smart FM Facilities Management	Nigel Pallace	Substantial
18	2011/12	Home Buy Service	Melbourne Barrett	Substantial
19	2011/12	Change Management - NKA Contract	Melbourne Barrett	Limited

#### Audit Reports

<b>Full Assurance</b>	There is a sound system of control designed to achieve the system objectives and the controls are being consistently applied.
<b>Substantial Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

## Other Reports

### Management Letters

No.	Audit Plan	Audit Title	Director
20	10/11	2010/11 Vertical Contract Audits – Summary Report	Nigel Pallace
21	11/12	CHS Risk Register Controls Verification	Andrew Christie
22	11/12	Refunds Processing	Jane West
23	11/12	2011/12 Vertical Contract Audits – Summary Report	Nigel Pallace
24	11/12	MTFS Savings	Jane West
25	11/12	Access Databases	Jane West
25	11/12	Maintenance Orders	Melbourne Barrett
26	11/12	Information Sharing in Partnerships	Jane West

## Revised 2012/13 internal audit plan incorporating bi and tri-borough work

*Tri-borough Plan*

Department	Audit Title	Lead Audit Team	Timing
<b>ADULT SOCIAL CARE</b>			
	Personal Budgets	H & F (Deloitte)	Q3
	Client Affairs	RBKC	Q1
	Safeguarding Adults	H & F (Deloitte)	Q2
	Commissioning	H & F (Deloitte)	Q4
	ASC Departmental Governance	WCC (Tenon)	Q2
<b>CORPORATE SERVICES</b>			
	Tri and Bi-borough Programme and Project Reviews	H&F/ RBKC/ WCC	Q2
	IT Programme Management	H&F (Deloitte)	Q2
	Treasury Management & Pensions Investments	RBKC	Q3
<b>IT</b>			
	TB IT security (incorporating data security and information management - including ASC and Children's Services)	H&F/ RBKC (Deloitte)	Q2
	Adult Social Care IT System	H&F/ RBKC (Deloitte)	Q3
	Secure Connection for Wifi/ Converged Networks under Tri-Borough	H&F/ RBKC (Deloitte)	Q3
	IT Governance	H&F/ RBKC (Deloitte)	Q2
	Corporate Wide IT Strategy	H&F/ RBKC (Deloitte)	Q2
	ICT in schools/Social Enterprise contract management	H&F/ RBKC (Deloitte)	Q4

Department	Audit Title	Lead Audit Team	Timing
<b>CHILDREN'S SERVICES</b>			
	Third Sector Contracts	WCC	Q3
	Leaving Care Service	WCC	Q3
	Procurement and commissioning	RBKC	Q3
	FCS departmental governance	WCC (Tenon)	Q2
	Looked after Children Ofsted report/ Safeguarding Children	RBKC	Q2
	Fostering Service/ Payments to carers	RBKC	Q1

*Bi-borough Plan*

Department	Audit Title	Lead Audit Team	Timing
<b>HOUSING &amp; REGENERATION</b>			
Contracts	Supporting People Framework Contract	H & F (Deloitte)	Q1
Contracts	Total Facilities Management	H & F (Deloitte)	Q2
<b>TRANSPORT &amp; TECHNICAL SERVICES</b>			
	Pay and Display	RBKC	Q1
	Public Health and Safety	H & F (Deloitte)	Q3
	Parking Operations including PCNs and Compliance Monitoring	RBKC	Q3
	Residents Parking Online system	RBKC	Q2
Contracts	Highways Maintenance Contracts	H & F (Deloitte)	Q2
	Off Street Parking	RBKC	Q1
Contracts	Provision of PCN software	H & F (Deloitte)	Q1
<b>ENVIRONMENT, LEISURE &amp; RESIDENTS SERVICES</b>			
	Commercial / Trade Waste	RBKC	Q1

Single borough Plan

Department	Subject	Timing	Coverage / miniscope
<b>Corporate/ Cross-departmental</b>			
	Corporate & Partnership Governance	Q4	To cover the following areas taken from a 3-year rolling scope: <ul style="list-style-type: none"> <li>- Governance Framework</li> <li>- Roles and Responsibilities</li> <li>- Capacity and Capability</li> <li>- Partnership Organisations</li> </ul>
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"> <li>- Council and Service Objectives</li> <li>- Programme Management Arrangements and Governance</li> <li>- Project Management and Monitoring</li> <li>- Definition and Delivery of Benefits</li> <li>- Risk Management</li> </ul>
<b>Corporate Services</b>			
	iCasework - Benchmarking	Q1	
	Core Financials - Council Tax	Q3	<ul style="list-style-type: none"> <li>- Legislation, Policies and Procedures</li> <li>- Council Tax Transactions and Records <ul style="list-style-type: none"> <li>- Valuation</li> <li>- Tax Setting</li> <li>- Liability</li> <li>- Billing</li> <li>- Collection</li> <li>- Refunds</li> </ul> </li> <li>- Debt Recovery and Enforcement</li> <li>- Management Reporting</li> </ul>

Department	Subject	Timing	Coverage / miniscope
	Core Financials - NNDR	Q3	<ul style="list-style-type: none"> <li>- NNDR Transactions and Records               <ul style="list-style-type: none"> <li>- Valuation</li> <li>- Liability</li> <li>- Billing</li> <li>- Collection</li> <li>- Refunds</li> </ul> </li> <li>- Debt Recovery and Enforcement</li> <li>- Management Reporting</li> </ul>
	Core Financials - Schools (SIMS)	Q3	Full audit and testing for external audit: <ul style="list-style-type: none"> <li>- Monitoring and Review of Schools Financial Returns</li> <li>- Reconciliations to Council Records</li> </ul>
	Core Financials - preliminary testing	Q2	Preliminary testing of relevant systems' key controls to prepare for external audit testing
	Core Financials - other systems	Q2	Light-touch testing of all other identified Core Financial systems to ensure continued compliance with required controls
	Financial Accounting system ledger - Cedar	Q1	<ul style="list-style-type: none"> <li>- Accounting Records</li> <li>- Accounting Transactions and Manual Adjustments</li> <li>- Year-End Procedures</li> <li>- Financial and Performance Management Reporting</li> </ul>
<b>IT</b>			
	Cedar Unix O/S	Q1	
	Information management and security: Personal data security	Q1	An assessment of the system security and management control framework based on an evaluation of controls established and applied over information management and security. This will focus on the secure use and control of personal information on end user systems and furthermore any third party partners and contractors to include mobile data devices.
	CAMSYS	Q1	Analysis of the extent to which CAMSYS is been utilised across the Council and the strategies and plans in place to embed the use of CAMSYS across all Council departments.
	Attendance at BOIP Board	Q1	

Department	Subject	Timing	Coverage / miniscope
	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.
<b>Contracts</b>			
Contracts	Recently tendered contracts	Q2	<p>To cover: -</p> <ul style="list-style-type: none"> <li>- market testing</li> <li>- Letting of</li> <li>- Section of contractors</li> </ul> <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"> <li>• Defining the procurement strategy <ul style="list-style-type: none"> <li>• Pre-qualification.</li> <li>• Inviting tenders</li> </ul> </li> <li>• Invitation to tender (ITT)</li> <li>• Evaluating and refining tenders <ul style="list-style-type: none"> <li>• Awarding the contract</li> </ul> </li> <li>• Putting the contract in place</li> <li>• Contracts, terms and conditions <ul style="list-style-type: none"> <li>• Managing the contract</li> <li>• Review and testing</li> <li>• Feedback</li> </ul> </li> </ul>

Department	Subject	Timing	Coverage / miniscope
Contracts	Extended contracts	Q1	To cover: - <ul style="list-style-type: none"> <li>• The frequency that Extensions of Time are used? <ul style="list-style-type: none"> <li>• Contractors notification</li> <li>• CA/Project Manager assessments</li> <li>• Relevant events (type and use of)</li> </ul> </li> <li>• Resulting effect on LADs and Contractors recovery of cost <ul style="list-style-type: none"> <li>• Contract compliance</li> </ul> </li> </ul>
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
<b>Adult Social Care</b>			
	Quality Assurance	Q2	
<b>Children's Services</b>			
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.
School	Greenside Primary School	Q1	Governance, Financial Management, Procurement, Maintenance & Business Continuity and School Meals Income.



Department	Subject	Timing	Coverage / miniscope
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.
Contracts	West London Alliance Home Support Framework Agreement 2011/12 Social Community Care Support Services	Q3	<ul style="list-style-type: none"> <li>- Contract Formalities</li> <li>- Contract Management and Performance Management</li> <li>- Payments</li> <li>- Budget Management</li> <li>- Value for Money</li> </ul>
	Themed schools audit - <i>Leasing</i>	Q1	<p>To cover: -</p> <ul style="list-style-type: none"> <li>- Appropriate lease (i.e. operating not finance lease)</li> <li>- Advice sought and Approval obtained to enter into lease</li> <li>- Value for money sought</li> </ul>
<b>Environment, Leisure &amp; Residents Services</b>			
	CCTV	Q1	
<b>Housing and Regeneration</b>			

Department	Subject	Timing	Coverage / miniscope
Project	BPM programme	Q2	Coverage dependent on nature and stage of project but likely to cover: <ul style="list-style-type: none"> <li>- Council and Service Objectives</li> <li>- Programme Management Arrangements and Governance</li> <li>- Project Management and Monitoring</li> <li>- Definition and Delivery of Benefits</li> <li>- Risk Management</li> </ul>
	Regeneration Governance	Q1	Audit of Regeneration governance (programme/projects). Scope likely to include: <ul style="list-style-type: none"> <li>- Governance Structure</li> <li>- Roles and Responsibilities</li> <li>- Management Information and Reporting</li> </ul>
	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
	Accommodation Services Extended Follow-up	Q1	
	Accommodation Services - Gas Safety	Q1	
	Housing office Spot Check	Q1	
<b>Transport &amp; Technical Services</b>			
	Core Financials - On-street parking	Q3	<ul style="list-style-type: none"> <li>- Applications for Permits</li> <li>- Issue of Permits</li> <li>- Income and Banking</li> <li>- Return of Permits and Refunds</li> <li>- Public Notices and Enforcement</li> <li>- Management Information</li> </ul>
	E C Harris Common Issues	Q1	To cover financial management of the EC Harris contract. Specifically the systems and controls related to charging for services provided.
Contracts	E C Harris Contract	Q3	To cover financial management of the EC Harris contract. Specifically the systems and controls related to charging for services provided.

Department	Subject	Timing	Coverage / miniscope
<b>Other</b>			
	Verification of Priority 1 audit recommendations implementation	Q1/2/3/4	Verification of P1 recs not included in other follow-up audit work
	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	