

Audit, Pensions and Standards Committee

Agenda

Thursday 14 February 2013

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 (Vice-Chairman) | Eugenie White |

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Reports on the open agenda are available on the [Council's website](http://www.lbhf.gov.uk/Directory/Council_and_Democracy):
http://www.lbhf.gov.uk/Directory/Council_and_Democracy

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

Date Issued: 06 February 2013

Audit, Pensions and Standards Committee Agenda

14 February 2013

| <u>Item</u> | | <u>Pages</u> |
|---|--|--------------|
| 1. MINUTES OF THE PREVIOUS MEETING | | 1 - 8 |
| | (a) To approve as an accurate record and the Chairman to sign the minutes of the meeting of the Audit, Pensions and Standards Committee on 10 January 2013. | |
| | (b) To note the outstanding actions. | |
| 2. APOLOGIES FOR ABSENCE | | |
| 3. DECLARATIONS OF INTEREST | | |
| | If a Councillor has any prejudicial or personal interest in a particular item, they should declare the existence and nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent. | |
| | At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a prejudicial interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken, unless a dispensation has been obtained from the Standards Committee. | |
| | Where Members of the public are not allowed to be in attendance, then the Councillor with a prejudicial interest should withdraw from the meeting whilst the matter is under consideration unless the disability has been removed by the Standards Committee. | |
| 4. PENSION VALUE AND INVESTMENT PERFORMANCE | | 9 - 26 |
| | 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 31 st December 2012. It is attached as Appendix 1. | |
| 5. TREASURY MANAGEMENT STRATEGY 2013-14 | | 27 - 48 |
| | The report sets out the Council's Treasury Management Strategy for 2013/14. It seeks approval for borrowing limits and authorisation for the Executive Director of Finance and Corporate Governance to arrange the Council's cashflow, borrowing and investments in the year 2013/14. | |
| 6. CERTIFICATION OF GRANTS AND RETURNS 2011/12 | | 49 - 58 |
| | The report details the results of work conducted by the Audit Commission to certify grant claims in respect of the 2011/12 financial | |

year. As the Audit Commission handed over external audit responsibilities for the Council to KPMG in autumn 2012, the report has been finalised by KPMG.

- | | | |
|------------|---|-----------|
| 7. | 2012-13 AUDIT OPINION PLAN | 59 - 83 |
| | This report details the 2012/13 External Audit Plan as set-out by the Council's newly appointed auditor, KPMG. The plan (Appendix 1) describes how the auditor will deliver the financial statements audit work and sets out their approach to value for money (VFM) work for 2012/13. | |
| 8. | EXTERNAL AUDIT RECOMMENDATIONS UPDATES & ANNUAL GOVERNANCE STATEMENT ACTION PLAN | 84 - 94 |
| | This report summarises: | |
| | <ul style="list-style-type: none">• Progress on implementing recommendations arising from the Audit Commission 2011/12 Annual Governance Report• The action plans relating to the control weaknesses identified in the 2011/12 Annual Governance Statement and progress in implementing these action plans. | |
| 9. | COMBINED RISK MANAGEMENT HIGHLIGHT REPORT | 95 - 131 |
| | This report updates the Committee of the risks, controls, assurances and management action orientated to manage Enterprise Wide risks. | |
| 10. | DRAFT 2013/14 INTERNAL AUDIT PLAN | 132 - 150 |
| | This report presents the 2013/14 Internal Audit Plan for approval. | |
| 11. | INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 OCTOBER TO 31 DECEMBER 2012 | 151 - 161 |
| | This report summarises internal audit activity in respect of audit reports issued during the period 1 October to 31 December 2012 as well as reporting on the performance of the Internal Audit service. | |
| 12. | 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 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. | |
| 13. | EXEMPT MINUTES OF THE PREVIOUS MEETING | |
| 14. | CREATION OF AN EMPLOYEE-LED MUTUAL AND SELECTION OF THE BUSINESS PARTNER | |

Agenda Item 1



London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee Minutes

Thursday 10 January 2013

PRESENT

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

P-Solve: John Conroy and Nikhil Aggarwal

Trade Union Representative: Sheela Selvajothy

Officers: Jane West, Executive Director of Finance and Corporate Governance, Hitesh Jolapara, Bi-Borough Director of Finance, Jonathan Hunt, Tri-Borough Director for Treasury and Pensions, Geoff Drake, Chief Internal Auditor and Michael Sloniowski, Principal Consultant- Risk Management

37. MINUTES OF THE PREVIOUS MEETING

RESOLVED THAT

The minutes of the meeting on 27 September 2012 be agreed as a true and correct record, and

38. APOLOGIES FOR ABSENCE

There were apologies from Councillor Ivimy and from Eugenie White.

39. DECLARATIONS OF INTEREST

Councillors Murphy and Cartwright declared an other interest in items 40 and 41 as members of the Pension Fund.

40. PENSION VALUE AND INVESTMENT PERFORMANCE

John Conroy and Nikhil Aggarwal, P-Solve, presented an update on the 3rd quarter performance of the pension fund, and gave a verbal update on the 4th quarter. Mr Aggarwal said that quarter 3 had been on-risk, after a period in which attitudes had switched from quarter to quarter between on and off-risk.

In response to a question from Councillor Iggulden, Mr Conroy said that the on-risk, off risk parlance reflected the way in which market sentiment was reflected in shifts between asset classes: these shifts had intensified, both in scale and frequency, since the financial crisis. As part of this shift, a smaller group of assets, specifically the sovereign debt of a small group of countries, including the UK, had been identified as off-risk.

Mr Aggarwal said that improved sentiment reflected the decision of the US Federal Reserve to continue its quantitative easing programme, and the increased liquidity provided by the European Central Bank. The change saw a fall in gilt prices and a rise in the value of equities. The quarter 4 position had been more stable than recent quarters, but there remained concerns that the recovery in on-risk asset prices did not reflect economic fundamentals.

Mr Aggarwal said that, as gilt prices were closely linked to the fund's liabilities, this meant that the fund's liability benchmark had fallen during quarter 3, and the fund as a whole had performed well. Mr Conroy said that the LGIM mandate had performed as expected in tracking the liabilities, and this was reflected in its fall. He added that it also tracked the Quarter 4 rise in inflation expectations.

Councillor Murphy asked about the recent changes in fund managers at Barings. Mr Conroy said that the asset allocation sector was, after a long period of eclipse, experiencing growth again. As a consequence, experienced managers were in demand. He said that P-Solve were unconcerned about the change in managers, as the head and deputy head of the fund remained in place, and the replacement appeared to have the relevant experience and background. He said that a larger concern, in light of the growing investment in the sector, was the quantity of funds under management. He said that, while there was still some way to go before Barings reached the figure at which P-Solve believed it would be appropriate to close the fund, a decision to breach that limit, in contravention of their stated intention, would raise questions about their ability to move with the speed that effective asset allocation required.

The Chairman asked whether, in the light of the macro position, Barings and Ruffer had operated with sufficient tactical aggression in their asset allocation, in particular in relation to the equities market. Mr Conroy said that the Barings mandate had achieved its benchmark over the period required, and that the fund retained a significant exposure to equities through the MFS and Majedie mandates. It was open to Barings to substantially increase the equities held by the fund, but Barings remained cautious about the overall picture.

The Chairman asked whether the benchmark was sufficiently challenging. MR Conroy said that, for much of the period between 2008 and 2010, it had been very challenging. He added that it was difficult to maintain strategy when returns appeared to be improving.

The Chairman said that his impression was that the asset allocation mandates had insufficiently captured the rise in equity values. Mr Conroy said that Baring's view remained that the macro-economic outlook was poor, but they had moved into equities to some degree. With regards to Ruffer, who remained very cautious, he

said that the concerns were more valid, and that P-Solve would meet with them to discuss their plans.

The Chairman asked whether Goldman Sachs had been sufficiently stretched by their benchmark. Mr Conroy said that the mandate had performed as the Committee had requested it to. He said that his view was that the Council's managers were performing as asked, with an appropriate time to review the structure and character of the fund being the next actuarial valuation.

He said that it was understandable that the Committee would wish to crystallise the gains made in bond holdings, but the underlying economic picture remained forbidding, with the risk of inflation high, and stagflation possible.

Councillor Iggulden said that there was growth in the world economy and the fund, if oriented correctly, could avoid the risk suggested, particularly if an appropriately long-term view was taken. Mr Conroy said that inflation in the UK would affect the liabilities of the fund, but that otherwise such a strategy could be effective. It would be a strategic decision, however.

Councillor Ginn asked if the fund had property holdings. Mr Conroy said that the illiquid nature of property made it difficult to manage property funds, with 12 month exit "gates" common. He said that Barings were seeking to create a fund that the Dynamic Asset Allocation managers would be able to invest in, and able to make decisions to enter and exit in accordance with market conditions. In response to a question from the Chairman on listed property, he said that the performance of listed property was too closely correlated to that of equities as a class to allow it to function as a discreet investment.

RESOLVED THAT

The report be noted.

41. P-SOLVE MATCHING FUND REPORT

John Conroy, P-Solve, introduced the report, which explained the recent performance of the Matching Fund, and possible options for the fund. By way of introduction, he described the historical change which had seen fund trustees move away from being solely concerned, and to pay closer attention to their liabilities, with the introduction of mark to market into actuarial practices. He said that this had led to a period of extreme volatility and sharply rising contribution rates.

He said that the actuary based their estimate of liabilities on gilt yields: funds could use a different benchmark (corporate bonds, for instance) but this exposed them to what was termed basis risk. He said that it was considered prudent to have an element of the fund which moved in line with its liabilities; ideally, the whole fund would do so.

He said that recent unanticipated market conditions had seen an extraordinary fall in gilt yields, due to their attractiveness to foreign investors. The high price of gilts made selling out, before what seemed an inevitable fall in value, attractive, though

an alternative would have to be found that served something of the same liability tracking function. Mr Conroy said that there were three options:

1. Leave the Matching Fund as it is, or;
2. Alter the investment in gilts to other fixed interest investments, with the consequent increase in basis and credit risk, or;
3. Wait and see, with a decision to be made following the outcome of the actuarial review in 2013.

He said that he did not wish to be prescriptive, but said that, in his view, the fund should be invested with the long term in mind, and its current strategy adhered to until the actuarial review was complete.

Councillor Iggulden expressed concern that the view taken of the fund's liabilities was too negative, with the assumptions, over public sector pay, for instance, overly pessimistic (from the fund's point of view). He said that the fund's assets would, if inflation was as generally predicted likely, be best invested in equities that would not be adversely affected by it.

Jane West, Executive Director of Corporate Finance and Governance, said that, under the rules of the scheme, the Council's level of contribution to the fund was set by the actuary, with the investment of that fund in the Committee's hands. Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, said that the contribution made per employee was, at 14.5% similar to those at the other two boroughs, with the larger element ordered by the actuary relating to Hammersmith and Fulham's larger historical deficit.

The Chairman said that it appeared that a wait and see approach, with the Committee making a decision on the bond market in 2013, appeared to be the most sensible approach.

RESOLVED THAT

The report be noted.

42. TREASURY MID-YEAR REVIEW 2012-13

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report which set out the Council's debt, borrowing and investment activity in the six months to the 30th September 2012.

Councillor Iggulden asked why, given the comparably poor interest rates, the Council placed money with other local authorities. Mr Hunt said that it was best practice for the Council to spread its money between lenders, with some lent at as low risk as possible: local authorities were best placed to provide this.

Councillor Ginn asked about the borrowing requirement. Mr Hunt clarified that it included borrowing financed internally, with a figure of £44 million for external debt.

RESOLVED THAT

The report be noted.

43. ANNUAL GOVERNANCE STATEMENT AND AUDIT COMMISSION RECOMMENDATIONS UPDATE

Geoff Drake, Chief Internal Auditor, introduced the report which updated on Annual Governance Statement and Audit Commission Recommendations.

With regards to the implementation of health and safety plans, Councillor Murphy asked what liability had arisen. Michael Sloniowski, Principal Consultant- Risk Management, said that the reporting structures had been reinforced, and that work was underway to assess what, if any, what, if any action plans or legacy issues remain outstanding or if there are any further problems following improved risk assessments in the area.

RESOLVED THAT

The report be noted.

44. REVISED ANTI-MONEY LAUNDERING POLICY AND PROCEDURES

Geoff Drake, Chief Internal Auditor, introduced the report, which set out recent changes to the money laundering procedures. He said that the procedures had been amended, following changes to the CIPFA guidance, and were presented for the Committee's information, having been approved under delegated powers.

Councillor Ginn asked whether the Council received large cash payments frequently. Mr Drake said that they did, and that the figure used was that contained in the CIPFA guidance and was in use across Europe.

Councillor Ginn suggested that the figure was very high and asked whether the Council could set a lower limit for cash transactions. Jane West, Executive Director of Finance and Corporate Governance, said the Council would be reluctant to refuse payment if it was made legally.

Councillor Murphy asked whether there was a mechanism for recording repeated large cash payments. Mr Drake said that the Council did not, in line with the scheme itself.

RESOLVED THAT

The report be noted.

45. CORPORATE ANTI-FRAUD SERVICE SIX-MONTHLY REPORT

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the performance of the Corporate Anti-Fraud Service in the first six months of the financial year. He said that CAFS had delivered 72 sanctions (including 7 prosecutions) in the first half of the year including 35 properties recovered or

prevented from fraudulently being allocated. He added that section 11 of the report gave details of monies collected. He said that, going forward, the Committee would be able to use the information presented to assess what was recovered.

The Chairman asked whether the recovery rate was considered sufficient. Mr. Drake said that the rate appeared to be about 50%, but that the debt raised, on benefit overpayments, for instance, was often difficult to recover and took a long time to recover. Jane West, Executive Director of Finance and Corporate Governance, said that the figure was higher than she had feared, and positive in light of the upcoming localisation of Council Tax benefit.

Councillor Iggulden said that while it was understandable that the work of CAFS should be promoted, the value put on recovered properties by the Audit Commission seemed excessive. Mr Drake said the methodology was imperfect but the valuations were an accepted rate across local govt set by the Audit commission that helps for comparison purposes between councils. While in many cases there is no direct budget obvious impact there have been occasions where recovered properties have been sold.

Councillor Murphy asked if the Council had been awarded costs or compensation in the Smith case. Mr Drake said that he did not believe there had been assets to claim against, and that the courts did not always award as might be expected; he would confirm the position in that case in writing.

RESOLVED THAT

The report be noted.

46. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Principal Consultant- Risk Management, introduced the report, which set out risk management activity in the previous period. He said that the creation of a Tri-Borough Risk Management function had been agreed, which would be hosted by RBKC. With this in mind, practices and principles were currently being harmonised.

He said that the members of the London Risk Group had met to compare risks, and found that the upcoming implementation of Universal Credit was identified as high risk.

Councillor Ginn asked what risks were associated with Universal Credit. Mr Sloniowski said that given the scale of the change in policy and implementation, there was inevitable risk around implementation. Jane West, Executive Director of Finance and Corporate Governance, said that there were also financial risks, in particular in relation to monthly payment and to the risk of rent arrears, given the change to Housing Benefit.

The Chairman asked whether the risk of flooding was covered by the Council's risk register. Mr Sloniowski said that the Council had a Floor Risk Manager, and that the associated risks would be contained on the departmental risk register.

Councillor Murphy said, with regards to media crisis management, that he was concerned about a large-scale and unforeseen event, and whether the Council's leadership had the ability to call for advice at short notice in such a case. The Chairman agreed that this would appear to be sensible.

RESOLVED THAT

The report be noted

47. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2012

Geoff Drake, Chief Internal Auditor, introduced the report which set out internal audit activity in the quarter to 30 September 2012. He said that no limited assurance reports were issued in the period, and that follow up inspections had seen 100% implementation of follow up recommendations.

RESOLVED THAT

The report be noted.

48. 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 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.

49. EXEMPT MINUTES OF THE PREVIOUS MEETING

RESOLVED THAT

The exempt minutes of the meeting on 27 September 2012 be agreed as a true and correct record.

50. INFORMATION SECURITY RISK MANAGEMENT

RESOLVED THAT


The report be noted.

Meeting started: 7.00 pm
Meeting ended: 8.55 pm

Chairman

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Agenda Item 4

| | |
|--|---|
|  | London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 14TH February 2013 |
| PENSION FUND VALUE AND INVESTMENT PERFORMANCE | |
| Report of the Executive Director of Finance and Corporate Governance | |
| This report is open to the public | |
| Classification: For Information | |
| Key Decision: No | |
| Wards Affected: All | |
| Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance | |
| Report Author: Jonathan Hunt, Tri-Borough Director of Pensions and Treasury | Contact Details: Tel: 020 7641 1804 E-mail: Jonathanhunt@westminster.gov.uk |

1. EXECUTIVE SUMMARY

- 1.1. This report, prepared by P-Solve, provides details of the performance and the market value of the Council's pension fund investments for the quarter ending 31st December 2012. It is attached as Appendix 1.

2. RECOMMENDATIONS

- 2.1. To note the report.

3. REASONS FOR DECISION

- 3.1. Not applicable

4. INTRODUCTION AND BACKGROUND

- 4.1. Not applicable

5. PROPOSAL AND ISSUES

- 5.1. Not Applicable

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not Applicable

7. CONSULTATION

7.1. Not Applicable

8. EQUALITY IMPLICATIONS

8.1. Not Applicable

9. LEGAL IMPLICATIONS

9.1. Not Applicable

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not Applicable

11. RISK MANAGEMENT

11.1. Not Applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not Applicable

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

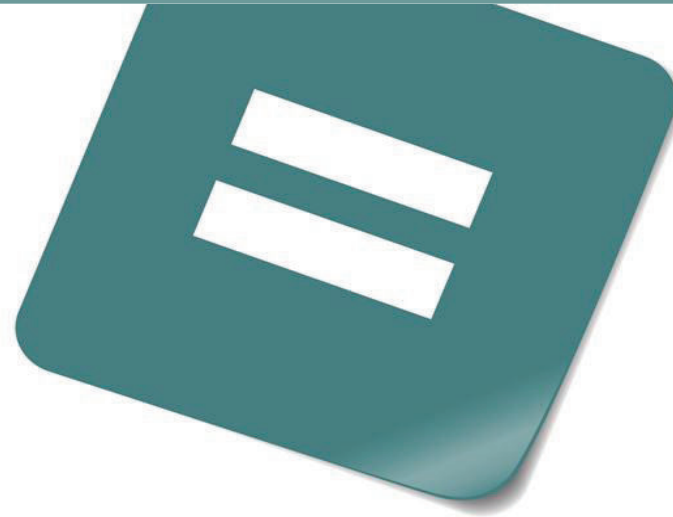
| No. | Description of Background Papers | Name/Ext of holder of file/copy | Department/ Location |
|------------|---|--|--|
| 1. | P-Solve quarterly fund manager reports | Jonathan Hunt, 020 7641 1804 | 16th Floor, Westminster City Hall, |

LIST OF APPENDICES:

Appendix 1- P-Solve Quarterly Report



P-Solve



London Borough of Hammersmith & Fulham Pension Fund

Page 11

Investment Governance Report – Quarter 4 2012

This report is addressed to the Audit & Pensions Committee of the London Borough of Hammersmith & Fulham Pension Fund only.

– Not for onward distribution

Summary

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

The UK Equity Mandate is managed by Majedie and the Overseas Equity Mandate by MFS. There are two Dynamic Asset Allocation managers, Barings and Ruffer. 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 0¼% 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>Goldman Sachs Benchmark</i> |
| Legal & General | <i>L&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 Unicapital which is invested almost entirely in Europe.

Performance Overview

| Breakdown of Fund Performance by Manager as at 31st December 2012 | | | | | | | | |
|---|--|---------------------|-----------------|------------------------|--------------------|-------------------|------------------------|------------------------|
| Fund | Manager | Market Value (£000) | % of Total Fund | Target % of Total Fund | 3 month return (%) | 1 year return (%) | 2 year return (% p.a.) | 3 year return (% p.a.) |
| Total Fund | | 657,705 | 100.0 | 100.0 | 4.9 | 9.5 | 6.4 | 8.1 |
| | <i>New Liability Benchmark + 2.2% p.a.</i> | | | | 4.5 | 2.9 | 12.3 | 12.2 |
| | <i>Difference</i> | | | | 0.4 | 6.6 | (5.9) | (4.1) |
| UK Equity Mandate | | 158,221 | 24.1 | 22.5 | | | | |
| | Majedie | | | | 7.4 | 17.1 | 9.2 | 10.1 |
| | <i>FTSE All Share + 2% p.a.</i> | | | | 4.3 | 14.5 | 6.2 | 9.6 |
| | <i>Difference</i> | | | | 3.1 | 2.6 | 3.0 | 0.5 |
| Overseas Equity Mandate | | 150,823 | 22.9 | 22.5 | | | | |
| | MFS | | | | 3.2 | 14.4 | 4.7 | 8.7 |
| | <i>MFS Custom Benchmark</i> | | | | 1.5 | 12.5 | 2.7 | 7.5 |
| | <i>Difference</i> | | | | 1.7 | 1.9 | 2.0 | 1.2 |
| Dynamic Asset Allocation Mandates | | 189,594 | 28.8 | 30.0 | 2.2 | 5.4 | 3.4 | 6.2 |
| | Barings | 116,586 | 17.7 | 18.8 | 1.3 | 5.6 | 3.6 | 5.8 |
| | <i>3 month Sterling LIBOR + 4% p.a.</i> | | | | 1.1 | 4.9 | 4.9 | 4.8 |
| | <i>Difference</i> | | | | 0.2 | 0.7 | (1.3) | 1.0 |
| | Ruffer | 73,008 | 11.1 | 11.2 | 3.5 | 4.6 | 2.9 | 7.4 |
| | <i>3 month Sterling LIBOR + 4% p.a.</i> | | | | 1.1 | 4.9 | 4.9 | 4.8 |
| | <i>Difference</i> | | | | 2.4 | (0.3) | (2.0) | 2.6 |
| Matching Fund | | 146,673 | 22.3 | 25.0 | 7.6 | 2.6 | 8.6 | 6.8 |
| | <i>Liability Benchmark + 1% p.a.</i> | | | | 4.2 | 1.7 | 11.0 | 11.1 |
| | <i>Difference</i> | | | | 3.4 | 0.9 | (2.4) | (4.3) |
| | Goldman Sachs | 62,025 | 9.4 | 12.5 | 1.3 | 6.7 | 2.4 | 2.6 |
| | <i>Goldman Sachs Benchmark</i> | | | | 0.6 | 2.9 | 2.9 | 2.8 |
| | <i>Difference</i> | | | | 0.7 | 3.8 | (0.5) | (0.2) |
| | Legal & General | 84,648 | 12.9 | 12.5 | 12.8 | (0.1) | 13.9 | 10.4 |
| | <i>L&G Benchmark</i> | | | | 7.7 | 0.1 | 24.5 | 20.7 |
| | <i>Difference</i> | | | | 5.1 | (0.2) | (10.6) | (10.3) |
| Private Equity | | 12,393 | 1.9 | 0.0 | 3.7 | 1.4 | 14.1 | 15.8 |
| | Invesco | 6,787 | 1.0 | 0.0 | 2.8 | 2.8 | 16.3 | 18.7 |
| | Unicapital | 5,607 | 0.9 | 0.0 | 4.9 | (0.8) | 11.1 | 11.8 |

Notes:

- 1) Over the 3 months to 31 December 2012, 3 month LIBOR returned 0.1%, over a 12 month period the return was 0.9%.
- 2) All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified.
- 3) Returns are shown gross of fees throughout.
- 4) Figures may be affected by rounding.

Asset Reconciliation and Valuation

4

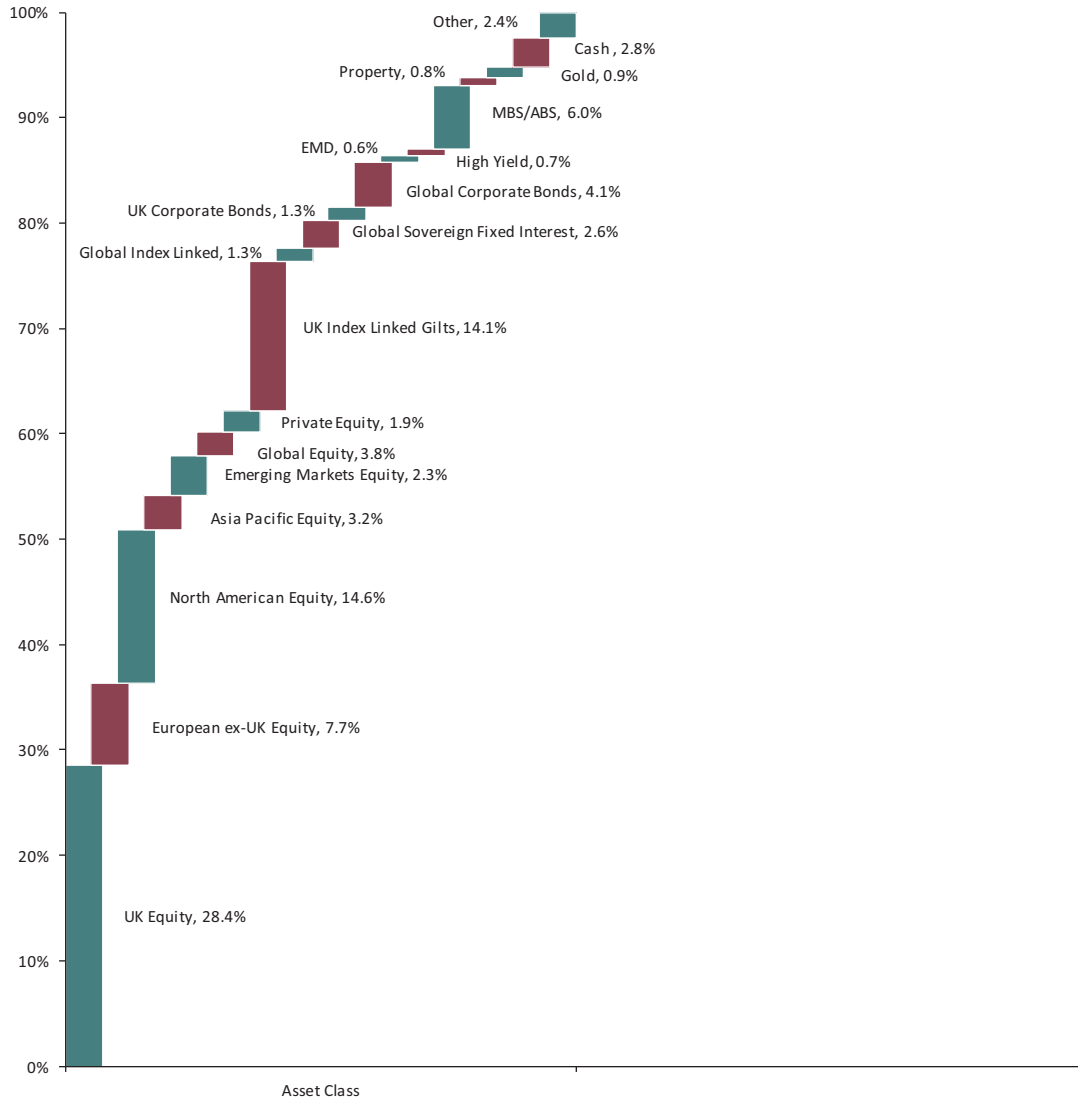
Asset Reconciliation and Valuation

| Fund | Manager | Closing Market Value as at 30th September 2012 £000 | % of Total Fund | Net Investment £000 | Appreciation £000 | Income Received £000 | Fees £000 | Closing Market Value as at 31st December 2012 £000 | % of Total Fund | Target % of Total Fund |
|-----------------------------------|-----------------|---|-----------------|------------------------|-------------------|----------------------|-----------|--|-----------------|---------------------------|
| Total Fund | | 637,012 | 100.0 | (10,045) | 29,125 | 1,512 | 0 | 657,705 | 100.0 | 100.0 |
| UK Equity Mandate | Majedie | 153,085 | 24.0 | (6,000) | 10,349 | 764 | - | 158,221 | 24.1 | 22.5 |
| Overseas Equity Mandate | MFS | 150,011 | 23.5 | (4,000) | 4,264 | 525 | 0 | 150,823 | 22.9 | 22.5 |
| Dynamic Asset Allocation Mandates | | 185,599 | 29.1 | - | 3,744 | 222 | - | 189,594 | 28.8 | 30.0 |
| | Barings | 115,042 | 18.1 | - | 1,497 | 29 | - | 116,586 | 17.7 | 18.8 |
| | Ruffer | 70,558 | 11.1 | - | 2,247 | 193 | - | 73,008 | 11.1 | 11.2 |
| Matching Fund | | 136,325 | 21.4 | (1) | 10,327 | 1 | 0 | 146,673 | 22.3 | 25.0 |
| | Goldman Sachs | 61,248 | 9.6 | (0) | 767 | - | 0 | 62,025 | 9.4 | 12.5 |
| | Legal & General | 75,077 | 11.8 | (1) | 9,559 | 1 | 0 | 84,648 | 12.9 | 12.5 |
| Private Equity | | 11,992 | 1.9 | (44) | 441 | 2 | - | 12,393 | 1.9 | 0.0 |
| | Invesco | 6,813 | 1.1 | (220) | 192 | 0 | - | 6,787 | 1.0 | 0.0 |
| | Unicaptial | 5,179 | 0.8 | 176 | 249 | 2 | - | 5,607 | 0.9 | 0.0 |

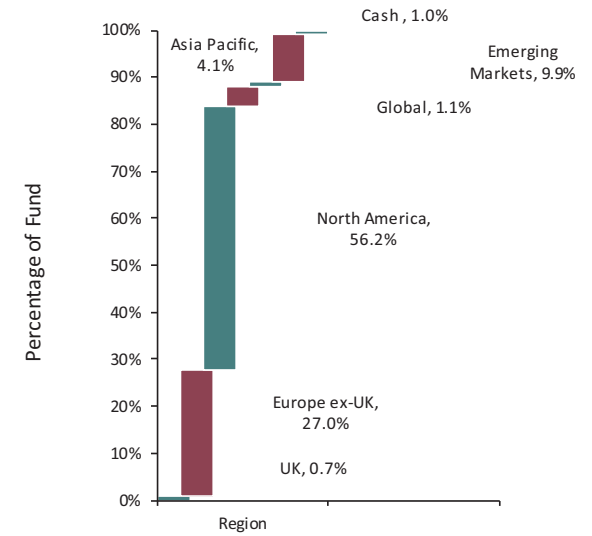
Page 14

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

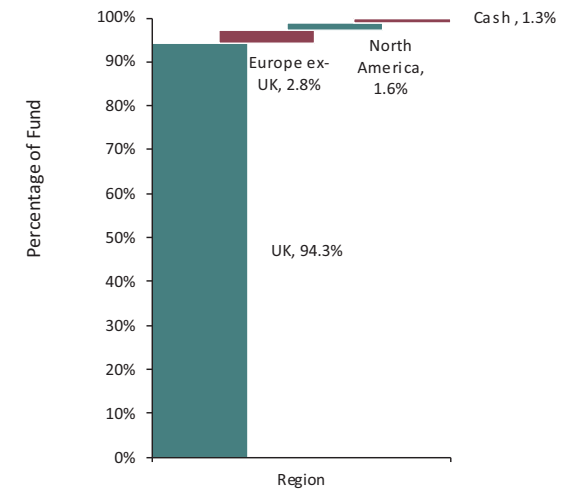
Asset Class Breakdown as at 31 December 2012



Breakdown of the MFS mandate

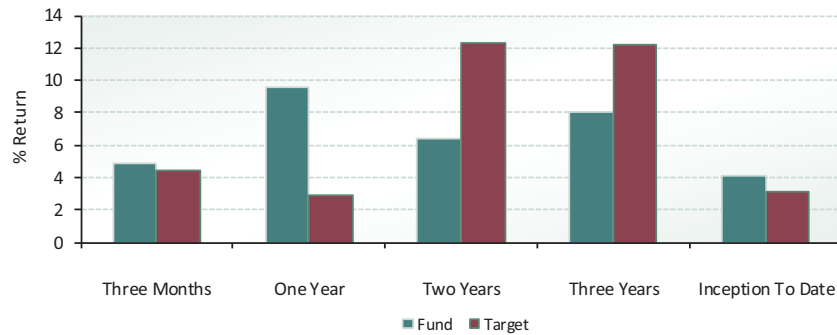


Breakdown of the Majedie mandate



Notes: Breakdown has been estimated by P-Solve based on the available manager data.

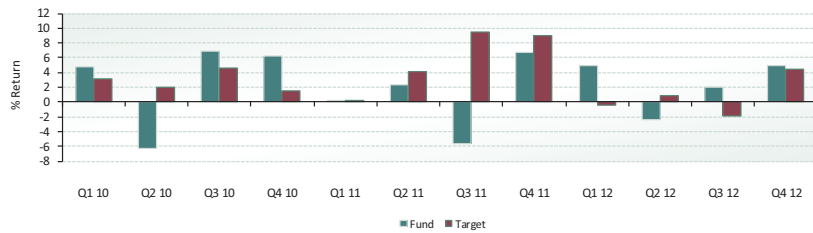
Historical Fund Performance



| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---------------|--------------|----------|-----------|-------------|-------------------|
| Fund | 4.85 | 9.53 | 6.43 | 8.08 | 4.13 |
| Target | 4.46 | 2.94 | 12.26 | 12.15 | 3.10 |

The Fund outperformed its liability benchmark by 0.39% over the quarter, returning 4.85% compared to the target of 4.46%. The Fund's performance of 9.53% over the year was ahead of its target by 6.59%. The Fund has failed to keep pace over the last 3 years but has outperformed since inception.

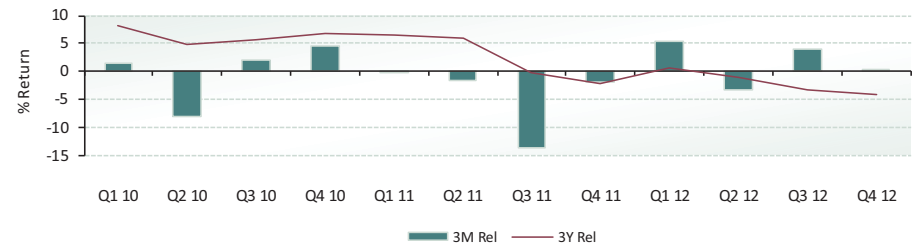
Three Years Rolling Quarterly Returns



Page 16

| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Fund | 4.75 | -6.34 | 6.87 | 6.20 | 0.14 | 2.27 | -5.62 | 6.79 | 4.99 | -2.42 | 1.96 | 4.85 |
| Target | 3.21 | 2.00 | 4.68 | 1.57 | 0.17 | 4.07 | 9.54 | 8.98 | -0.42 | 0.94 | -1.96 | 4.46 |

Three Years Rolling Relative Returns



| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|--------|-------|-------|-------|-------|-------|
| 3M Rel | 1.49 | -8.10 | 2.09 | 4.56 | -0.03 | -1.73 | -13.84 | -2.01 | 5.43 | -3.33 | 4.00 | 0.39 |
| 3Y Rel | 8.10 | 4.86 | 5.57 | 6.83 | 6.55 | 5.98 | -0.22 | -2.22 | 0.64 | -1.12 | -3.46 | -4.07 |

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. Returns are gross of fees. Three Year Rolling Relative Returns have been calculated arithmetically from Q4 2012 onwards.

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 Fund Performance



| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---------------|--------------|----------|-----------|-------------|-------------------|
| Fund | 7.42 | 17.06 | 9.16 | 10.10 | 9.96 |
| Target | 4.33 | 14.53 | 6.20 | 9.62 | 7.80 |

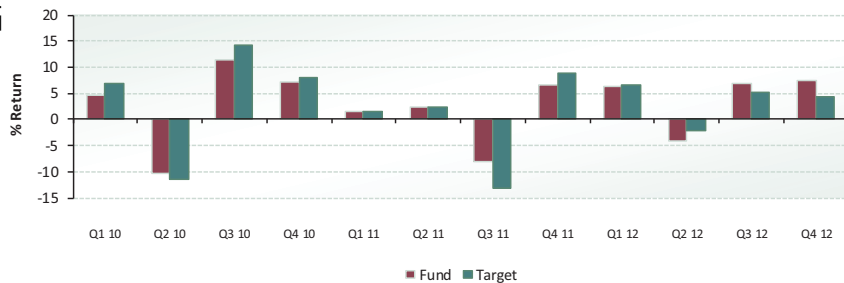
Quarterly Manager update

Organisation Adam Parker will no longer be one of the four managers of the UK Focus Fund, in order to allow him to dedicate his time to the small-cap equity sub-portfolio he manages within the UK Equity Fund. He will, however, remain one of the four UK Equity Fund managers. He will be replaced by Chris Reid, who is one of the co-managers for the Tortoise Funds and also runs Majedie's UK Income Fund. P-Solve will continue to monitor the situation.

Performance The fund performance was 7.42% over the quarter, 3.09% ahead of its target. Over 12 months, the portfolio was 2.53% ahead of its target. Performance drivers were again holdings in Barclays and RBS, with other positive contributions from Nokia, Lufthansa and ITV. The main negative contribution was from Nintendo whose share fell due to market concerns for its new console and the currency translation effect of the weakening Yen.

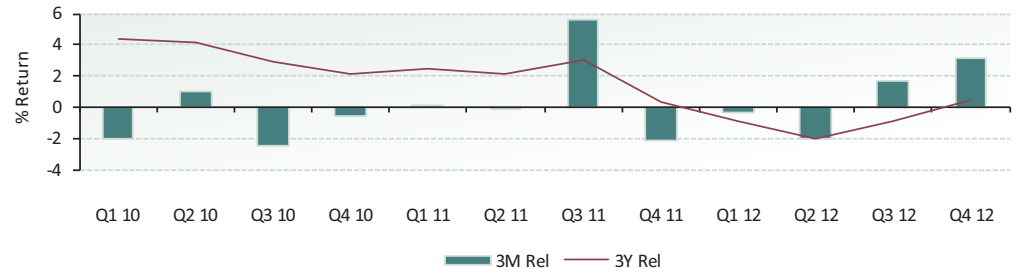
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|--------|-------|-------|-------|-------|--------|-------|-------|-------|-------|-------|
| Fund | 4.73 | -10.47 | 11.36 | 7.29 | 1.56 | 2.34 | -8.15 | 6.63 | 6.24 | -4.10 | 6.96 | 7.42 |
| Target | 6.93 | -11.35 | 14.17 | 7.90 | 1.53 | 2.41 | -13.05 | 8.92 | 6.62 | -2.14 | 5.21 | 4.33 |

Three Years Rolling Relative Returns



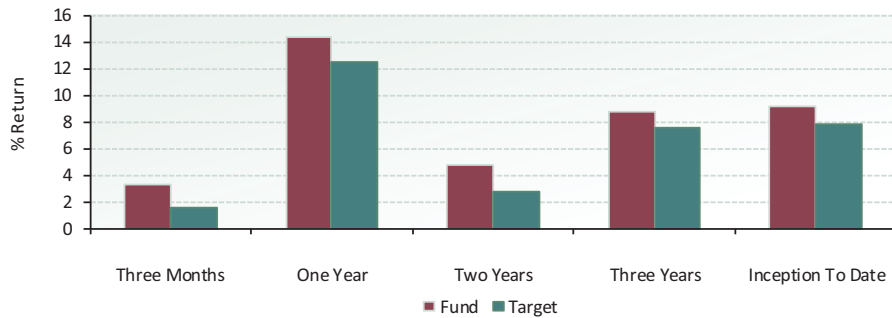
| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 3M Rel | -2.06 | 0.99 | -2.46 | -0.57 | 0.03 | -0.07 | 5.64 | -2.10 | -0.36 | -2.00 | 1.66 | 3.09 |
| 3Y Rel | 4.35 | 4.11 | 2.93 | 2.11 | 2.48 | 2.13 | 3.00 | 0.32 | -0.92 | -2.04 | -0.90 | 0.48 |

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. Returns are gross of fees.

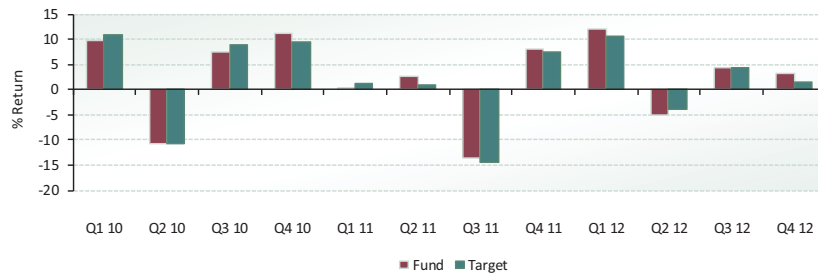
MFS are owned by Sun Life Financial based in Boston. Their investment philosophy is to select the best investment opportunities across regions and sectors. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

Historical Fund Performance



| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---------------|--------------|----------|-----------|-------------|-------------------|
| Fund | 3.23 | 14.38 | 4.71 | 8.68 | 9.20 |
| Target | 1.53 | 12.48 | 2.67 | 7.54 | 7.77 |

Three Years Rolling Quarterly Returns



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| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|--------|-------|-------|-------|-------|--------|-------|-------|-------|-------|-------|
| Fund | 9.83 | -10.85 | 7.54 | 11.19 | 0.04 | 2.73 | -13.61 | 7.96 | 11.90 | -5.08 | 4.31 | 3.23 |
| Target | 10.80 | -10.65 | 8.77 | 9.57 | 1.16 | 0.86 | -14.56 | 7.49 | 10.71 | -3.97 | 4.20 | 1.53 |

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. Returns are gross of fees.

Quarterly Manager update

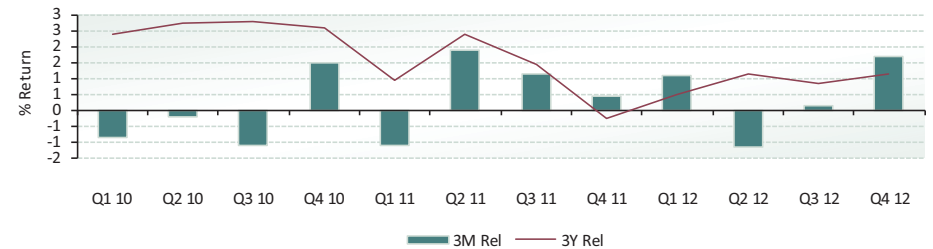
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The performance over the quarter was 3.23%, 1.7% ahead of the target. Over 12 months, the fund was 1.9% ahead of its target. An underweight position in technology, overweight position in industrial goods and services and stock selection in retailing and basic materials has aided performance. However, stock selection in energy and special products & services: St Jude Medical, Yahoo Japan and Toyota Motor detracted from performance over the quarter.

Process No significant changes over the quarter.

Three Years Rolling Relative Returns



| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 3M Rel | -0.87 | -0.22 | -1.13 | 1.48 | -1.11 | 1.85 | 1.11 | 0.44 | 1.07 | -1.16 | 0.11 | 1.70 |
| 3Y Rel | 2.39 | 2.71 | 2.76 | 2.59 | 0.90 | 2.38 | 1.44 | -0.25 | 0.47 | 1.10 | 0.83 | 1.14 |

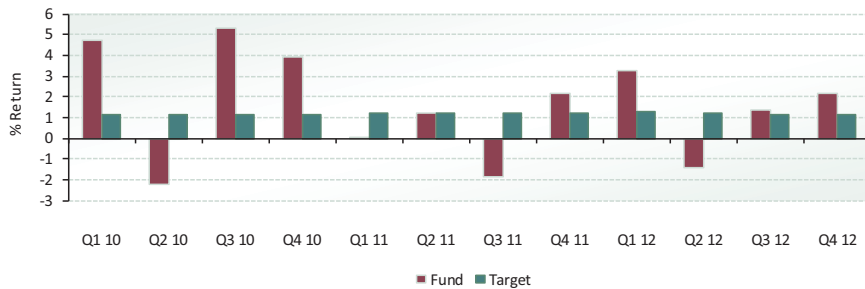
Historical Fund Performance



| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---------------|--------------|----------|-----------|-------------|-------------------|
| Fund | 2.15 | 5.40 | 3.40 | 6.22 | 9.06 |
| Target | 1.12 | 4.86 | 4.89 | 4.83 | 4.94 |

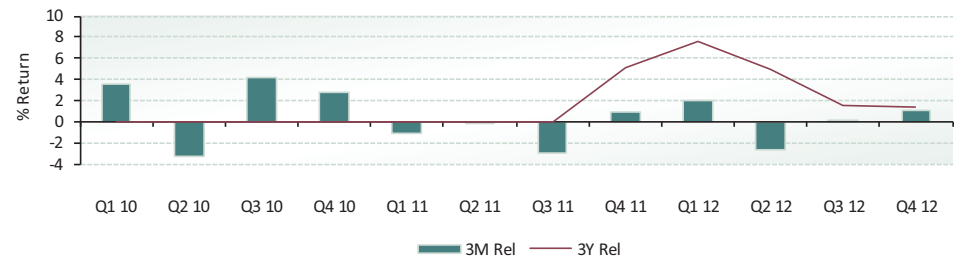
The performance of the group over the quarter was 2.15%, the LIBOR-based target returned 1.12%. Outperformance was driven by a continued rally in equity markets over the quarter led by Europe after the ECB gave reassurance that it would do everything in its power to protect the Euro. Over the past 12 months, performance has been 0.54% ahead of the target.

Three Years Rolling Quarterly Returns



| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Fund | 4.73 | -2.22 | 5.32 | 3.94 | 0.01 | 1.18 | -1.86 | 2.16 | 3.27 | -1.44 | 1.37 | 2.15 |
| Target | 1.14 | 1.16 | 1.17 | 1.17 | 1.18 | 1.19 | 1.21 | 1.24 | 1.25 | 1.23 | 1.17 | 1.12 |

Three Years Rolling Relative Returns



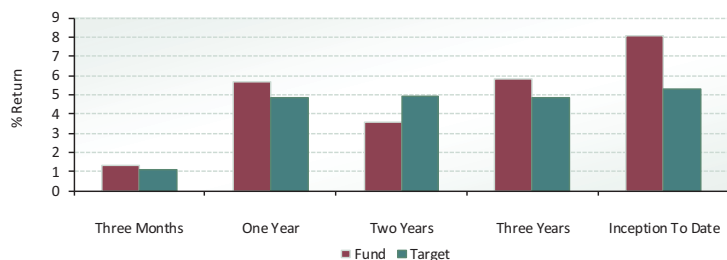
| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 3M Rel | 3.54 | -3.34 | 4.10 | 2.74 | -1.16 | -0.01 | -3.03 | 0.91 | 2.00 | -2.64 | 0.20 | 1.03 |
| 3Y Rel | - | - | - | - | - | - | - | 5.10 | 7.54 | 4.97 | 1.59 | 1.39 |

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. Returns are gross of fees.

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 Fund Performance



| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---------------|--------------|----------|-----------|-------------|-------------------|
| Fund | 134 | 5.64 | 3.58 | 5.81 | 8.03 |
| Target | 112 | 4.86 | 4.89 | 4.83 | 5.31 |

Quarterly Manager update

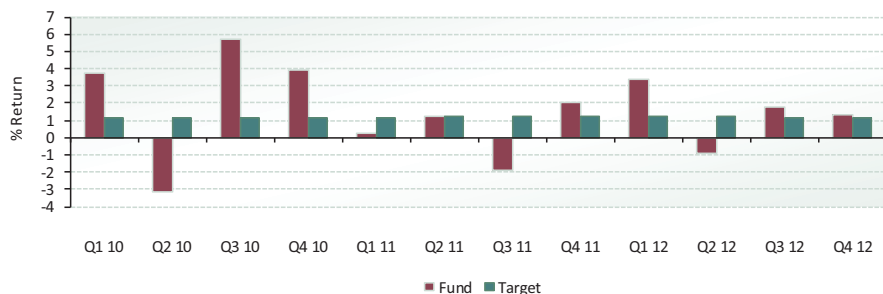
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 1.34% over the quarter, 0.22% ahead of its target. Over 12 months, the fund is 0.78% ahead of target. The strongest returns in the quarter came from European equities. Japanese equities also rallied due to the election of the Liberal Democratic Party who promise a more interventionist approach to monetary policy. However, "safe haven" government bonds were generally weak performers over the quarter and Gold Bullion saw a sharp sell off as investors began to fear it may have reached its peak.

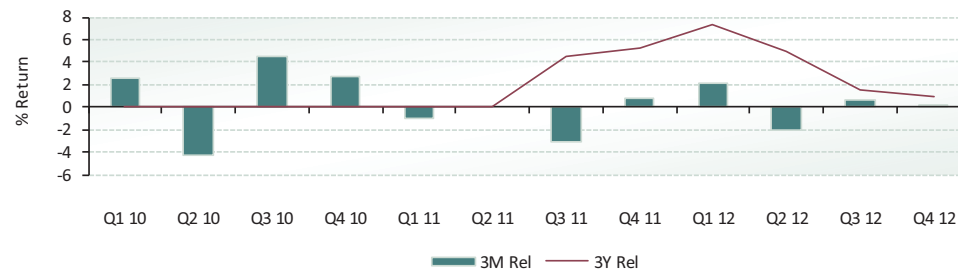
Process No significant changes over the quarter.

Three Years Rolling Quarterly Returns



| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Fund | 3.77 | -3.12 | 5.73 | 3.88 | 0.22 | 1.19 | -1.89 | 2.07 | 3.35 | -0.90 | 1.78 | 1.34 |
| Target | 1.14 | 1.16 | 1.17 | 1.17 | 1.18 | 1.19 | 1.21 | 1.24 | 1.25 | 1.23 | 1.17 | 1.12 |

Three Years Rolling Relative Returns



| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 3M Rel | 2.59 | -4.23 | 4.51 | 2.68 | -0.95 | 0.00 | -3.06 | 0.82 | 2.07 | -2.10 | 0.60 | 0.22 |
| 3Y Rel | - | - | - | - | - | - | 4.51 | 5.26 | 7.38 | 4.90 | 1.46 | 0.98 |

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. Returns are gross of fees.

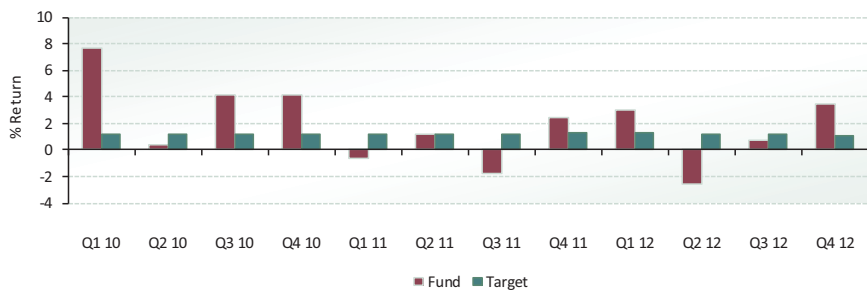
Ruffer are a small boutique investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

Historical Fund Performance



| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---------------|--------------|----------|-----------|-------------|-------------------|
| Fund | 3.47 | 4.64 | 2.86 | 7.43 | 12.43 |
| Target | 1.12 | 4.86 | 4.89 | 4.83 | 5.31 |

Three Years Rolling Quarterly Returns



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| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Fund | 7.64 | 0.41 | 4.13 | 4.11 | -0.61 | 1.13 | -1.80 | 2.44 | 3.04 | -2.55 | 0.71 | 3.47 |
| Target | 1.14 | 1.16 | 1.17 | 1.17 | 1.18 | 1.19 | 1.21 | 1.24 | 1.25 | 1.23 | 1.17 | 1.12 |

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. Returns are gross of fees.

Quarterly Manager update

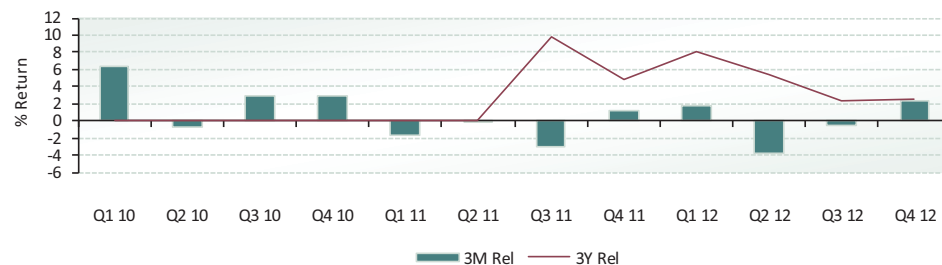
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 3.47% over the quarter, 2.35% ahead of its target. Over 12 months, the fund was 0.22% below the target. The portfolio made losses from the poor performance of Gold Bullion, Gold equities and Defensive sectors such as Telecoms and Pharmaceuticals. However, positive contributions came from Japanese equities, UK Index Linked Gilts and strong stock selection in the likes of Barratt Developments and Invensys.

Process No significant changes over the quarter.

Three Years Rolling Relative Returns



| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 3M Rel | 6.42 | -0.74 | 2.93 | 2.91 | -1.77 | -0.06 | -2.97 | 1.19 | 1.77 | -3.73 | -0.45 | 2.35 |
| 3Y Rel | - | - | - | - | - | - | 9.79 | 4.86 | 8.01 | 5.34 | 2.35 | 2.60 |

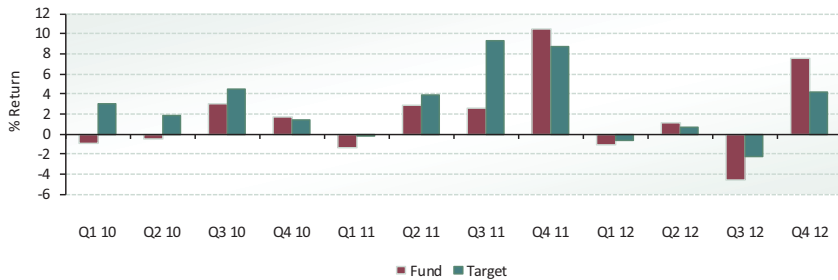
Historical Fund Performance



| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---------------|--------------|----------|-----------|-------------|-------------------|
| Fund | 7.59 | 2.62 | 8.59 | 6.82 | 6.25 |
| Target | 4.15 | 1.73 | 11.02 | 11.05 | 9.72 |

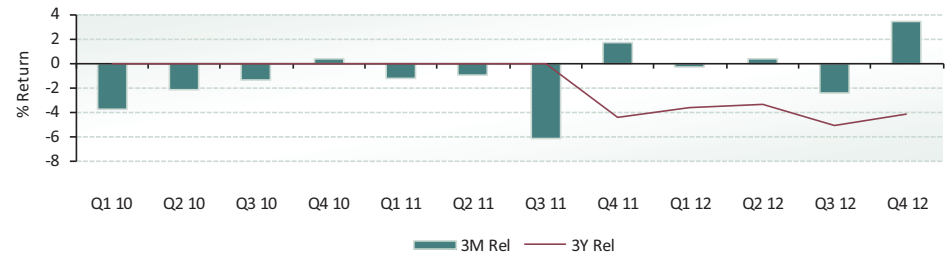
The performance of the Matching Fund over the quarter was 7.59%, 3.44% ahead of its gilts-based liability benchmark. The Matching Fund return of 2.62% over the year was 0.89% above target.

Three Years Rolling Quarterly Returns



| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Fund | -0.88 | -0.48 | 2.98 | 1.75 | -1.32 | 2.90 | 2.50 | 10.42 | -1.04 | 1.03 | -4.60 | 7.59 |
| Target | 3.02 | 1.81 | 4.49 | 1.38 | -0.01 | 3.88 | 9.35 | 8.67 | -0.71 | 0.64 | -2.25 | 4.15 |

Three Years Rolling Relative Returns



| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 3M Rel | -3.79 | -2.25 | -1.45 | 0.36 | -1.31 | -0.94 | -6.26 | 1.61 | -0.33 | 0.39 | -2.40 | 3.44 |
| 3Y Rel | - | - | - | - | - | - | - | -4.47 | -3.64 | -3.45 | -5.07 | -4.23 |

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. Returns are gross of fees.

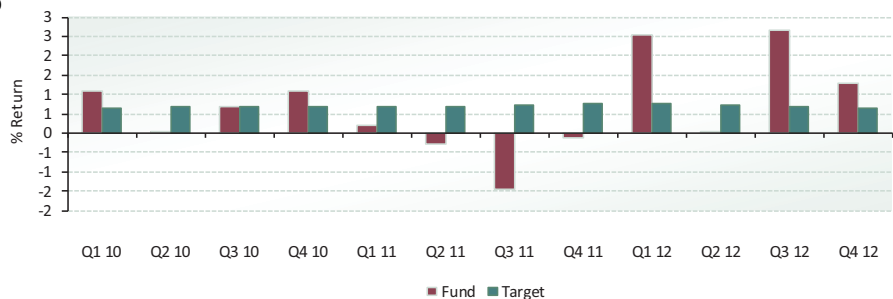
Goldman Sachs are a very large American investment bank who were first appointed in 1999 following a tender process. They have managed both equities and bonds on an active basis and since February 2009 managed an active bond fund.

Historical Fund Performance



| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---------------|--------------|----------|-----------|-------------|-------------------|
| Fund | 127 | 6.65 | 2.42 | 2.59 | 3.11 |
| Target | 0.63 | 2.85 | 2.87 | 2.82 | 2.12 |

Three Years Rolling Quarterly Returns



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| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Fund | 1.10 | 0.03 | 0.68 | 1.10 | 0.18 | -0.27 | -1.45 | -0.11 | 2.55 | 0.03 | 2.67 | 1.27 |
| Target | 0.65 | 0.67 | 0.68 | 0.68 | 0.69 | 0.70 | 0.72 | 0.75 | 0.76 | 0.74 | 0.68 | 0.63 |

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. Returns are gross of fees.

Quarterly Manager update

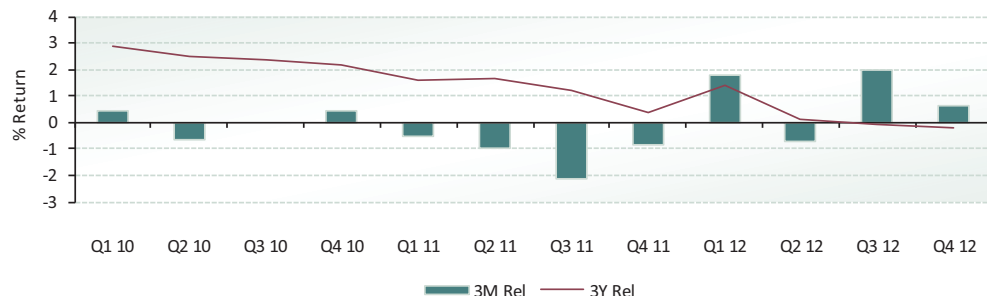
Organisation No significant changes over the quarter.

Product No significant changes over the quarter.

Performance The fund performance was 1.27% over the quarter, 0.64% ahead of its target. Over 12 months, performance was 3.8% ahead of the target. The portfolio's outperformance was led predominantly by the fund's cross-sector and currency strategies, whilst the EMD selection strategy performance was the only negative contributor.

Process No significant changes over the quarter.

Three Years Rolling Relative Returns



| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| 3M Rel | 0.44 | -0.64 | 0.00 | 0.42 | -0.51 | -0.96 | -2.15 | -0.85 | 1.78 | -0.70 | 1.98 | 0.64 |
| 3Y Rel | 2.86 | 2.51 | 2.37 | 2.19 | 1.60 | 1.68 | 1.20 | 0.34 | 1.42 | 0.12 | -0.10 | -0.23 |

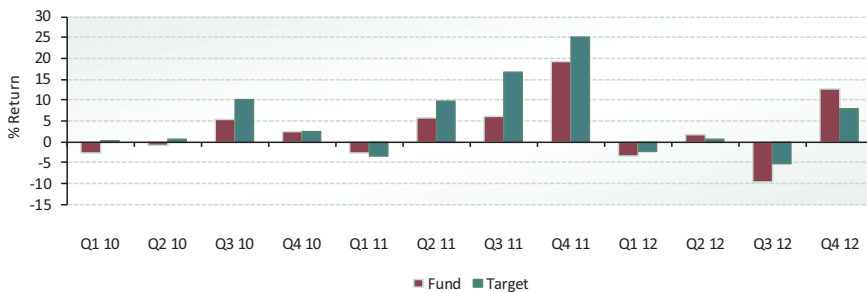
Legal & General are a very large manager of indexed funds. They were first appointed to manage investments for the fund in 1993. They have managed both equities and bonds on an indexed basis. Their current investment mandate started in the first quarter of 2012, although performance has been blended with the previous holding in the LGIM 2055 Index-Linked Gilt Fund.

Historical Fund Performance



| | Three Months | One Year | Two Years | Three Years | Inception To Date |
|---------------|--------------|----------|-----------|-------------|-------------------|
| Fund | 12.75 | -0.14 | 13.90 | 10.41 | 4.29 |
| Target | 7.69 | 0.14 | 24.52 | 20.67 | 4.79 |

Three Years Rolling Quarterly Returns



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| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Fund | -2.69 | -0.96 | 5.18 | 2.34 | -2.69 | 5.85 | 5.96 | 10.04 | -3.50 | 1.76 | -9.81 | 12.75 |
| Target | 0.36 | 0.39 | 9.89 | 2.38 | -3.30 | 9.60 | 16.73 | 25.16 | -2.22 | 0.38 | -5.27 | 7.69 |

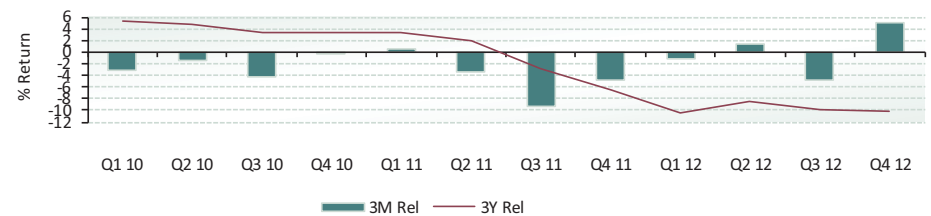
Notes:

All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. All performance figures over 1 year have been annualised. Returns are gross of fees.

Quarterly Manager update

| | |
|--------------|---|
| Organisation | No significant changes over the quarter. |
| Product | No significant changes over the quarter. |
| Performance | The fund performance was 12.75% over the quarter, 5.06% ahead of its bespoke target. Over 12 months, performance was 0.28% behind the target. |
| Process | No significant changes over the quarter. |

Three Years Rolling Relative Returns



| | Q1 10 | Q2 10 | Q3 10 | Q4 10 | Q1 11 | Q2 11 | Q3 11 | Q4 11 | Q1 12 | Q2 12 | Q3 12 | Q4 12 |
|---------------|-------|-------|-------|-------|-------|-------|-------|-------|--------|-------|--------|--------|
| 3M Rel | -3.03 | -1.34 | -4.29 | -0.04 | 0.63 | -3.42 | -9.23 | -4.89 | -1.31 | 1.37 | -4.79 | 5.06 |
| 3Y Rel | 5.20 | 4.71 | 3.23 | 3.22 | 3.37 | 1.89 | -2.92 | -6.51 | -10.32 | -8.41 | -10.01 | -10.26 |

Risky assets had a strong fourth quarter following further confidence-inducing policy announcements in developed countries and an improved growth outlook for many emerging market economies. US politicians managed to temporarily avert the fiscal cliff, Greece and the IMF agreed a deal designed to reduce Greece's debt to GDP ratio and European leaders agreed upon a set of measures to create a widely called upon banking union. Elsewhere, in emerging markets, Chinese economic data continued to improve indicating the possibility of a return to 8% growth next year.

Most equity markets continued to gain on the positive momentum built up over the autumn; European equities were the strongest performers over the quarter, returning 6.3%, while emerging market and UK equities returned 5.3% and 3.8% respectively. US equities fell slightly, driven largely by uncertainty surrounding the fiscal cliff negotiations, but overall it was a good year for the US and global equity markets in general with most delivering double digit returns. The on-risk attitude was also reflected in credit markets with global high yield credit and emerging market debt delivering strong returns of 4.6% and 3.3% for the quarter respectively and outperforming most of the major equity markets over the year.

In the UK, the Bank of England (BoE) and Office for National Statistics indicated that it was quite likely the economy contracted in the fourth quarter as the temporary factors that spurred growth in the previous quarter dissipated. Furthermore, it was announced that growth in quarter 3 2012 would be revised downwards, increasing the possibility that the economy contracted or finished flat in 2012, as suggested by the figures released by the British Chambers of Commerce in December. The UK service sector which counts for almost three quarters of the UK economy displayed unusual signs of vulnerability in December as growth slowed and activity in the sector fell for the first time in two years. In contrast to other economic indicators, however, the labour market has shown considerable resilience as jobs continued to grow, with unemployment falling to 7.8% in the three months to October, the largest quarterly fall since 2001. Inflation, however, crept up from 2.2% to 2.7% in December, decreasing the likelihood of further stimulus in the near term and allowing less flexibility for the soon to be Governor of the BoE, Mark Carney.

In Europe, politicians agreed a set of measures intended to create a banking union that would allow the European Central Bank to act as a single banking supervisor and directly recapitalise struggling banks. This will be funded by the €500bn European Stability Mechanism (ESM), designed to ensure a backstop to alleviate fears of

contagion in the banking system. This agreement provided welcome relief from the political indecision that has been the story for most of 2012 and served to increase the credibility of the euro zone's commitment to keep itself intact. Greece also agreed a deal with the IMF which will see an extension of its debt maturities, a reduction in interest paid and a buyback of debt held by private investors over the quarter. The deal is optimistically forecast to see the Greek debt to GDP ratio decrease from current levels of around 190% to 124% by 2020. However, as ever, there are a number of reasons to be sceptical of whether these measures will be enough to solve the country's long-term issues, chief among which is the fact that the success of the deal relies heavily on the performance of the Greek economy over the coming years.

The US economy continued on its path to recovery as growth in the previous quarter was revised up from 2% to 2.7%, indicating modest growth over 2012 as a whole. This growth has been supported by an improving housing market as sales of used homes and construction spending hit a three-year high whilst consumer confidence also hit a four-year high. Unemployment, however, remains around 7.9%, prompting the Federal Reserve to announce measures to maintain low interest rates and purchase \$45m in long-term treasuries at least until unemployment falls to 6.5%. The improved economic situation, however, was overshadowed by politics over the quarter as re-elected President Barack Obama engaged in long drawn-out discussions with opposition leaders in an effort to avert the fiscal cliff, a series of spending cuts and expiring bush-era tax cuts that would have led to severe economic contraction. Talks went to the wire and leaders eventually agreed on a deal early in the New Year to increase taxes for those earning above \$400,000 as well as make permanent most of the original Bush tax cuts.

Elsewhere, Japan unveiled another \$11bn round of stimulus, aimed at reviving the stagnating economy with markets reacting positively to the newly appointed Prime Minister, Shinzo Abe. In emerging markets, reports indicate that Chinese economic growth may have accelerated to 7.8% over the quarter, welcome news given the last two years of slowing growth. The economy has been boosted by increasing infrastructure spending, an improving manufacturing sector and a proactive government approach to fiscal stimulus and monetary policy. Whilst it is hard to envisage a return to double-digit growth, investors are cautiously optimistic that the Chinese economy will continue to deliver sustainable growth in 2013 and beyond.

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

IMPORTANT INFORMATION

This Investment Governance Report has been prepared for the Audit & Pensions Committee of the London Borough of Hammersmith and Fulham Pension Fund (the “Fund”) only. It is not for onward distribution. The purpose of this report is to provide factual information relating to the current portfolios, valuation, components and a factual description of the performance in the period covered by the report. The subject matter of this report has been agreed with you and is provided by us in order to meet our reporting obligations to you under the FSA Rules. As such, it has not been prepared for distribution to individual scheme members or retail investors.


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Agenda Item 5

| | |
|---|---|
|  | <p>London Borough of Hammersmith & Fulham</p> <p>AUDIT, PENSIONS AND STANDARDS COMMITTEE</p> <p>14 FEBRUARY 2013</p> |
| <p>TREASURY MANAGEMENT STRATEGY</p> | |
| <p>Report of the Leader of the Council – Councillor Nicholas Botterill</p> | |
| <p>Open Report.</p> | |
| <p>Classification - For Information</p> <p>Key Decision: Yes</p> | |
| <p>Wards Affected:All</p> | |
| <p>Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance</p> | |
| <p>Report Author: Vishal Sharma Westminster Treasury Manager</p> | <p>Contact Details: Tel. 0207 641 1067</p> <p>E-mail: vsharma@weswtminster.gov.uk</p> |

1. EXECUTIVE SUMMARY

- 1.1 The report sets out the Council's Treasury Management Strategy for 2013/14. It seeks approval for borrowing limits and authorisation for the Executive Director of Finance and Corporate Governance to arrange the Council's cashflow, borrowing and investments in the year 2013/14.

2. RECOMMENDATIONS

- 2.1 That the report be noted.
- 2.2 That the Committee record any recommendation it wishes to make to Full Council prior to its consideration of the strategy at its meeting on 27 February 2013

3. BACKGROUND

- 3.1 Treasury Management is defined by the CIPFA Code of Practice as 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'
- 3.2 The Council is required to receive and approve, as a minimum, three main reports each year: a Treasury Strategy Report, Mid-year report and an Outturn report. These reports are required to be adequately scrutinised before being recommended to the Council by the Cabinet. This role is undertaken by the Audit, Pensions and Standards Committee and the Overview and Scrutiny Board.
- 3.3 The Treasury Management Strategy is set out in section 11 of this report, and the remainder of the report cover the following:
 - Investment limits that will be applied that aim to limit the treasury risk and activities of the Council;
 - prudential indicators
 - the current treasury position;
 - prospects for interest rates;
 - the borrowing strategy;
 - the investment strategy;
 - approach to debt rescheduling;
 - creditworthiness policy; and,
 - policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and CLG Investment Guidance.

- 3.4 In summary, the investment approach for 2013/14 will include investment with the UK Government (via deposits with the Debt Management Office (DMO) or purchase of Gilts and T-Bills), lending to certain Local Authorities based on a

policy agreed between Officers and the Leader, investments in certain Money Market Funds, deposits with certain banks and purchase of certain tradeable instruments by specific issuers. All these investment types are described further in this paper and set out in the proposed Treasury Management Strategy as set out in section 11 of this paper.

4. TREASURY MANAGEMENT APPROACH

- 4.1 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cashflow and, where capital plans require, the organisation of appropriate borrowing facilities. The function covers the relevant treasury and prudential indicators, the current and projected debt positions and the annual investment strategy.
- 4.2 Under regulations set out by CLG in 2003, a Council's investment policy needs to cover so-called "specified investments" and "non-specified investments". A specified investment is defined as an investment which is denominated in sterling, is less than one year, is made with a body or scheme of high credit quality, UK Government or UK local authority and does not involve the acquisition of share capital or loan capital in any body corporate. Non-specified investments are those that do not meet these criteria.
- 4.3 Section 11 of this report sets out the investment approach, and takes account of the specified and non-specified approach. The Council is likely only to consider non-specified investments where an investment is made for longer than one year.
- 4.4 The CIPFA recommendations contained in the Code of Practice and Cross-Sectoral Guidance Notes issued as a revised version in 2009 for Treasury Management in the Public Services require that each Local Authority has a Treasury Management Policy Statement that is approved by the Full Council. This is set out in Appendix A to this paper.

5. CURRENT PORTFOLIO POSITION

- 5.1 The Council has for a number of years maintained a policy of debt reduction in order to deliver savings to the General Fund through reduced principal and interest payments. No new borrowing has been undertaken since November 2009 and where borrowings have fallen due for repayment, they have not been replaced. This policy is expected to continue for the foreseeable future.
- 5.2 The Council's treasury portfolio is summarised below. The table shows the total actual external borrowing (the treasury management operations), against the capital borrowing need (the Capital Financing Requirement – CFR), highlighting any over or under borrowing. The second table sets out the

external borrowing and investments position for the HRA and General Fund separately.

Table 1: Current Portfolio Position

| £'000 | 2011/12 Actual | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate |
|---|-------------------|---------------------|---------------------|---------------------|
| Borrowing at 1 April | 475,520 | 262,166 | 262,066 | 250,510 |
| Expected change in borrowing | (16,000) | (100) | (11,556) | (2,414) |
| HRA Settlement | (197,354) | 0 | 0 | 0 |
| Actual Borrowing at 31 March | 262,166 | 262,066 | 250,510 | 247,599 |
| Total investments at 31 March | (109,000) | (180,000) | (184,000) | (170,000) |
| Net borrowing | 153,166 | 82,066 | 66,510 | 77,599 |
| | | | | |
| Other long-term liabilities at 31 March | 13,078 | 13,000 | 12,000 | 11,000 |
| CFR – the borrowing need | 329,106 | 308,727 | 279,162 | 256,040 |

Table 2: Split between the HRA and General Fund

| £'000 | 2011/12 Actual | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate |
|------------------------------------|-------------------|---------------------|---------------------|---------------------|
| HRA borrowing at year end | 217,427 | 217,299 | 207,717 | 205,303 |
| General Fund borrowing at Year end | 44,739 | 44,768 | 42,794 | 42,296 |
| Total borrowing at year end | 262,166 | 262,067 | 250,511 | 247,599 |

| £'000 | 2011/12 Actual | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate |
|------------------|-------------------|---------------------|---------------------|---------------------|
| General Fund CFR | 99,684 | 91,428 | 71,445 | 50,737 |
| HRA CFR | 217,381 | 217,299 | 207,717 | 205,303 |
| TOTAL CFR | 317,065 | 308,727 | 279,162 | 256,040 |

6. TREASURY INDICATORS – LIMITS TO BORROWING ACTIVITY

- 6.1 The Operational Boundary. This indicator is the focus of day to day treasury management activity within the authority. It is a means by which the Council manages its external debt to ensure that it remains within the self imposed Authorised Limit. Sustained breaches of the Operational Boundary would give an indication that the Authority may be in danger of stepping beyond the Prudential Indicators it set itself.

Table 3: Operational Boundary

| £'000 | 2011/12 Actual | 2012/13 Estimate | 2013/14 Estimate | 2014/15 Estimate |
|----------------|-------------------|---------------------|---------------------|---------------------|
| Borrowing | 488,134 | 275,000 | 275,000 | 265,000 |
| HRA Settlement | (197,354) | | | |

| | | | | |
|-----------------------------|----------------|----------------|----------------|----------------|
| Other long term liabilities | 13,078 | 13,000 | 12,000 | 11,000 |
| Total | 303,858 | 288,000 | 287,000 | 276,000 |

- 6.2 The Authorised Limit for external borrowing. This is a control on the maximum level of borrowing and this limit needs to be set or revised by the full Council. It reflects the level of external borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. Breach of these levels by the Council is unlawful.

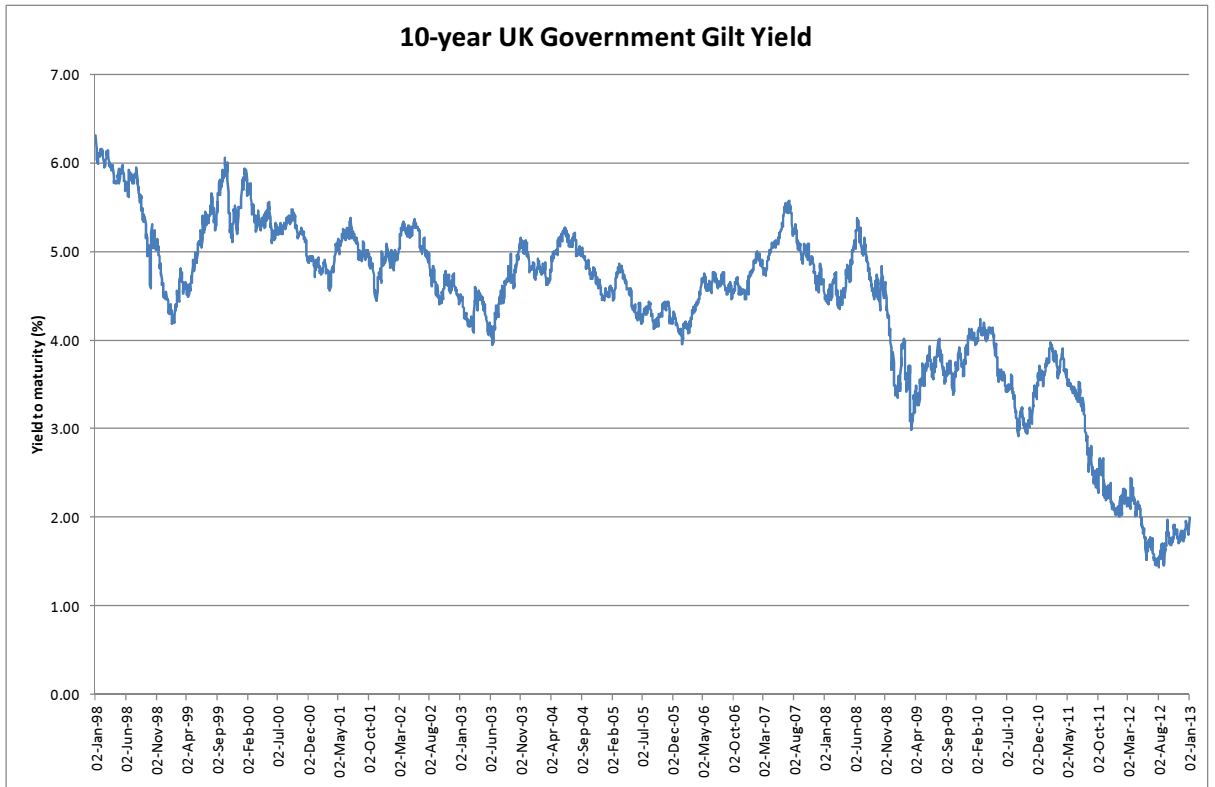
Table 4: Authorised Limit

| £'000 | 2011/12 Actual | 2012/13 Estimates | 2013/14 Estimates | 2014/15 Estimates |
|-----------------------------|-----------------------|--------------------------|--------------------------|--------------------------|
| Borrowing | 548,909 | 325,000 | 325,000 | 315,000 |
| Add HRA settlement | (197,354) | | | |
| Other long term liabilities | 13,078 | 20,000 | 20,000 | 20,000 |
| Total | 364,633 | 345,000 | 345,000 | 335,000 |

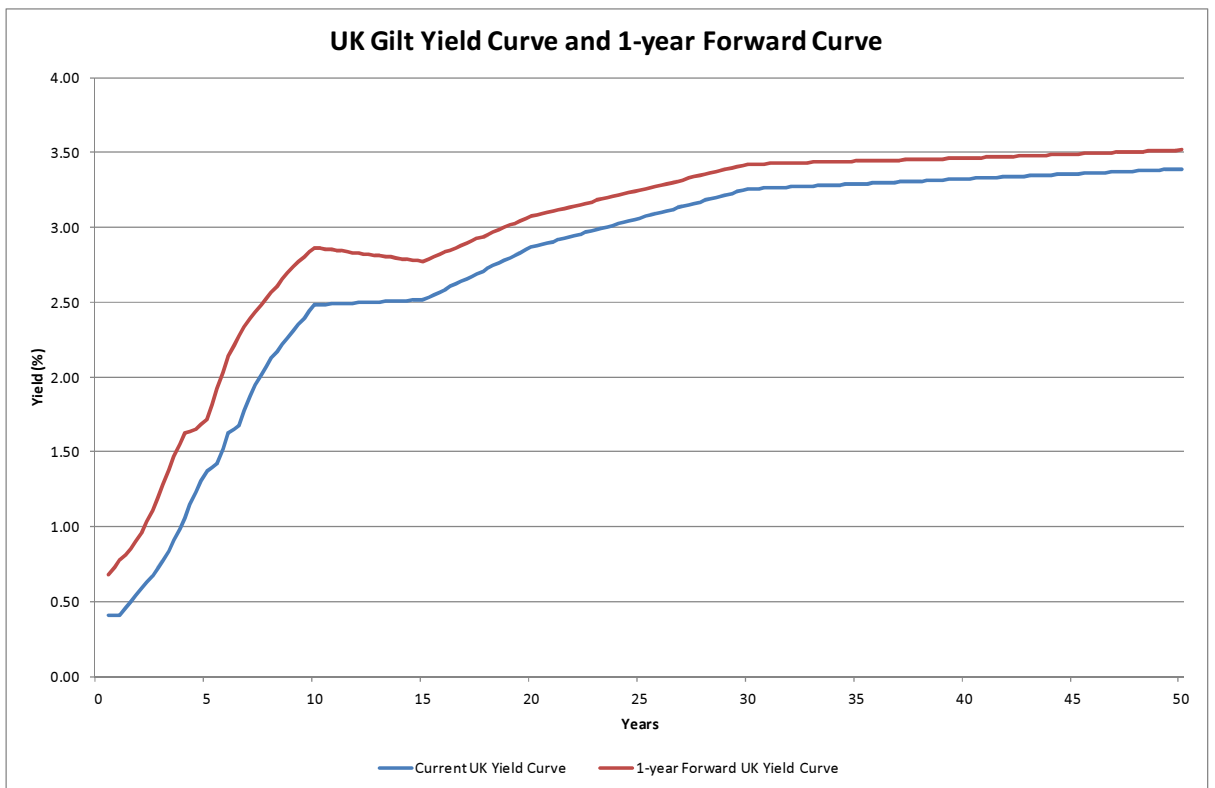
- 6.3 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime, as set by CLG. This is set out in the table above, and declines due to the repayment of the current borrowing as and when it falls due.
- 6.4 The Executive Director of Finance and Corporate Governance reports that the Council complied with the prudential indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

7. PROSPECTS FOR INTEREST RATES

- 7.1 The levels of UK interest rates remain near all time lows, as shown on the graph below.



7.2 The graph below shows the current UK Gilt Yield Curve, and the one-year forward (i.e. what the market currently expects rates to be in one year's time).



7.3 The low interest rate has a disproportionate effect on the Council, as the Council has no expectation of borrowing in the near future (so cannot benefit from the low borrowing rates), but is impacted by the low investment returns. The challenging and uncertain economic outlook has a several key treasury management implications:

- The Eurozone sovereign debt difficulties, most evident in Greece, provide a clear indication of much higher counterparty risk. This continues to suggest the use of higher quality counterparties for shorter time periods.
- Investment returns are likely to remain relatively low during 2013/14;
- Borrowing interest rates are currently attractive, but may remain low for some time. The timing of any borrowing will need to be monitored carefully;
- There will remain a cost of carry – any borrowing undertaken that results in an increase in investments will incur a revenue loss between borrowing costs and investment returns.

8. BORROWING STRATEGY

8.1 Given its debt reduction strategy, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is high.

8.2 The tables below sets out these treasury indicators and limits. The Council is currently compliant with all these indicators:

Table 6 – Proposed interest Rate Exposure

| £'000 | 2013/14 | 2014/15 | 2015/16 |
|---|----------------|----------------|----------------|
| Upper Borrowing Limits on fixed interest rates | 320,000 | 320,000 | 320,000 |
| Upper Borrowing Limits on variable interest rates | 64,000 | 64,000 | 64,000 |

Table 7 – Proposed structure limits for debt maturity

| Maturity structure of fixed rate borrowing during 2012/13 | Upper Limit | Lower Limit |
|--|--------------------|--------------------|
| Under 12 months | 15% | 0% |
| 12 months and within 24 months | 15% | 0% |
| 24 months and within 5 years | 60% | 0% |
| 5 years and within 10 years | 75% | 0% |
| 10 years and above | 100% | 0% |

8.3 There are three borrowing related treasury activity limits. The purpose of these are to restrain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of any adverse movement in interest rates. However, if these are set to be too restrictive they will impair the opportunities to reduce costs/improve performance. The indicators are:

- Upper limits on variable interest rate exposure. This identifies a maximum limit for variable interest rates based upon the debt position net of investments
- Upper limits on fixed interest rate exposure. This is similar to the previous indicator and covers a maximum limit on fixed interest rates;
- Maturity structure of borrowing. These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits.

9. POLICY ON BORROWING IN ADVANCE OF NEED

9.1 Under CIPFA's Prudential Code, Any decision to borrow in advance of need has to be within forward approved Capital Financing Requirement estimates, and would have to be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

9.2 The borrowing of monies purely to invest or on-lend and make a return is unlawful and this Council will not engage in such activity.

9.3 Given the Council's debt reduction strategy, it is unlikely that any new borrowing will be taken.

10. DEBT RESCHEDULING

10.1 As short term borrowing rates will be considerably cheaper than longer term fixed interest rates, there may be potential opportunities to generate savings by switching from long term to short term debt. Consideration will also be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

10.2 However, these savings will need to be considered in the light of the current treasury position and premiums incurred in prematurely repaying debt. Given the current approach, Officers do not expect the premature repayment of borrowing to be likely in the next year.

10.3 The reasons for any rescheduling to take place will include:

- Generating cash savings.
- Enhancing the balance of the portfolio (amend the maturity profile and/or the balance of volatility).

11. ANNUAL INVESTMENT STRATEGY

11.1 The Council must have regard to the CLG's Guidance on Local Government Investments ("the Guidance") and the 2011 revised CIPFA's Treasury Management in Public Services of Practice and Cross Sectoral Guidance Notes ("the CIPFA TM Code").

Allowable Investment Types

11.2 For 2013/14, it is proposed that the Council can invest in financial institutions (within certain credit rating limits, domiciles and amounts as set out above), external funds and certain capital market instruments as set out below. Those that are in bold would be new for 2013/14, and are described further below and will be subject to specific clearance with the Leader when any new investment is proposed for the first time. All investments would be in Sterling:

- (i) Investment with the Debt Management Office with no financial limit (UK government guaranteed)
- (ii) Investment in financial institutions of a minimum credit rating, with the parent company domiciled only in certain jurisdictions;
- (iii) Lending to certain public authorities (Unitary Authorities, Local Authorities, Borough and District Councils, Met Police, Fire and Police Authorities)
- (iv) Investment in AAA-rated Sterling Money Market Funds and longer term funds; and
- (v) Investment in UK Treasury Bills (T-Bills) and Gilts;**
- (vi) Investments in UK Government repurchase agreements ("Repos" and "Reverse Repos");**
- (vii) Investment in close to maturity AAA-rated corporate bonds and commercial paper backed by UK Government guarantees;**
- (viii) Investment in supra-national AAA-rated issuer bonds and commercial paper;**
- (ix) Investment in commercial paper ("CP") of UK domiciled entities with minimum short term credit rating of A1/P-1/F-1.**

11.3 **UK T-Bills:** UK Government Treasury Bills (T-Bills) are short term promissory notes issued by the UK Government at a discount to par, for tenors of up to one year. T-Bills provide a greater yield than cash deposits with the DMO and can be bought at the primary sale (by market makers), or in the secondary market.

11.4 **UK Gilts:** UK Government Gilts provide a greater yield than cash deposits with the DMO. At present, there are a limited number of gilts that will mature

in the next two years, and as the shorter dated gilts were issued in a higher interest rate environment than at present, the coupons on these gilts are higher than current interest rates.

- 11.5 **UK Government repurchase agreements (Repos):** UK Government repurchase agreements are the purchase of UK Government securities with an agreement to resell them back at a higher price at a specific future date. By their nature, repos are short term secured investments in UK Government bonds which provide a greater return than cash deposits with the DMO. Ownership of the UK Government bond is temporarily transferred to the Council, thereby providing security over the funds invested.
- 11.6 **Commercial Paper (CP)** is similar to a very short term bond issue (up to one year), issued to investors on a discounted basis, and with the interest rate based on prevailing rates at the time of pricing. The Council may invest in Commercial Paper issued by UK domiciled corporate subject to the minimum credit ratings for up to a maximum of six months with no more than £10 million per name, and £50 million in aggregate.
- 11.7 **Supra-national institutions** are those that sovereign backed or supported institutions that span more than one country, such as the European Investment Bank, the European Bank of Reconstruction and Development, the World Bank, etc.
- 11.8 **Money Market Funds:** At present, the Council invests in several AAA-rated Sterling money market funds ('MMFs') provided by Blackrock, Goldman Sachs, Insight and Prime Rate. It is proposed to widen this list to include the money market funds that comply with LBHF's required criteria, including the composition of the fund, credit rating of the fund, size of the fund and fund performance. In the past, the Council's approach to MMFs was discussed within the body of the Treasury Management Strategy. Given the proposal to widen the list of MMFs that the Council would use, Appendix B sets out this revised approach in more detail. It makes a specific recommendation that the MMFs specified in Table 1 of Appendix B are approved by Council for use in the Council's investment strategy.

Creditworthiness Criteria

- 11.9 The Council's investment priorities are the security of capital and the liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.
- 11.10 In accordance with the above, and in order to minimise the risk to investments, the Council has clearly stipulated below the minimum acceptable credit quality of counterparties for inclusion on the lending list.
- 11.11 The DCLG guidance requires authorities to specify their minimum acceptable credit rating. The minimum credit ratings required by the Council are:

| | | |
|---------|-----------|------------|
| | Long term | Short term |
| Fitch | A- | F2 |
| Moody's | A3 | P-2 |
| S&P | A- | A-3 |

11.12 If a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately and any existing investment will be matured at the earliest possible convenience.

11.13 For the financial institution sector, the Council will invest in entities with a minimum credit rating of A-/A3/A- for a UK bank, and A/A2/A for a non – UK bank as suitable, as long as that entity has a short term rating of A-1/P-1/F-1 or better. Where a split rating applies the lowest rating will be used. This methodology excludes banks with UK Government ownership. Banks would need to be rated by at least two of the three main credit rating agencies and where there was a split rating the lower rating would be used.

11.14 The proposed bank investment limits are shown in the table below.

Table 8 – Bank Investment Limits

| Institution Type | Minimum Credit Rating Required (S&P / Moody's / Fitch) | Maximum Individual Counterparty Investment limit (£m) | Maximum tenor of deposit / investment |
|------------------|--|---|---------------------------------------|
| UK Bank | With UK Government ownership of greater than 35%. | 35 | 12 months |
| UK Bank | AA- / Aa3 / AA- and above subject to minimum ST ratings | 25 | 12 months |
| UK Bank | A- / A3 / A- and above, subject to minimum ST ratings | 25 | Three months |
| Non-UK Bank | AA- / Aa2 / AA- and above, subject to minimum ST ratings | 25 | Six months |
| Non-UK Bank | A / A2 / A and above, subject to minimum ST ratings | 10 | Three months |

11.15 The limits can change if there are rating changes, however the maximum limit would never be more than £25 million except for the part nationalised banks which have a £35 million limit.

11.16 In determining whether to place deposits with any institution or fund, the Tri-borough Director for Treasury and Pensions, after consultation with the Executive Director of Finance and Corporate Governance, will remain within the limits set out above, but take into account the following when deciding how much to invest within the limit set out above:

- (i) the financial position and jurisdiction of the institution;
- (ii) the market pricing of credit default swaps for the institution;

- (iii) any implicit or explicit Government support for the institution;
- (iv) Standard & Poor's, Moody's and Fitch's short and long term credit ratings;
- (v) Core Tier 1 capital ratios; and
- (vi) other external views as necessary.

Country Limits

11.17 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ / Aa1 / AA+ from S&P / Moodys / Fitch (respectively). The direct exposure limit to any one Country will be £25 million with the exception of the UK which will be unlimited.

Tenor of investments

11.18 Investments may be made for up to one year with any of the counterparties / investment types listed above. Investments more than one year may be placed with any of the following by Officers after seeking approval from the Leader:

- (i) Deposits with those financial institutions allowed for as set out above
- (ii) Term deposits with Local Authorities with maturities in excess of one year.
- (iii) Tradeable instruments issued by the UK Government or Supra-national banks.
- (iv) Tradeable instruments issued by any UK local authority or issuer guaranteed by the UK government.

Summary

11.19 In summary, the maximum amounts and tenor of investments that can be placed by Officers are as follows:

| Institution Type | Minimum Credit Rating Required (S&P / Moodys / Fitch) | Maximum Individual Counterparty Investment limit (£m) | Maximum tenor of deposit investment¹ |
|--|---|--|--|
| DMO Deposits | UK Government Rating | Unlimited | Six months |
| UK Government (Gilts / T-Bills / Repos) | UK Government Rating | Unlimited | Unlimited |
| Supra-national Banks | AA+ / Aa1 / AA+ | 10 | 12 months |
| European Agencies | AA+ / Aa1 / AA+ | 10 | 12 months |
| Network Rail | UK Government Rating | 25 | 12 months |
| UK Local Authorities | NA | 25 | 12 months |
| Commercial Paper issued by UK corporates | A-1 / P-1 / F-1 | 10 | Six months |
| MMF | AAA / Aaa / AAA | 10 | One month |
| UK Bank | AA- / Aa3 / AA- and above (or UK Government ownership of greater than 35%), subject to minimum ST ratings | 35 | 12 months |
| UK Bank | AA- / Aa3 / AA- and above, subject to minimum ST ratings | 25 | 12 months |
| UK Bank | A- / A3 / A- and above, subject to minimum ST ratings | 25 | Three months |
| Non-UK Bank | AA- / Aa2 / AA- and above, subject to minimum ST ratings | 25 | Six months |
| Non-UK Bank | A / A2 / A and above, subject to minimum ST ratings | 10 | Three months |

12. HRA

12.1 There are to be no changes to the current arrangements regarding debt and the HRA. The separate HRA and General Fund debt pool established from 1

¹ Investments of more than one year's tenor may be placed as agreed with the Leader.

April 2012 will continue to operate. The HRA shall continue to receive investment income on unapplied HRA receipts and other HRA cash balances calculated at the average rate of interest earned on temporary investments.

13. INVESTMENT CONSULTANTS AND INVESTMENT TRAINING

- 13.1 Sector Treasury Services were appointed as Treasury Management Consultants on 1 February 2011 for a three year period following a tendering exercise. Sector provide interest rate forecasts, economic updates, strategy reviews, accounting advice, training for treasury management staff and advice on the formulation of suitable borrowing and investment strategies and advice on investment counterparty creditworthiness.
- 13.2 The Council is a member of the CIPFA treasury management network which provides a forum for the exchange of views and training of treasury management staff independent of the treasury management consultants. It also provides a quality check on the services received from the consultants.
- 13.3 Officers attend the CIPFA network meetings and Sector seminars and training events on a regular basis throughout the year to ensure that they are up to date at all times on developments in treasury management and continue to develop their expertise in this area.

14. FINANCIAL AND RESOURCE IMPLICATIONS

- 14.1 The comments of the Executive Director of Finance and Corporate Governance are contained within this report.

15. LEGAL IMPLICATIONS

- 15.1 The statutory requirements are set out in the body of the report.

Provided by : Jonathan Hunt Tri-Borough Director of Treasury and Pensions is the relevant finance officer Tel: 020 7641 1804. I am not sure who dealt with it in Legal Dept.

16. COMMENTS OF THE AUDIT, PENSIONS AND STANDARDS COMMITTEE

- 16.1 Any comments from the Committee will be reported verbally at the meeting.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

| No. | Description of Background Papers | Name/Ext of holder of file/copy | Department/ Location |
|------------|---|--|---|
| 1. | Financial monitoring documents | Jade Cheung ext 3374 | Finance Department, 2 nd Floor, HTH Extension |

APPENDIX A

THE TREASURY MANAGEMENT POLICY STATEMENT

The CIPFA recommendations contained in the Code of Practice and Cross-Sectoral Guidance Notes issued as a revised version in 2009 for Treasury Management in the Public Services require that each Local Authority has a Treasury Management Policy Statement that is approved by the Full Council.

CIPFA recommends that the Council's treasury management policy statement adopts the following form of words below to define the policies and objectives of its treasury management activities.

This Council defines its Treasury Management activities as:

- The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.
- This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.
- This Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

APPENDIX B

LBHF APPROACH TOWARDS MONEY MARKET FUNDS

Background

A Money Market Fund (MMF) is a pooled investment vehicle whose assets are comprised of various cash type instruments. Investors buy shares or units in the MMF with the aim of receiving regular dividends or an increase in the value of the units. These funds allow investors to participate in a more diverse and high quality portfolio than if they were to invest individually. Some of the investments at the MMF's disposal are not generic type of investments a Local Authority would usually enter into as they need to be managed in the market. By investing in a MMF, local authorities allow fund managers to manage asset portfolios under strict criteria to achieve the highest AAA credit rating.

Legislation Requirements for Local Authorities

Under the Local Authorities Regulations 2002² MMFs are classed as Approved Investments if they meet the following conditions:

- The funds must be dominated in GBP
- The funds must be rated AAA by Standard & Poor's, Moody's or Fitch in respect of creditworthiness.
- The fund must be approved under the Undertaking for Collective Investments in Transferable Securities (UCITS).
- The fund is either a unit trust scheme authorised under section 243 of the Financial Services Markets Act 2000 or a collective investment scheme recognized under section 264 of that Act.

Constant net asset value (CNAV) and variable net asset value (VNAV) funds

MMFs can be allowed to use two separate accounting techniques to value their assets. The principal difference between CNAV and VNAV funds is likely to be the accounting technique used to value the assets:

- **Amortised cost accounting**, which values the asset at its purchase price, and then subtracts the premium / adds back the discount in a regular fashion (linearly) over the life of the asset. The asset will then be valued at par (100) at its maturity. This enables the funds to maintain a net asset value (NAV), or value of a share of the fund at £1. This is the approach adopted by CNAV funds.
- **Mark-to-market accounting** values the assets at market price. The NAV of a fund that uses this form of accounting will change due to the changing value of the assets or in the case of accumulating funds (where any interest is capitalised back into the fund instead of being paid out as an income) by the amount of interest earned. This is usually the approach adopted by VNAV funds which have a constantly varying share price. In practice the fund manager will aim to

² Capital Finance & Approved Investments (Amendment) 2002 No.451

maintain the share price above £1 and ensure a smooth gradual increase in price on a daily basis.

Funds which use amortised cost accounting (CNAV) should compare the amortised cost price to the market price on a regular basis. If the variance is beyond a pre-set level (ie share price is higher or lower than £1 by a significant amount), the fund manager needs to implement procedures to narrow the gap. This can involve buying and selling different assets.

CNAV funds tend to pay out monthly dividends to investors whereas the VNAV funds tend to reinvest dividends back into the fund.

CNAV funds tend to be marketed as an instant access investment where funds can be invested and removed on a daily basis therefore forming part of a Council's operational cash pool.

VNAV funds tend to be marketed as a longer term investment that offers an enhanced return over the CNAV funds. Investments should therefore only be invested as part of a longer term investment plan as would happen for a 3 month bank deposit for example. Neither CNAV nor VNAV funds (or deposits for that matter) guarantee return of capital.

Investing in MMFs

It is important to stress that there are no principal guarantees with MMFs however as discussed CNAV funds have to manage funds to ensure a constant share price and VNAV funds aim to maintain a minimum of £1 per share if not higher.

For a credit rating agency to rate a fund AAA they must have an “extremely strong capacity to achieve MMF’s investment objective of preserving principal and providing shareholder liquidity through limiting credit, market and liquidity risk”³

Over the last 40 years there have been three instances of a CNAV fund “breaking the buck”. This occurs where a fund’s NAV drops below £1 (or \$1 for US MMFs)⁴ per share and the investor loses money when they need to remove funds.

What can MMFs invest in?

The following assets are permitted investments for a MMF:

- Call Accounts – instant access accounts that are typically provided by retail banks.
- Term Deposits – a bank deposit where funds cannot be withdrawn for a fixed period of time.
- Certificate of Deposits (CDs) – a bank investment with a set maturity date and pre-determined, fixed interest rate. Investors receive an electronic certificate which can then be bought or sold in a secondary market.

³ From Fitch Ratings

⁴ First Multifund for Daily Income (1978), Community Bankers US Govt Fund (1994), Reserve Primary Fund (2008)

- Commercial Paper (CP) – a short term note issued by financial institutions and corporates, with a fixed maturity usually between 1 and 270 days. CP is tradable in a secondary market.
- Asset Backed Commercial Paper (ABCP) – as above but note is collateralised with assets or revenue streams.
- Bonds – a negotiable certificate whose ownership can be transferred in the secondary market. Issued by financial institutions and corporate often for longer maturities. This can have a fixed or floating rate.
- Government Securities – are financial instruments issued by government.
- REPO's – repurchase agreement allow a MMF's to invest cash on a secured basis.
- Asset Back securities – A financial security which is backed/collateralised by a specified pool of underlying assets such as mortgages. This security often has a long expected maturity date.

How MMFs achieve the AAA credit rating

MMFs have preservation of capital and liquidity as their primary objectives. Competitive money market returns is another key, but lesser, objective. Each credit rating agency will regularly identify, assess and weigh each fund in terms of its ability to deliver on these objectives. The ratings criteria comprises of three main areas of analysis:

- Credit Quality - Ratings criteria stipulate what the fund can buy (type of asset, maturity, credit quality of asset) and from whom (acceptable counterparty risk).
- Portfolio construction - Judging a MMF's ability to shield investors from adverse market swings by analysing a portfolio's sensitivity to changing market conditions.
- Fund Management - Level of fund manager's experience, investment objectives, management techniques, strategies, operating procedures and internal controls.

Benefits to Investors in MMFs

The key benefits to the investor are:

- Diversification of investments
- Intensive credit analysis on fund investments.
- Typically same day or very near liquidity with no redemption penalties.
- Managed by experienced fund managers who will implement strategies to mitigate credit, interest rate and liquidity risks.
- Funds have better investor power which enables them to obtain better yields.
- Competitive money market returns

MMFs ultimately offer a good balance between the LBHF's investment criteria of security, liquidity and yield and as such they form an integral part of treasury policy.

LBHF's approach to date

Existing treasury management policies regarding money market funds are restricted to analysis of credit ratings of the fund and limiting maximum fund exposures.

Traditionally, the Council has used funds selected by their advisors. In both instances the aim was for the policy to satisfy the aim of security, liquidity and yield. The proposals below aim to provide the Tri-borough Treasury team with a more detailed approach on how funds are selected, monitored and limits that should apply.

This approach builds on the current treasury management strategy and aims to provide an opportunity for each borough to formalise an operational framework. This should help the council to maximise their key objectives of security, liquidity and yield.

Approach to selecting MMFs

Set out below are the criteria Officers will use when considering recommending an investment in a MMF for approval by the Leader.

CNAV funds: CNAV funds make up the majority of the GBP market with around 20 different fund providers.

- The asset classes contained within it are those instruments described above except Asset Backed Securities.
- The fund deals with counterparties of sufficient credit quality. Particular focus will be on the short term credit rating which will always need to remain above P-1 / A-1 / F-1 unless there is good reason and approval by the Tri-borough Director for Treasury and Pensions.
- In current financial climate Officers will not recommend any funds that are invested in peripheral European based banks.
- Santander UK is used by several funds who hold overnight call accounts. Officers are not concerned by this unless funds begin to invest in deposits that are greater than overnight duration. Santander UK is classified as a self financed UK based bank and although it has a Spanish parent it remains isolated from the troubles in the Spanish economy.
- RBS is currently rated P2 by Moody's but not all funds have removed them from their portfolios due to the level of state support offered to the bank. Also many of the funds use the other two ratings agencies to rate their portfolios where RBS still remain at the upper levels of the short term credit ratings. We believe that as long as funds are only invested on an overnight basis then funds can remain in the respective MMF.
- The fund's long term rating is rated AAA by at least two of the credit rating agencies.
- Funds are well established with a minimum fund size of £2bn to comfortably accommodate our investment limits.
- Counterparties will be reviewed when deciding on funds and then reviewed at least monthly. The asset classes contained within the MMFs will be reviewed when deciding on funds and then reviewed at least quarterly.
- After the above criteria have been met selection of funds can be based upon yield returns.

The table below sets out a list of CNAV funds (as of December 2012), which would automatically meet the criteria listed above. and are therefore proposed for approval as part of this report.

Table 1

| Fund Name | Moody's | S&P | Fitch | Assets (£bn) | 30 Day Simple Interest Yield (%) | WAM (days) ⁵ |
|---|---------|-----|-------|--------------|----------------------------------|-------------------------|
| Ignis Sterling Liquidity Class 2 | | AAA | AAA | 14.7 | 0.70 | 54 |
| Prime Rate Sterling Liquidity Fund Class 3 | | AAA | AAA | 2.7 | 0.68 | 35 |
| Insight Sterling Liquidity Fund Class 5 | Aaa | AAA | | 15.1 | 0.59 | 35 |
| LGIM Sterling Liquidity Fund Class 3 | | AAA | AAA | 12.3 | 0.58 | 51 |
| Goldman Sachs Sterling Reserves Fund | Aaa | AAA | AAA | 5.7 | 0.53 | 51 |
| SWIP Global GBP Liquidity Fund plc | Aaa | AAA | AAA | 17.6 | 0.51 | 42 |
| Deutsche Managed Sterling Fund - Advisory | Aaa | AAA | | 6.6 | 0.50 | 56 |
| State Street Global Advisors Liquidity | Aaa | AAA | | 2.3 | 0.49 | 45 |
| BlackRock ICS Sterling Fund Core Shares Dist. | Aaa | AAA | | 25.7 | 0.48 | 48 |
| RBS GTF Sterling Fund Class 4 | Aaa | AAA | AAA | 5.9 | 0.46 | 42 |
| HSBC Liquidity Fund | Aaa | AAA | | 5.4 | 0.45 | 27 |
| JPMorgan Sterling Liquidity Fund Instit. | Aaa | AAA | AAA | 10.1 | 0.45 | 41 |
| BNY Mellon Sterling Liq Fund Advantage Shares | Aaa | AAA | | 2.7 | 0.38 | 25 |
| Northern Trust Sterling Cash Fund Class F | Aaa | AAA | | 4.0 | 0.37 | 28 |

VNAV funds: These funds are provided by a handful of fund managers and are a relatively new product in the UK compared to the CNAV funds. As a consequence funds are much smaller than existing funds and the criteria needs to be adjusted accordingly. The same criteria will be applied as for CNAV funds except:

- Asset classes will be extended to include Asset Backed Securities which are deemed suitable given the long term nature of VNAV funds.
- Funds will be considered that are greater than £100m in size in order to accommodate our investment limits.
- Ensure fund is rated AAA by at least one of the credit rating agencies (VNAV funds tend to be rated by a single agency).

Formal procedure for selecting funds (both CNAV and VNAV): The treasury manager or officer will write a paper for approval by the Leader detailing the following:

- Which funds are requested to be added to the panel.
- Confirmation that the proposed funds adhere to the criteria detailed above.

Ongoing Monitoring

⁵ WAM or weighted average maturity of the fund is the average number days to maturity calculated using the next coupon fixing date of floating rate instruments and final legal maturity date of all other instruments

Once funds have been selected ongoing monitoring is required. This will be carried out quarterly but at times of market stress and heightened credit concerns this may increase in frequency. Monitoring will take place in a formal regular meeting which should be organized as follows:

- Attended by Treasury staff who invest in MMFs
- Detailed holdings report for each fund should be provided for each meeting so investment classes/counterparties/ratings can be checked against criteria.
- Any issues or areas outside of policy need to be escalated to the Tri-borough Director for Treasury and Pensions.
- Meetings should be the around same time each quarter.

Investment Limits

Officers will work within certain investment limits for MMFs as set out below:


- Limit for total MMF exposures at any one time is £60m, Includes both CNAV and VNAV Funds
- Limit for individual fund manager at any one time is £10m.
- If a Fund manager provides both a CNAV and VNAV fund then these exposures should be added in this instance.
- Individual fund exposure of no more than 10% of fund assets under management.
- VNAV to CNAV fund ratio cannot be greater than 1:5.

Investments can be moved, within the allowed pool, from one fund to another (subject to the above limits). All funds with a nil balance will remain open and can be used if other funds make any changes that fall out of our policy criteria or if their returns become uncompetitive. It will not be necessary to close accounts with any existing providers.

New funds can be added to the panel as they come to market if they satisfy the criteria outlined within this paper. Officers will propose a new fund and this will have to be approved by the Leader.

Compliance with the proposed policies and limit recommendations will be the responsibility of Officers with oversight provided by the Tri-borough Director for Treasury and Pensions.

Agenda Item 6

| | |
|--|---|
|  | London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 14th February 2013 |
| GRANTS REPORT 2011/12 | |
| Report of the Executive Director of Finance and Corporate Governance | |
| Open Report | |
| Classification - For Information | |
| Key Decision: No | |
| Wards Affected: All | |
| Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance | |
| Report Author: Christopher Harris, Head of Corporate Accountancy and Capital | Contact Details: Tel: 020 (8753 6440) E-mail: (christopher.harris@lbhf.gov.uk) |

1. EXECUTIVE SUMMARY

- 1.1. The report details the results of work conducted by the Audit Commission to certify grant claims in respect of the 2011/12 financial year.
- 1.2. As the Audit Commission handed over external audit responsibilities for the Council to KPMG in autumn 2012, the report has been finalised by KPMG.

2. RECOMMENDATIONS

- 2.1. To note the report.
- 2.2. To monitor the implementation of the recommendations.

3. REASONS FOR DECISION

- 3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

- 4.1. Not applicable.

5. PROPOSAL AND ISSUES

5.1. Not applicable.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable.

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

| No. | Description of Background Papers | Name/Ext of holder of file/copy | Department/ Location |
|------------|---|--|--|
| 1. | KPMG report | Christopher Harris, 020 8753 6440 | Corporate Accountancy and Capital, 2 nd Floor, Hammersmith Town Hall Extension |

LIST OF APPENDICES:

Appendix 1 – KPMG Certification of Grants and Returns 2011/12 report



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Certification of grants and returns 2011/12

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London Borough of Hammersmith & Fulham
January 2013



The contacts at KPMG in connection with this report are:

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Assistant Manager
Tel: paul.harrison@kpmg.co.uk

| | Page |
|--|-------------|
| ■ Headlines | 2 |
| ■ Summary of certification work outcomes | 3 – 4 |
| ■ Fees | 5 |
| ■ Recommendations | 6 |

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, who is the engagement leader to the Authority (telephone +44(0)20 7694 5546, e-mail michael.a.mcdonagh@kpmg.co.uk who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

| | | |
|-----------------------------|---|-------------|
| Introduction and background | <p>This report summarises the results of work on the certification of the Council's 2011/12 grant claims and returns. This work was completed by the Audit Commission prior to KPMG's appointment as your external auditors on 1 November 2012.</p> <p>For 2011/12 the Audit Commission certified five claims or returns with a total value of £363,985,000.</p> | - |
| Certification results | <p>The Audit Commission issued unqualified certificates for three grants and returns but qualifications were necessary in two cases.</p> <p>The Housing and council tax benefit scheme and National non-domestic rates return were qualified. This was a similar performance to the prior year where three claims were qualified, but more claims required certification.</p> | Pages 3 – 4 |
| Audit adjustments | <p>Adjustments were necessary to two of the Council's grants and returns as a result of the Audit Commission's certification work this year.</p> <p>The adjustments were to the Housing and council tax benefit scheme and the HRA subsidy. Both adjustments were minor. This was an improvement on the prior year where amendments were required to five claims.</p> | Pages 3 – 4 |
| The Council's arrangements | <p>The Council has adequate arrangements for preparing its grants and returns and supporting our certification work .</p> <p>Specific recommendations have been made in relation to the two claims that were qualified.</p> | Page 5 – 6 |
| Fees | <p>The Audit Commission's overall fee for the certification of grants and returns has been contained within the original estimate.</p> <p>The fee has reduced significantly from the prior year. The primary reason for this is the reduction in the number of claims that required certification. The improvement in the quality of Housing and council tax benefit and Pooling of housing capital receipts claims also resulted in reduced fees.</p> | Page 5 |

Overall, the Audit Commission certified five grants and returns:

- Two were unqualified with no amendment;
- One was unqualified but required a minor amendment to the final figures; and
- Two required a qualification to our audit certificate.

Page 14

Detailed below is a summary of the key outcomes from the Audit Commission's certification work on the Council's 2011/12 grants and returns, showing where either audit amendments were made as a result of work or where the auditors had to qualify their audit certificate.

A qualification means that issues were identified concerning the Council's compliance with a scheme's requirements that could not be resolved through adjustment. In these circumstances, it is likely that the relevant grant paying body will require further information from the Council to satisfy itself that the full amounts of grant claimed are appropriate.

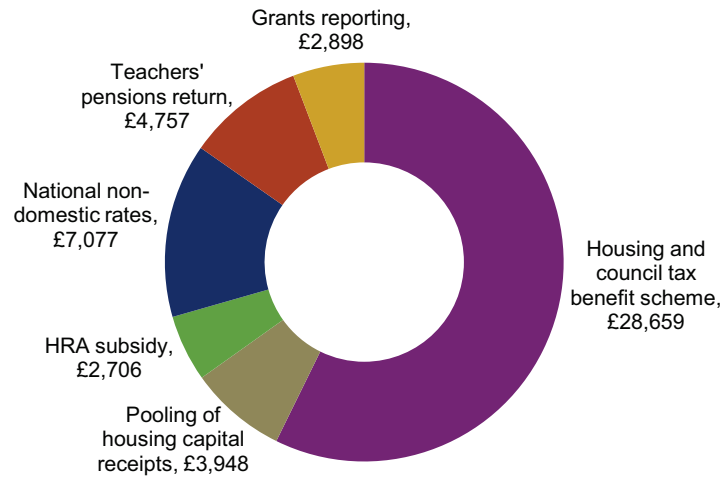
| | Comments overleaf | Qualified certificate | Significant adjustment | Minor adjustment | Unqualified certificate |
|-------------------------------------|-------------------|-----------------------|------------------------|------------------|-------------------------|
| Housing and council tax benefit | 1 | | | | |
| Pooling of housing capital receipts | | | | | |
| HRA subsidy | | | | | |
| National non-domestic rates | 2 | | | | |
| Teachers' pensions return | | | | | |
| | | 2 | 0 | 2 | 3 |

This table summarises the key issues behind each of the qualifications that were identified on the previous page.

| Ref | Summary observations | Amendment |
|-----|---|-----------|
| 1 | <p>Housing and council tax benefit (claim value: £164,983,859)</p> <ul style="list-style-type: none"> The draft claim was subsequently amended by officers prior to commencement of the audit. This resulted in an increase to subsidy claimed of £5k. The claim was qualified as initial sample testing identified two errors and as such auditors conducted two sets of additional testing. The additional testing identified one further error. All errors related to overpayments in relation to the incorrect processing of claimant information. The figures reported in the qualification letter were an extrapolated overpayment of £2,933 for non-HRA rent rebates, and an extrapolated overpayment of £12,492 for rent allowances. | +£5k |
| 2 | <p>National non-domestic rates (claim value: £177,122,597)</p> <p>The return was qualified as the Council is conducting an internal investigation into the granting of retrospective reliefs where the properties did not qualify. As the investigation was ongoing the impact on the return could not be established. In addition, testing of 20 properties claiming empty property relief identified:</p> <ul style="list-style-type: none"> Two properties related to the aforementioned investigation and evidence could not be provided that they qualified for relief. For two properties unconnected to the investigation evidence could not be provided that they qualified for relief. For four properties the relief had been granted retrospectively and therefore no inspection during the three month period was possible. In these cases the Council has stated that they place reliance on communication from the relief claimant. For the remaining 12 properties in my sample sufficient evidence was provided that the property qualified for empty property relief. | n/a |

The overall fee for the certification of grants and returns has been contained within the original estimate.

Breakdown of certification fees 2010/11



| Breakdown of fee by grant/return | | |
|---|---------------|---------------|
| | 2011/12 (£) | 2010/11 (£) |
| Housing and council tax benefit scheme | 28,659 | 34,040 |
| Pooling of housing capital receipts | 3,948 | 5,982 |
| HRA subsidy | 2,706 | 2,254 |
| National non-domestic rates | 7,077 | 6,249 |
| Teachers' pensions return | 4,757 | 5,217 |
| Grants reporting | 2,898 | 2,772 |
| Other claims not requiring certification in 2011/12 | - | 18,898 |
| Total fee | 50,045 | 71,412 |

The initial estimated fees for certifying 2011/12 grants and returns was £70,000. The actual fee charged was lower than that estimate. Overall arrangements for the preparation of claims and returns is adequate. The main reasons for the reduction in fee were:

- Fewer claims requiring certification than anticipated in initial planning.
- The quality of the housing and council tax benefit scheme improved on prior years resulting in a shorter qualification letter and reduced fee.
- No amendments were required to the Pooling of housing capital receipts as was the case in the prior year.

We have given each recommendation a risk rating and agreed what action management will need to take. We will follow up these recommendations during next year's audit. Recommendations made in the prior year's certification of grants and returns report have been implemented.

Priority rating for recommendations

| | | |
|--|---|---|
| <p>1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.</p> | <p>2 Issues that have an important effect on your arrangements for managing grants and returns or complying with scheme requirements, but do not need immediate action. You may still meet scheme requirements in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p> | <p>3 Issues that would, if corrected, improve your arrangements for managing grants and returns or compliance with scheme requirements in general, but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p> |
|--|---|---|

| Issue | Implication | Recommendation | Priority | Comment | Responsible officer and target date |
|---|---|---|-----------------|--|--|
| Housing and council tax benefit | | | | | |
| <p>Overpayments and underpayments of benefit</p> <p>Sample testing of benefits cases identified nine instances where claimant income or rent levels had been incorrectly processed, resulting in underpayments and overpayments of benefits. The errors ranged from £20 to £697.</p> | <p>Incorrect processing of claimant information could result in incorrect benefits being awarded and incorrect subsidy being claimed.</p> | <p>1 Strengthen arrangements to ensure benefit claimant information is correctly processed by increasing quality checks or targeting checks in a smarter manner.</p> | <p>1</p> | <p>The Council has introduced new procedures to identify overpayments at an earlier stage and increased the number of checks undertaken to prevent these errors in future audits.</p> | <p>Director H&F Direct Already Implemented</p> |
| National Non Domestic Rates | | | | | |
| <p>Empty property relief</p> <p>Businesses receive relief from business rates when properties are empty. Testing of properties that received the relief identified instances where qualification for the relief could not be evidenced.</p> | <p>The Council may not be collecting all the income that is due to the national pool.</p> | <p>2 Obtain and retain evidence of properties qualifying for empty property relief. Ensure inspection reports are completed for all empty properties and reports are run to identify where an inspection has not occurred.</p> | <p>1</p> | <p>Empty relief is no longer granted until an inspection of the property has been undertaken to confirm its status. Where a claim is made retrospectively the applicant is required to provide full details in writing together additional supporting evidence. All such cases are then reviewed by a manager.</p> | <p>Director H&F Direct Already Implemented</p> |



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Agenda Item 7

| | |
|--|---|
|  | London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 14th February 2013 |
| EXTERNAL AUDIT PLAN 2012/13 | |
| Report of the Executive Director of Finance and Corporate Governance | |
| Open Report | |
| Classification - For Information | |
| Key Decision: No | |
| Wards Affected: All | |
| Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance | |
| Report Author: Christopher Harris, Head of Corporate Accountancy and Capital | Contact Details: Tel: 020 (8753 6440) E-mail: (christopher.harris@lbhf.gov.uk) |

1. EXECUTIVE SUMMARY

- 1.1. This report details the 2012/13 External Audit Plan as set-out by the Council's newly appointed auditor, KPMG. The plan (Appendix 1) describes how the auditor will deliver the financial statements audit work and sets out their approach to value for money (VFM) work for 2012/13.
- 1.2. The financial statements audit will focus on the following significant areas:
 - Property, Plant and Equipment;
 - Cash; and
 - Pension Costs and Liabilities.
- 1.3. The report is presented by KPMG.

2. RECOMMENDATIONS

- 2.1. To note the 2012/13 Audit Plan as put forward by KPMG.

3. REASONS FOR DECISION

- 3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

4.1. Not applicable.

5. PROPOSAL AND ISSUES

5.1. Not applicable.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1. Not applicable.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable.

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

| No. | Description of Background Papers | Name/Ext of holder of file/copy | Department/ Location |
|------------|---|--|--|
| 1. | KPMG report | Christopher Harris, 020 8753 6440 | Corporate Accountancy and Capital, 2 nd Floor, Hammersmith Town Hall Extension |

LIST OF APPENDICES:

Appendix 1 – KPMG/London Borough of Hammersmith and Fulham External Audit Plan 2012/13



cutting through complexity™

External Audit Plan 2012/13

London Borough of
Hammersmith and Fulham

14 February 2012

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The contacts at KPMG in connection with this report are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public 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.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Michael McDonagh, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This document describes how we will deliver our audit work for London Borough of Hammersmith and Fulham.

Scope of this report

We are pleased to be appointed as your external auditors for 2012/13. This document supplements our Audit Fee Letter 2012/13 presented to you in August 2012. It describes how we will deliver our financial statements audit work for London Borough of Hammersmith and Fulham ('the Authority'). It and sets out our approach to value for money (VFM) work for 2012/13.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

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

Pension Fund audit

Given the Tri-Borough pensions arrangements we plan to audit all three pension schemes consecutively and have a consistent team, this should be the most efficient approach for all three boroughs and KPMG. We will issue an Accounts audit protocol that will give the timetable for our audit, and a list of documents that we will require in order to complete our audit.

We will follow this up with a meeting with the Jonathan Hunt (Tri-Borough Director of Pensions & Treasury) to discuss our requirements and any other queries.

Our only formal report is the report to those charged with governance which we will present to the Pensions and Audit Committee in September 2013.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, focusing on the key risks identified this year for the financial statements audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 explains our approach to VFM work.
- Section 5 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We are looking forward to working with the officers and Members, we'd like to thank them for the help and co-operation during our planning and anticipate this continuing throughout our audit work.

We have identified a number of key areas that we will focus on during the audit of the 2012/13 financial statements.

The remainder of this document provides information on our:

- approach to the audit of the financial statements;
- approach to VFM work; and
- audit team, proposed deliverables, timescales and fees for our work.

Our financial statements audit will focus on the following significant areas:

| Area | Risk | Audit work |
|--------------------------------------|---|---|
| Property, Plant and Equipment | The Council has a significant asset base primarily relating to Council dwellings and Investment property. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty. | <ul style="list-style-type: none"> ■ Reviewing management's assessment of property valuations and impairment calculations. ■ Reviewing the information provided to the valuer from the Council. ■ Comparing the assumptions made by your valuer to benchmarks and to the assumptions used for 2011/12 for consistency. |
| Cash | Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements. | <ul style="list-style-type: none"> ■ We will seek bank confirmations over account balances. ■ We will review and test the controls over bank reconciliations. |
| Pension Costs and Liabilities | Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement. | <ul style="list-style-type: none"> ■ Reviewing the information provided to the actuary from the Council. ■ Reviewing the actuarial valuation and considering the disclosure implications. ■ Comparing the assumptions made by your actuaries to benchmarks, which are collated by our KPMG actuaries, and to the assumptions used for 2011/12 for consistency. |

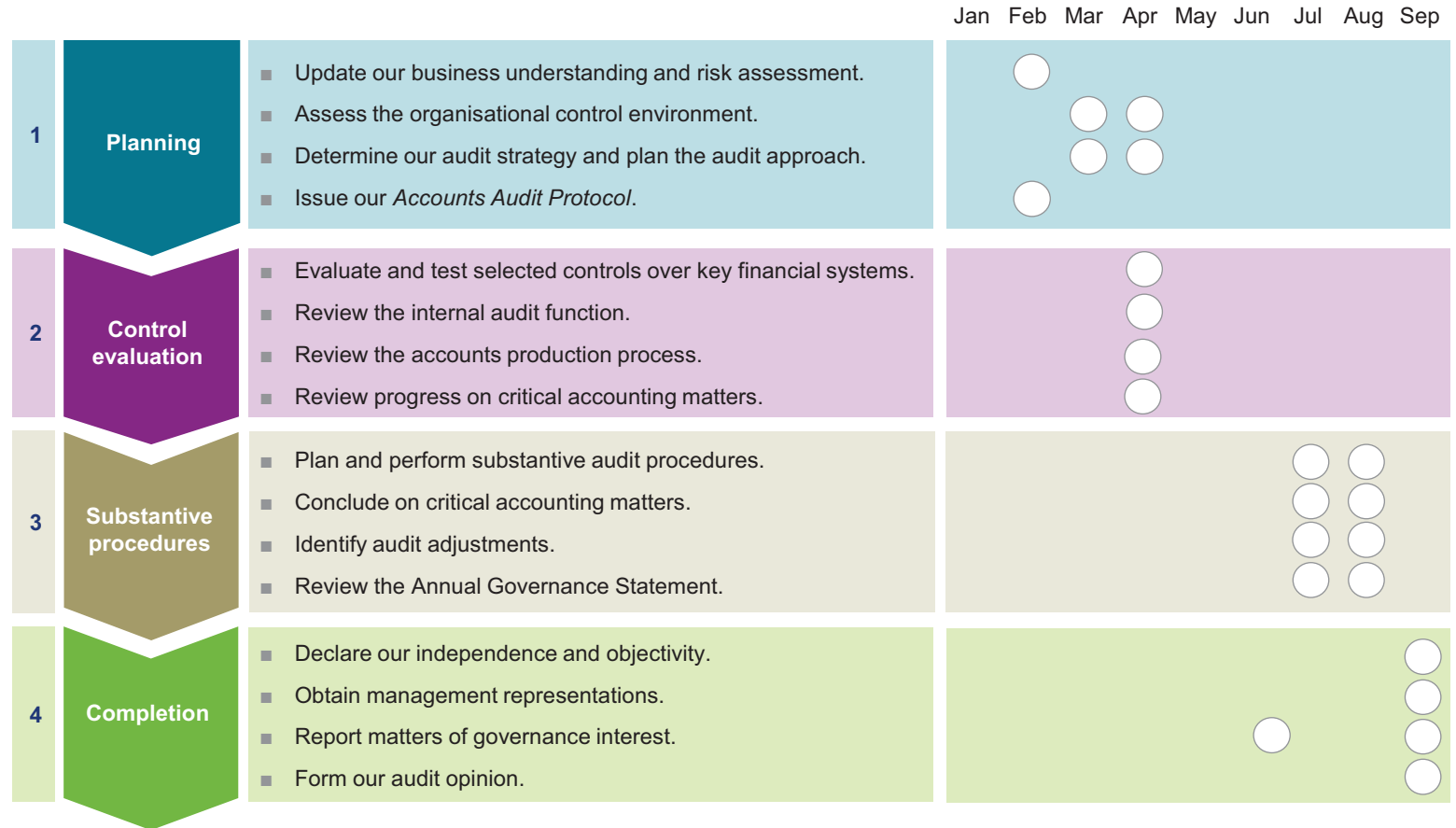
During our value for money work we will focus on the following:

| Area | Risk | Audit work |
|----------------------|--|--|
| Savings Plans | <p>The Authority currently estimates that it will need to deliver £21.4m in savings during 2013/14 and a further £17m in 2014/15 to address further reductions to local authority funding . Theses savings will come in part from the Tri-Borough working arrangements, which are inherently more risky.</p> <p>The Authority will need to establish and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2012/13 financial statements as appropriate.</p> | Our VFM work will focus on how the Authority is planning and managing its savings plans, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. |

We undertake our work on your financial statements in four key stages during 2013:

- **Planning** (February to March).
- **Control Evaluation** (April).
- **Substantive Procedures** (July to August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



During February and March 2013 we complete our planning work.

We assess the key risks affecting the Authority's financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach, and agree a protocol for the accounts audit, specifying what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in February and March 2013. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We gain an understanding of the Authority's operations and identify any areas that will require particular attention during our audit of the Authority's financial statements.

We identify the key risks affecting the Authority's financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Our audit strategy and plan is, however, flexible as the risks and issues may change throughout the year. It is the Authority's responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a bi-monthly basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of their work of your internal auditors also informs our risk assessment.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations. Whilst we undertake some general IT controls work, we also focus on testing the specific applications and reports that are pivotal to the production of the financial statements.

Audit strategy and approach

The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

Accounts audit protocol

At the end of our planning work we will issue our Accounts Audit Protocol. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

During April 2013 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2012/13. We work with your Internal Audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

If we have any significant findings we will prepare and present an *Interim Report* to go to the Audit Committee in June.

Our interim visit on site will be completed during April. During this time we will complete work in the following areas:

- | | |
|--------------------|--|
| Control Evaluation | <ul style="list-style-type: none"> ■ Evaluate and test controls over key financial systems identified as part of our risk assessment. ■ Review the work undertaken by the internal audit function on controls relevant to our risk assessment. ■ Review the accounts production process. ■ Review progress on critical accounting matters. |
|--------------------|--|

Controls over key financial systems

We will gain an understanding of the Authority’s key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work Internal Audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work.

Review of internal audit

During our audit we will seek to place reliance on the Authority’s high level controls, and as part of our assessment of the overall control environment we will review and discuss the work carried out by Internal Audit.

Where any internal audit findings suggest weaknesses in key controls that could impact on significant account balances, we will adjust our approach to reflect these findings and where necessary perform additional testing to ensure that we can gain sufficient, appropriate audit evidence over those significant associated balances. We don’t plan to rely directly on the work of Internal Audit.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Following our interim visit if necessary we will issue an *Interim Report* which will set out any significant findings from our planning and interim work. This will be discussed at the Audit Committee meeting in June. If we don’t have any significant findings we will discuss any minor points with management, but will not issue a formal report to be presented to the Audit Committee.

During July and August 2013 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report to the Audit Committee* in September 2013.

Our final accounts visit on site has been provisionally scheduled for July and August. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We will discuss our early findings of the Authority's approach to address the key risk areas with the Head of Corporate Accountancy and Capital Finance in August 2013, prior to reporting to the Audit Committee in September 2013.

Audit adjustments

During our on site work, we will meet with the Head of Corporate Accountancy and Capital on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue to Audit Committee in September 2013.

Assumptions

Our audit approach and timeline has been prepared based on the following assumptions:

- LBHF's audit evidence files are completed to an appropriate standard (we will liaise with management separately on this); and
- Within the agreed time frame.

Failure to adhere to the above may result in delays in the audit timetable which could lead to additional fees.

In addition to the financial statements, we also audit the Authority's Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Electoral challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector's objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission's fee scales.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee. Our deliverables are included on page 15.

Use of off-shore audit resources

During our audit work we may make use of our KPMG Global Services (KGS Audit) team in India to undertake certain basic audit tasks and functions. Use of this 'off-shore' team is one of many initiatives we employ to deliver a cost-effective audit service for our clients. Although based in India, the KGS Audit team works closely with our local audit teams to undertake certain audit procedures remotely. We have provided our UK teams with guidance on the types of audit procedures and other tasks that it is suitable and permissible to use KGS Audit for - we do not use KGS Audit for any audit procedures that involve access to personal, confidential or sensitive information. Audit tasks are then allocated by our UK-based engagement teams to dedicated teams in India, allowing local staff to control what work KGS Audit undertakes and what information is accessed. They operate to our same quality standards and all work undertaken by KGS Audit is reviewed by the UK team.

The KGS Audit team operates in a paperless environment and we apply robust processes to control how data is accessed and used:

- all work is conducted electronically;
- all data files are maintained on servers in the UK with restricted access and only viewed on screen in India. These servers are governed by established KPMG IT controls;
- policy and technology restrictions are in place to protect data, for example locked down USB ports, no external emailing, no printing;
- KGS Audit staff are based in an office with restricted access and security; and
- the team members adhere to global KPMG ethics and independence standards, along with requirements governing the non-disclosure of client information.

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2. We confirm our audit team's independence and objectivity is not impaired.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Pensions and Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Confirmation statement

We confirm that as of 14 February 2013 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

| Specified criteria for VFM conclusion | Focus of the criteria | Sub-sections |
|--|--|---|
| The organisation has proper arrangements in place for securing financial resilience . | The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. | <ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control |
| The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness . | The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. | <ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity |

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

| VFM audit stage | Audit approach |
|----------------------------------|---|
| VFM audit risk assessment | <p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> ■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ information from the Audit Commission's VFM profile tool and financial ratios tool; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of the Audit Commission, other inspectorates and review agencies. |

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

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| VFM audit stage | Audit approach |
|---|---|
| Linkages with financial statements and other audit work | <p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p> |
| Assessment of residual audit risk | <p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p> |
| Identification of specific VFM audit work | <p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, the Audit Commission, other inspectorates and review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. |

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

| VFM audit stage | Audit approach |
|-----------------------------------|---|
| Delivery of local risk based work | <p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p> |
| Concluding on VFM arrangements | <p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p> |
| Reporting | <p>We will report on the results of the VFM audit through our <i>Interim Audit Report</i> and our <i>Report to those charged with governance</i>. These reports will summarise our progress in delivering the VFM audit, the results of the risk assessment and any specific matters arising, and the basis for our overall conclusion.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p> |

Your audit team has been drawn from our specialist public sector assurance department. Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Michael McDonagh
Partner

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Pensions and Audit Committee and Executive Directors.”



Samantha Maloney
Senior Manager

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with Partner to ensure we add value. I will liaise with the Head of Corporate Accountancy and Capital and Head of Internal Audit.”



Joel Harrison
Assistant Manager

“I will be responsible for the on-site delivery of our work. I will liaise with the Finance and Internal Audit Teams. I will also supervise the work of our audit assistants.”

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agreed each report with the Authority's officers prior to publication.

| Deliverable | Purpose | Committee dates |
|---|---|-----------------------|
| Planning | | |
| External Audit Plan | <ul style="list-style-type: none"> ■ Outline audit approach. ■ Identify areas of audit focus and planned procedures. | February 2013 |
| Control evaluation | | |
| Interim Report | <ul style="list-style-type: none"> ■ Details and resolution of control and process issues. ■ Identify improvements required prior to the issue of the draft financial statements and the year-end audit. | June 2013 |
| Substantive procedures | | |
| Report to Those Charged with Governance (ISA 260 Report) | <ul style="list-style-type: none"> ■ Details the resolution of key audit issues. ■ Communication of adjusted and unadjusted audit differences. ■ Performance improvement recommendations identified during our audit. ■ Commentary on the Authority's value for money arrangements. | September 2013 |
| Completion | | |
| Auditor's report | <ul style="list-style-type: none"> ■ Providing an opinion on your accounts (including the Annual Governance Statement). ■ Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). | September 2013 |
| Annual Audit Letter | <ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. | November 2013 |
| Grants reports | <ul style="list-style-type: none"> ■ Summarises key findings | December 2013 |

We will be in continuous dialogue with you throughout the audit.

Key formal interactions with the Audit Committee are:

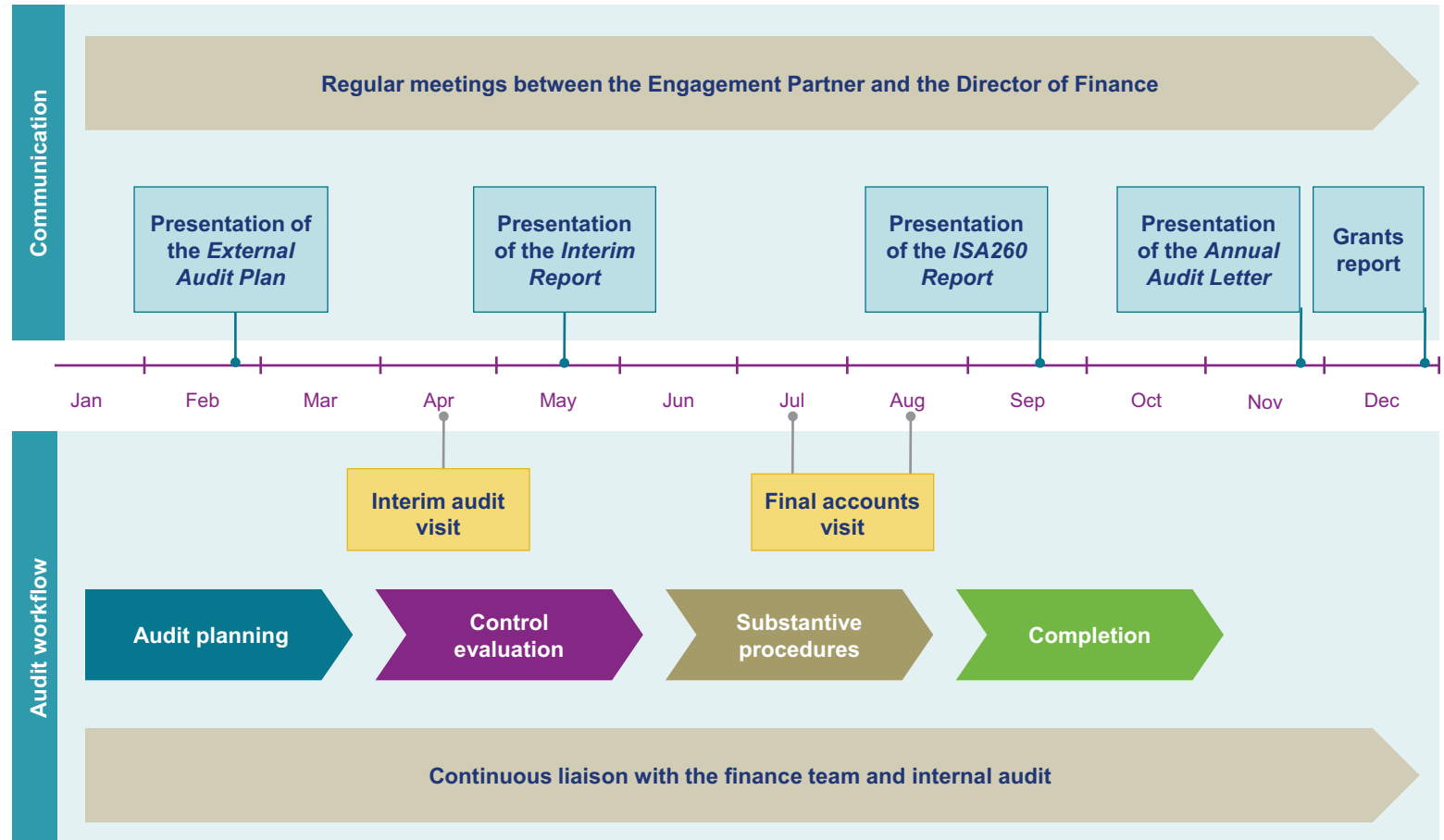
- February – Financial Statements Audit Plan;
- June – Interim Report;
- September – ISA 260 Report;
- November – Annual Audit Letter.
- December – Grants work

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visit during April.
- Final accounts audit during July and August.

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Key: ● Audit Committee meetings.

The main fee for 2012/13 audit of the Authority is £216,000. The fee has not changed from that set out in our *Audit Fee Letter 2012/13* issued in August 2012.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2012/13* presented to you in August 2012 first set out our fees for the 2011/12 audit.

| Element of the audit | 2011/12 (actual) |
|-------------------------------|------------------|
| Gross audit fee | £216,000 |
| Audit of Pension Fund | £21,000 |
| Certification of Grant Claims | £32,150 |

Our audit fee includes our work on the VFM conclusion and our audit of the Council's financial statements.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. Additionally, we have assumed:

- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2012/13* within your 2012/13 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

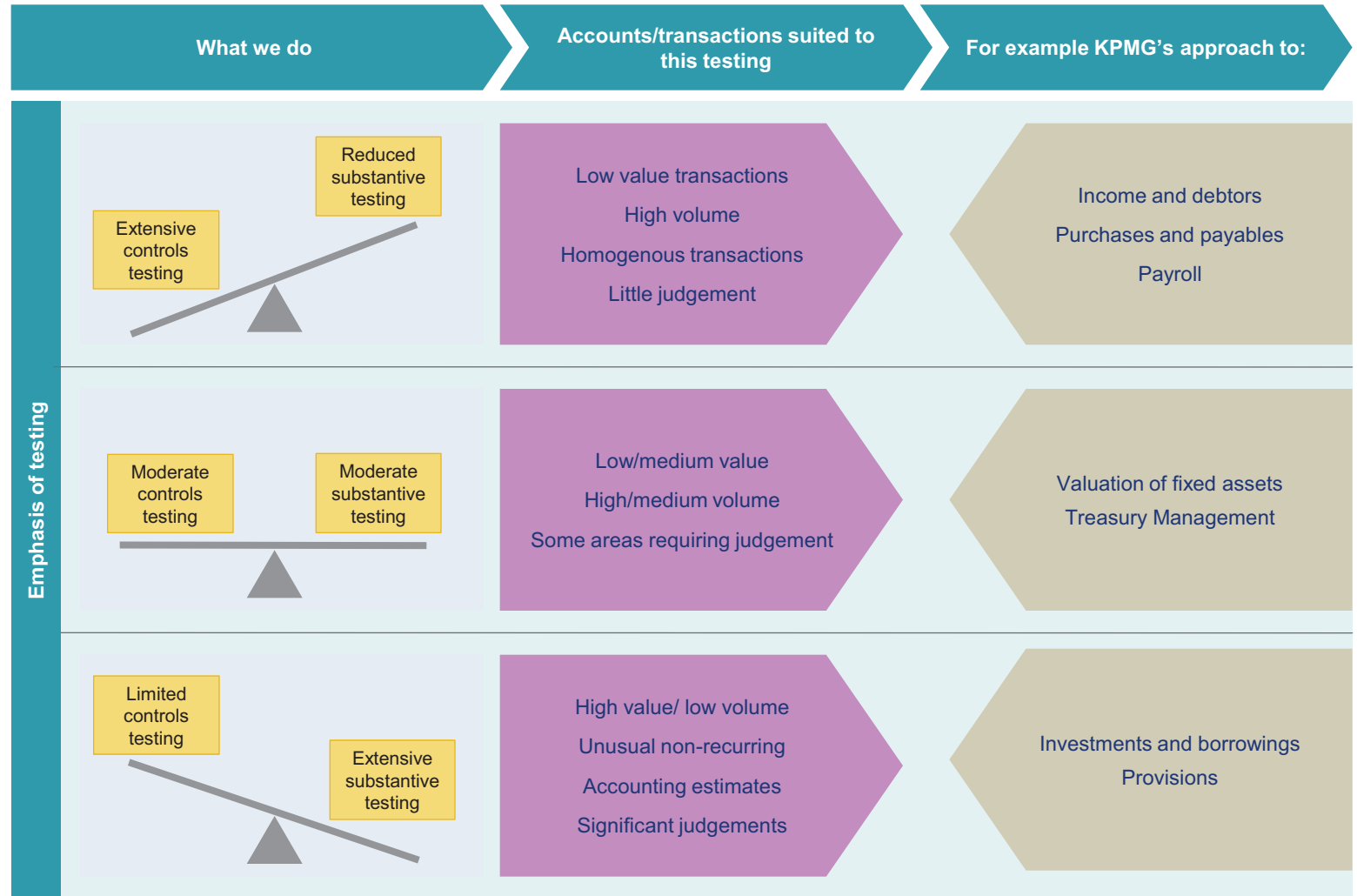
Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Finance.

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

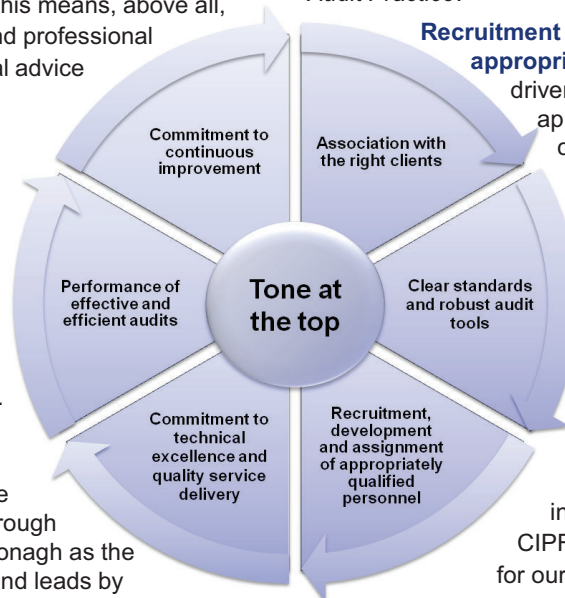
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Michael McDonagh as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based bi-monthly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes. I

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission’s annual quality review process is made publicly available each year (http://www.audit-commission.gov.uk/audit-regime/Pages/qualityreviewprocess_copy.aspx). The latest report dated October 2012 showed that we performed highly against all the Commission’s criteria.




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Agenda Item 8

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|  | London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 14 February 2013 |
| External Audit recommendations updates & Annual Governance Statement Action Plan | |
| Open Report | |
| For Information | |
| Key Decision: No | |
| Wards Affected: None | |
| Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance | |
| Report Author: Geoff Drake – Chief Internal Auditor | Contact Details: Tel: 020 753 2529 E-mail: geoff.drake@lbhf.gov.uk |

1. EXECUTIVE SUMMARY

- 1.1. This report summarises:
- Progress on implementing recommendations arising from the Audit Commission 2011/12 Annual Governance Report
 - The action plans relating to the control weaknesses identified in the 2011/12 Annual Governance Statement and progress in implementing these action plans.

2. RECOMMENDATIONS

- 2.1. To note the contents of this report.

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

4. INTRODUCTION AND BACKGROUND

- 4.1. In September 2012 the Council's External Auditors (The Audit Commission) issued their 2011/12 Annual Governance Report. The report contained 4 recommendations for implementation by management.
- 4.2. The Council's Annual Governance Statement (AGS) also contained issues that required action by management. Action plans are a necessary result of the AGS and should provide sufficient evidence that the individual significant control weaknesses taken from the AGS will be resolved as soon as possible, preferably in-year before the next statement is due.
- 4.3. Failure to act effectively on the significant control issues would increase the exposure of the council to risk. As these issues are considered to be significant, the action plans and the progress made in implementation will be periodically reported to the Audit, Pensions and Standards Committee to agree and then to monitor progress.

5. PROPOSAL AND ISSUES

5.1. Update on External Audit recommendations

- 5.1.1. The table attached as Appendix 1 shows the progress reported by the responsible managers in implementing recommendations from the Audit Commission 2011/12 Annual Governance Report. Updates on 4 recommendations have been sought for this report and all recommendations have been reported as in progress. We will continue to report progress on all outstanding recommendations from this and any newly received reports at future meetings.

5.2. Annual Governance Statement Action Plan

- 5.2.1. Attached as Appendix 2 are the action plans relating to the control weaknesses identified in the 2011/12 Annual Governance Statement and reports on progress.
- 5.2.2. The action plans for all 4 AGS entries have been reported as in progress. We will continue to report progress on all outstanding actions at future meetings.
- 5.2.3. The schedule at Appendix 2 shows the current stated position as reported by the identified responsible officers. Unless otherwise stated, Internal Audit has not verified the current position reported in either appendix and can therefore not give any independent assurance in respect of the reported position.
- 5.2.4. The Audit and Pensions Committee is invited to note the updates provided by operational management.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable

7. CONSULTATION

7.1. Not applicable

8. EQUALITY IMPLICATIONS

8.1. Not applicable

9. LEGAL IMPLICATIONS

9.1. Not applicable

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

**LOCAL GOVERNMENT ACT 2000-
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

| No. | Description of Background Papers | Name/Ext. of Holder of File/Copy | Department/ Location |
|------------|---|---|---|
| 1. | External Audit report recommendations progress update | Internal Audit Manager Ext. 2505 | Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU |
| 2. | Annual Governance Statement Action Plan | Internal Audit Manager Ext. 2505 | Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU |

LIST OF APPENDICES:

| | |
|------------|---|
| Appendix A | External Audit Recommendations |
| Appendix B | 2011/12 Annual Governance Statement Action Plan |

External Audit Recommendation updates

| Report | Recommendation/Areas of Improvement | Initial response and timescale | Responsible Officer | Update to Audit, Pensions and Standards Committee |
|---|--|--|---------------------------------------|--|
| <i>2011/12 Annual Governance Report</i> | | | | |
| <i>National Non Domestic Rates (NNDR)</i> | | | | |
| | <p>R1 - Ensure management responses to the Internal Audit recommendations on National Non Domestic Rates are obtained and the recommendations implemented in a timely manner.</p> | <p>The Internal Audit report has been finalised (inclusive of management responses) and will be presented to the Audit Committee in September 2012. This report contains a detailed action plan which will be implemented with high priority.</p> <p><i>Implementation of recommendations will be ongoing in accordance with the action plan set out in the Internal Audit report</i></p> | <p>Director, H&F Direct</p> | <p>See AGS entry for 'Local Taxation' in Appendix B for detailed action plan and progress update.</p> |
| | <p>R2 Strengthen arrangements concerning the capitalisation of expenditure as follows:</p> <ul style="list-style-type: none"> • Establish controls to ensure all expenditure capitalised meets the definition of IAS16 Property, Plant & Equipment. • Expand instructions to valuers to ensure the valuation of Council Dwellings takes into account capital schemes to be completed during the year. | <p>The Council's capitalisation guidance will be reviewed as a priority and refined as necessary – in particular it will include more worked examples which the Services have identified as a means to help clarify their understanding of what can be a complex issue. Corporate Finance will work with Children's Services to ensure that this guidance is issued to, and understood by, the Council's schools. The Council will also review its guidance to valuers.</p> <p><i>Guidance to be issued September 2012; review mechanism will be ongoing (quarterly)</i></p> | <p>Bi-Borough Director of Finance</p> | <p>Capital Accounting Guidance has been updated and disseminated to staff on 27 September 2012</p> <p>In addition, to further manage the risk identified by the audit, the Corporate Finance Team will be undertaking a detailed capitalisation review as part of the Quarter 3 close process.</p> |

| Report | Recommendation/Areas of Improvement | Initial response and timescale | Responsible Officer | Update to Audit, Pensions and Standards Committee |
|--------|--|---|---------------------------------------|--|
| | <p>R3 - Review debtor listings and ensure all irrecoverable debt is written off.</p> | <p>Guidance on reviewing aged debtors will be reviewed by Corporate Finance and reissued to service departments as a priority.</p> <p><i>Guidance to be reviewed and reissued in October 2012; review process – ongoing</i></p> | <p>Bi-Borough Director of Finance</p> | <p>A review of debtors will be undertaken as part of the Period 9 closedown exercise where debt assessed as irrecoverable will be written off.</p> <p>This will take place in February 2013.</p> |
| | <p>R4 Enhance the integration of tri-borough risks into the Authority's risk management arrangements and, to support internal control, establish effective arrangements for ongoing internal audit.</p> | <p>A formal programme has been developed to move towards a tri borough internal audit and risk management function.</p> <p>The outcome of the current proposals will further enhance current arrangements to facilitate a robust risk management framework to support both the integration of tri, bi and sovereign borough risks and will improve on existing effective internal audit arrangements.</p> <p><i>Process ongoing</i></p> | <p>Bi-Borough Director of Finance</p> | <p>There is a tri-borough project currently under way to develop long term solutions and in the interim there are regular meetings between the lead officers for audit and risk management to ensure that this continues to work effectively to meet the needs of the sovereign organisations while coordinating activity across the boroughs to achieve value for money.</p> <p>The Enterprise Wide Risk & Assurance register has been retabulated to recognise specific aspects of Tri/Bi and mono risks. This has now been in place for 2 meetings of the H&F Business Board and Audit, Pensions and Standards Committee.</p> |

2011/12 Annual Governance Statement Action Plan


| Entry | Responsible Officer | Action Plan | Progress To date |
|--|---|--|---|
| <p>Health and Safety 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.</p> | <p>Bi-Borough Director for Environmental Health</p> | <ol style="list-style-type: none"> 1. Corporate Safety Team Action plan 2012 2104 to be developed and agreed by H&F Business Board 2. Departmental 'Statements of Intent' to be developed and agreed 3. Quarterly Health and Safety update report to be provided to H&F Business Board. 4. Corporate Safety Team business plan to be developed to set out the team's objectives to identify the core risks across the organisation 5. Rolling programme of audits of Departmental Health & Safety management Arrangements to be put in place. 6. A Health & Safety Risk Management Profile is being drafted for organisation that is envisaged will feed into the Corporate Risk Register 7. A further audit of Health and Safety and Risk Management and Assurance | <ol style="list-style-type: none"> 1. Action plan developed and agreed 2. <ul style="list-style-type: none"> • Children's Services – H&S Statement of intent for tri-borough agreed • Adult Social Care – H&S Statement of intent for tri-borough agreed • ELRS and TTS – H&S bi-borough statement of intent agreed • FCS - H&S policy and plan in place • HRD – H&S Divisional plans in Place 3. Quarterly report provided to H&F Business Board provides a monitoring tool of the overall position in terms of organisational health and safety by Department: Reporting on core Activity and Building Related KPIs, accident statistics, training and the status of audit findings and recommendations - detailing responsible Director. 4. In progress 5. Rolling programme of Audits now in place. 6. In progress 7. Internal Audit of Health and Safety Risk Management and Assurance is in progress will report to a future meeting of the Committee. |

| Entry | Responsible Officer | Action Plan | Progress To date |
|---|--|--|--|
| <p>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.</p> | <p>Director Building and Property Management & Director of Property Service and Asset Management</p> | <ol style="list-style-type: none"> 1. It is proposed to carry out a stock condition survey as part of the development of an Asset Management Strategy. This information will be placed on Codeman and will include data on metal building elements. 2. Where replacement of metal parts are needed those historically at risk of theft, are being replaced with non-desirable components and this is being undertaken as part of our on-going maintenance programme. 3. Discussions are continuing with colleagues in insurance to ensure that where Council is not covered in the event of metal theft, consideration should be given to updating security arrangements or amending the policy to ensure adequate insurance cover is in place. 4. Communication will be increase with TRAs and resident Groups to increase the awareness of the issues and damage caused by Metal thefts. 5. The department is now sharing information regarding thefts and/or attempted thefts with other Council departments and neighbouring Local Authorities at the corporate Asset Delivery Team (CADT) meetings and is included as an agenda item. We have included the theft of metal on the Corporate Asset Delivery Team (CADT) risk log and the Director of Property Service and Asset Management will provide a monitoring report to CADT 6. All incidents of metal theft from Council premises' will be promptly reported to the BMRA. | <ol style="list-style-type: none"> 1. Stock condition survey currently being tendered 2. This is currently the process and is continuing 3. Discussions have taken place with colleagues in insurance regarding insurance arrangements for metal theft. 4. This is underway, with regular updates in 'Your Home' magazine planned. 5. This is underway 6. This will happen as it occurs. |

| Entry | Responsible Officer | Action Plan | Progress To date |
|--|---|---|--|
| <p>Housing Repairs and Maintenance Following recent investigations undertaken by Internal Audit, it has been established that there are some historic control weaknesses relating to the financial administration of the repairs and maintenance function. Work in this area is being conducted to gauge the extent to which charges have been correctly validated, and to refresh management procedures to ensure risks are appropriately mitigated.</p> | <p>Director of Finance and Resources (Housing and Regeneration)</p> | <ol style="list-style-type: none"> 1. Review definition of 'What is an RR repair' and train all involved with order raising. 2. Review potential RR to PR conversions at weekly Operational Meetings. 3. High Value Repair Panel to meet weekly to review jobs exceeding the PR financial limit. 4. Introduce a 'Commitment Accounting' regime for budget monitoring in 12/13 5. Establish regular monthly finance meetings with Repairs contractors 6. External Audit review to be carried out | <ol style="list-style-type: none"> 1. Definition clarified and joint training with Partner contractors carried out in 11/12 and training delivered. 2. RR to PR weekly review process introduced, and is proving beneficial and work is on-going. Current situation is that there is a backlog on WDP but Kier up to date. 3. HVRP is proving to be effective work is continuing in this area. 4. Commitment accounting introduced and is proving beneficial On going reviews of invoiced costs of PR work against order value are continuing and have revealed a number of variations in excess of the original quote. Following discussions on these areas, WDP have agreed to move to an Agreed Maximum Price from October with Kier negotiations on-going. Forecast to year end is currently suggesting a possible budget overspend. However additional measures have been introduced on revenue PR orders. The wet summer has increased the number of responsive repair orders above the volumes forecast. 5. Monthly meetings established. Further in-house operational forecasting meeting established to meet in the first week of each month. 6. Ernst & Young appointed and audit completed on Kier. Findings are subject to on-going negotiation with Kier. |

| Entry | Responsible Officer | Action Plan | Progress To date |
|---|------------------------------------|--|---|
| <p>Local taxation A significant internal control issue has been identified in the council's system for business rates collection. A subsequent internal audit of the system concluded that there is only a limited assurance in this area currently. A number of control improvement recommendations have been made that are in the process of being implemented. Once these recommendations are addressed, the significant control issue will have been resolved.</p> | <p>Director H&F Direct</p> | <p>Phase 1 – implementation by 1 November 2012</p> <ol style="list-style-type: none"> 1. Review access rights to the Academy system 2. Second review / certification of reconciliations 3. Review of top 250 outstanding debtors every month, and an action plan produced 4. Review of all suppressed accounts <p>Phase 2 – implementation by 31 December 2012</p> <ol style="list-style-type: none"> 5. Completion of Inspections and quality of inspections monitored regularly 6. Definition of level of evidence required to support granting of relief (where a physical inspection is not possible) 7. All retrospective reliefs reviewed and approved by a senior officer <p>Phase 3– implementation by 1 March 2012</p> <ol style="list-style-type: none"> 8. Evidenced check of NNDR bills prior to main billing <p>Phase 4– implementation by 1 April 2013</p> <ol style="list-style-type: none"> 9. Develop comprehensive procedure manual 10. Review amendments to accounts by staff to ensure procedures are being complied with 11. Refunds authorised in line with scheme of delegation and Monthly reconciliation to ensure all refunds have a corresponding authorised form 12. All withdrawn summonses independently reviewed/authorised 13. Monthly reconciliation to ensure all write-offs have a corresponding authorised form | <p>Phase 1 Actions 1-4 all implemented.</p> <ol style="list-style-type: none"> 1. A review of rights has been completed. 2. Secondary review / certification of reconciliations regarding direct debits and cash posting files is complete and in place. The recommendation regarding debits/main billing will be February 2013. 3. List of top 250 debtors being reviewed by Database Manager on monthly basis. Actions planned on any late payments – in place. 4. List of suppressed accounts produced and reviewed by database manager on monthly basis in place. <p>Phase 2 Actions 5-7 implemented as resources allow.</p> <ol style="list-style-type: none"> 5. Reports being actioned. 6. Agreed approach with Internal Audit 7. Random Spot checks of 25 of each officer being done. <p>Phase 3 The existing process for checking NNDR bills will be enhanced to include evidencing by the officer undertaking the checks & subsequent review & evidencing by the Head of Revs & Bens</p> <p>Phase 4 Reorganisation completed in December (ahead of schedule) NNDR Manager post under recruitment. Once in place this will allow this action to be undertaken. The procedural manual will include all of the actions from the internal audit report</p> |

Agenda Item 9

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|  | London Borough of Hammersmith & Fulham AUDIT PENSIONS AND STANDARDS COMMITTEE 14th February 2013 |
| Combined Risk Management Highlight report | |
| Report of the Executive Director of Finance and Corporate Governance | |
| Open Report | |
| For Review & Comment | |
| Key Decision: No | |
| Wards Affected: None | |
| Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance | |
| Report Author: Michael Sloniowski, Principal Consultant , Risk Management | Contact Details: Tel: 020 8753 2587 E-mail: michael.sloniowski@lbhf.gov.uk |

1. EXECUTIVE SUMMARY

- 1.1. This report updates the Committee of the risks, controls, assurances and management action orientated to manage Enterprise Wide risks.

2. RECOMMENDATIONS

- 2.1. The committee consider the current h&f Sovereign Strategic, Change and Operational risks as outlined in the report.
- 2.2. The committee note the TriBorough and BiBorough risks such as they may affect h&f as outlined in the report.
- 2.3. The committee approve the Enterprise Wide Risk & Assurance register

3. REASONS FOR DECISION

- 3.1. This report updates Members on the risk management issues identified across council services and follows changes in the reporting process to Committee to meet Corporate Governance requirements for Enterprise Risk Management as outlined in the 2012 guidance 'Delivering Good

Governance in Local Government'. 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.

4. INTRODUCTION AND BACKGROUND

- 4.1. Local government has been undergoing significant change and the environment in which it works is increasing in complexity. In addition to the continuing economic and financial challenge, the Localism Act and other key legislation has brought new roles, opportunities and greater flexibility for authorities.
- 4.2. Local authorities are changing the way in which they operate and undertake service provision. Public services are delivered directly, through partnerships, collaboration and through commissioning. Shared services and partnership boards have come into existence. The introduction of new structures and ways of working provide challenges for managing risk, ensuring transparency and demonstrating accountability.
- 4.3. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with control and the management of risk.

5. PROPOSAL AND ISSUES

5.1. TRI-BOROUGH RISK MANAGEMENT DELIVERY

- 5.1.1. H&F Risk Management has been included as a service, along with Internal Audit and Counter Fraud, in the Corporate Services Programme. A Strategy to manage TriBorough risks is being developed collaboratively with Westminster City Council and the Royal Borough of Kensington and Chelsea.
- 5.1.2. Presently each council has in place a policy, strategy, framework and approach for the management of risk that are distinct from each other. These are in the process of being harmonised and a Draft Joint Strategy Statement has been prepared. Supporting methodology and 'light touch' risk management guidance are also at draft stage which, together with a e-learning training package for staff will help bring together a package that assists services across the three councils.
- 5.1.3. A consultation document is being prepared to provide for the current H&F Risk Manager to become the Bi-borough Risk Manager. Currently the reporting line of the Risk Manager is to the H&F Chief Internal Auditor. It is expected that from April 2013 the Bi-borough Risk Manager will report to the appointed Bi-Borough Director of Audit. The cost of the post will be shared equally between the two Councils.

5.2. ENTERPRISE WIDE RISK AND ASSURANCE REGISTER

- 5.2.1. The Enterprise Wide Risk and Assurance Register has been updated following the review of Departmental submissions and has been reviewed by the Hammersmith & Fulham Business Board. It remains an indicator of 'Corporate Preparedness'. The full version accompanies this paper for Members information at **Appendix 1**.

5.3. H&F - STRATEGIC RISKS PERSPECTIVE

- 5.3.1. A high level of financial uncertainty and economic instability, nationally and attached to the Eurozone remains the key risk. Output from eurozone factories fell by 0.3% in November, according to the latest official figures from EU body Eurostat. The drop marks the third successive month of decline. The fall comes in spite of analysts' forecasts of a rise and means production is now 3.7% lower than a year ago. However, the pace of decline is slowing, and November's fall compares to a 1% drop in October.
- 5.3.2. Despite the falls, which are an indicator of lower economic activity, analysts said there were signs that the worst was over. Production of capital goods, which includes machinery to make other goods, rose 0.7% in November from October, following two successive months of decline, suggesting future business was likely to pick up.
- 5.3.3. "The worst is behind us. We believe that the euro area will exit recession in the first half of this year," said David Mackie, an economist at JP Morgan. "The risk of a eurozone break-up was a major drag on businesses last year, but this year we are beginning to see some stabilisation," added Ulrike Rondorf, an economist at Commerzbank.
- 5.3.4. The production report from the Office for National Statistics (ONS) showed that industrial production was down 2.4% in November compared with the same month a year earlier.
- 5.3.5. Manufacturing, which is one of the components of the index of production along with mining and quarrying, gas and electricity, and water and sewerage, fell 0.3% compared with the previous month.
- 5.3.6. The ONS report on output in the construction industry showed a 9.8% drop compared with November 2011. But the really important figure on construction will be the one for December, according to Alan Clarke at Scotiabank.

- 5.3.7. "December is a big month for construction because of really bad snow for the last two Decembers, so that may yet save us from a fractionally negative (GDP) reading," he said. But he added that, "this probably pushes us over the threshold into a negative reading for GDP in the fourth quarter".
- 5.3.8. Both the Bank of England and the Office for Budget Responsibility, which prepares economic forecasts for the government, have warned that GDP may have contracted in the fourth quarter of 2012. The absence of the one-off factors that boosted growth in the third quarter, such as the Olympics, make it more difficult for the economy to register growth in the fourth.
- 5.3.9. "The big picture is that the UK has stalled, it's bouncing along the bottom, it's stable, not growing very much, not falling very much," said Rob Wood, economist at Berenberg Bank.
- 5.3.10. The UK economy contracted by 0.3% in the last three months of 2012, according to the National Institute of Economic and Social Research (NIESR). The NIESR blamed it on artificially strong growth in the third quarter. If the figure is confirmed by official data later this month, it will mean that the economy returned to growth for only a single quarter. It would also mean the economy saw zero growth for the whole of 2012.
- 5.3.11. All tickets for the Olympics and Paralympics were considered in the official statistics to have been bought in the third quarter of 2012, when the games took place. That flattered the economy, which registered growth of 0.9% in the three-month period. It meant that without the one-off factor the economy would have had to find considerable growth from elsewhere to avoid a contraction in the final three months of the year. The NIESR said that without the one-off factors the economy would have been basically flat for the third and fourth quarters.
- 5.3.12. The pressure remains on Hammersmith & Fulham council to 2014 and beyond, to continue finding better, more efficient, ways of doing things.

5.4. H&F - CHANGE RISK PERSPECTIVE

- 5.4.1. Change or Programme risk management is the responsibility of the new programme management office (PMO) and Transformation Management Office (TMO) in H&F. Information collated as part of the function of the PMO/TMO on risk is shared through Sharepoint with the H&F risk management consultant or through recent updates from the TMO. Data drawn from the PMO /TMO highlight reports are considered as the H&F Enterprise Wide risk & assurance register is updated.

As the activity of the PMO/TMO in delivery of TriBorough and Sovereign Objectives diminishes risks will migrate to form part of the business as usual function.

5.5. H&F PROGRAMME AND PROJECTS PERSPECTIVE

- 5.5.1. The Innovation and Change Management Service is a new Tri Borough Division. Their new remit will extend to Programme Management. They are committed to making processes LEAN and fit for business, delivering the transformation portfolios programmes and projects. Presently the Customer, Regeneration and Market Management Portfolios indicate that risks are being managed within a tolerable level. Three projects within the Business Portfolio are classified as red due to their recent initiation, (Deep compare and contrast of services, IT Enabled change, and Smartworking Stage E).
- 5.5.2. Information on Programme risks are contained in corporate programme monitoring documentation. The responsibility of the maintenance and upkeep of Programme, Portfolio and Projects risks are the responsibility of Departments as a devolved function.

5.6. H&F - OPERATIONAL PERSPECTIVE

Key Risk Indicators

- 5.6.1. Risk indicators are an important tool within operational risk management, facilitating the monitoring and control of risk. In so doing they may be used to support a range of operational risk management activities and processes, including: risk identification; risk and control assessments; and the implementation of effective risk appetite, risk management and governance frameworks.

Health and Safety

- 5.6.2. Routine meetings between Tri-borough counterparts continues with a first draft of a single Tri-borough Health & Safety risk assessment document ready for full consultation. Once agreed the pathway for a complete single set of health and safety codes of practice across the three boroughs will be open. The group is also working on a standardised training matrix and a single accident reporting system. A Bi-borough service review of Corporate Safety, with potential savings, has also commenced with a target date of April 2013.

- 5.6.3. The Corporate Safety Unit and H&F Risk Management Officer have developed formal risk register to manage Health and Safety risk. The document will be reviewed internally by the Corporate Safety Unit and periodically by the councils Safety Committee. This will form an independent and new assurance on Health & Safety for the council. The Health and Safety Experience is attached as **Appendix 2** and indicates that 808 incidents took occurred in the year January 2011 to December 2011 and 668 in the year January 2012 to December 2012. The majority of incidents occurring in the Childrens Services Department.

Information Management

- 5.6.4. Information security incidents are recorded by the Information Management team and are reviewed periodically by the cross departmental Information Technology Security Operations Group (ITSOG). A security incident is an event that has an actual or potential adverse effect on the computer, network or user resources, compromises data or where there has been damage or loss of equipment. During the last calendar year, 2012 there have been 37 incidents. This is a rise of 13 from 2011 and is primarily due to increased awareness and improved reporting across staff as a direct result of Information Governance training and communications. The Childrens Services Department were attributed to 15 of the 37 incidents. Issues are escalated by the Information Manager at ITSOG meetings together with any mitigations or actions necessary.
- 5.6.5. The Information Management incident experience is attached as **Appendix 3**.

Insurance

- 5.6.6. The council's Insurance team is part of the TriBorough Insurance service hosted by the Royal Borough of Kensington and Chelsea. Over the past quarter the team has input information into a new claims management system. This has enabled the service to provide information on the number of public and employers liability claims and their cost over a five year period. All departments have been retrospectively re-profiled into their new organisational structure. Therefore the former Community Services department insurance data is included in Adult Social Care, Highways and Tree root claims form part of the Transport and Technical Services departmental data.
- 5.6.7. In total over the past five years the council has a reducing trend on the number and cost of claims. This may be attributed

to a number of factors including the time when claims may still be submitted over the 3 year period from the date of accident.

- 5.6.8. Transport and Technical services incurred the greatest cost of claims over the five year period however this is mainly due to the inclusion of Highways Slips, Trips and Falls and Tree Root claims. Similarly the Housing and Regeneration Department claims experience includes tripping incidents on the Housing Estate. The Public and Employers Liability experience is attached as **Appendix 4**.

Procurement

- 5.6.9. The Bi Borough Procurement Board is apprised of key risks and issues as part of the new reporting format to the Board. Cabinet reports include a provision for comment on risk management. Key risks identified include;

- Separate Governance Decision Making Processes
- Separate Contract Standing Orders
- Differing approach to procurement
- Optimum timing of contracts extensions to co-ordinate three borough procurement exercises

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1. *Not applicable as the report is a representation of the business risks and opportunities to H&F council.*

7. CONSULTATION

- 7.1. *Not applicable as the report addresses the business risks to H&F council.*

8. EQUALITY IMPLICATIONS

- 8.1. *The responsibility to complete Equality Impact Assessment in relation to policy decisions is the responsibility of the appropriate departmental officer. The report highlights some of the risks and consequences of risk taking over a broad landscape and as such specific Equality and Diversity issues are referred to in the councils Enterprise Wide Risk and Assurance Register.*

9. LEGAL IMPLICATIONS

9.1. *Failure to manage risk effectively may give risk to increased exposure to litigation, claims and complaints. As such the report contributes to the effective Corporate Governance of the council.*

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. *Exposure to unplanned risk could be detrimental to the ongoing financial and reputational standing of the Council. Failure to innovate and take positive risks may result in loss of opportunity and reduced Value for Money. There are no direct financial implications with the report content.*

11. RISK MANAGEMENT

11.1. *It is the responsibility of management to mitigate risk to an acceptable level. Appropriate and proportionate mitigating actions to known risks are expressed in the Enterprise Wide Risk and Assurance Register and subject to review as part of planned Audit work and the Annual Governance Statement.*

11.2. Implications verified/completed by: Michael Sloniowski, Principal Consultant Risk Management. 020 8753 2587

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. *Failure to address risk in procurement may lead to a reduction in the expected benefits (Value for Money, Efficiency, Resilience, Quality of Service) and leave the council exposed to potential fraud and collusion as identified in the Bribery Act.*

LOCAL GOVERNMENT ACT 2000
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

| 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 |

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|----|--|----------------------------|---|
| | | | 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 |

[Note: Please list only those that are not already in the public domain, i.e. you do not need to include Government publications, previous public reports etc.] Do not list exempt documents. Background Papers must be retained for public inspection for four years after the date of the meeting.

LIST OF APPENDICES:


*Appendix 1
Enterprise Wide Risk and Assurance register*

*Appendix 2
Health and Safety experience (Attachments 2a and 2b accompany this report)*

*Appendix 3
Information Management incident experience*

*Appendix 4
Insurance Claims data (Five year period, Public and Employers Liability)*


**Appendix 1
Enterprise Wide Risk and Assurance register**

| No. | Business risk Perspective (Strategic, Change or Operational) | TriBorough BiBorough or Sovereign risk | Risk | Consequence | First line of defence (Management Controls) | Second line of defence (Independent Assurance) | Likelihood (L) | Impact (I) | Exposure = L x I | Risk Rating | Responsible Officer or Group | Review |
|-----|--|--|---|---|--|---|----------------|------------|------------------|---|--|----------------------------|
| 1. | Strategic | Sovereign | Managing budgets Sub-risks <ul style="list-style-type: none"> • NNDR localisation of Business Rates – taking on financial risk of non-collection of NNDR plus the associated loss of government grant • Underlying performance of the economy is still poor. • Impact of a sluggish national economic recovery and cascade effect on social budgets * link to revenue forecast • Pressure on demand led services may occur mid year resulting in unanticipated additional costs • HMRC VAT claims regarding partnering activities and the partial exemption benefit | <ul style="list-style-type: none"> • Requirement to deliver planned savings • Pressure on the authority to manage overspends • Departments have to manage cost pressures • Loss of financial benefit to the council | <ul style="list-style-type: none"> • High risk & volatile budget areas identified by H & F Finance • E-Learning package for Finance Managers now live • Collaborative Planning system with supported training for budget holders • Medium Term Financial Strategy and Business Planning Processes • MTFS Officer & Member Challenge • Leader's monthly monitoring reports • Financial Strategy Board (FSB) periodically evaluates the | Annual Audit Letter Select Committees are given the opportunity to fully scrutinise budgets during January. Internal Audit reviews of National Non Domestic Rates, Financial Accounting System Ledger, Cost reduction Contracts Management, S106 Economic Development and | 3 | 4 | 12 | Medium  | Jane West lead – All Executive Directors | Review January 2013 |


| | | | | | | | | | | | | | |
|----|-----------|-----------|--|---|---|--|---|---|----|--------|-------------------------|------------------------|--|
| | | | <ul style="list-style-type: none"> • Grant application is incorrectly calculated • Unplanned growth • Failure to achieve VFM • Accruals & reconciliations • Planned savings not implemented • Creditworthiness of some contractors may be downgraded as a result of the economic downturn • Contractors may go bust and cost may be incurred putting in new arrangements for service delivery • Insufficient budgetary provision and/or budgetary under/overspend * • Incomplete/inaccurate accounting records • Overestimation of potential revenue streams | <ul style="list-style-type: none"> • additional spend on dealing with contract failure | <ul style="list-style-type: none"> effectiveness of the financial management arrangements • Partnership activity now includes a VAT trace and has been raised at FSB • Grant Claims & returns record is tracked at FSB • Monthly corporate revenue & capital monitoring to cabinet • Reports to the Leader identify where spend levels exceed a tolerable level during the year • Credit check of contractors is being undertaken through the BiBorough Procurement Strategy Board (RBKC & H&F) • Disposal of Assets • Sponsorship and advertising opportunities risk & reward exercise | <p>Regeneration Expenditure 2012 2013</p> <p>HFBB, Audit Pensions and Standards Committee, External Audit, Financial Strategy Board</p> <p>Overview and Scrutiny Board</p> | | | | | | | |
| 2. | Strategic | Sovereign | Managing the Business Objectives (publics needs and expectations) | <ul style="list-style-type: none"> • The Public or section of the public may not receive the service that they need or to the quality they expect • Reputation of the service may be affected • Services are delivered in an | <ul style="list-style-type: none"> • TriBorough Business Plans have been issued for 2013 • Implementation of Lean Thinking principles putting the voice of the customer at the heart of service design • Performance monitoring and | <p>Cabinet Members</p> <p>Scrutiny Cttee review performance</p> <p>Ofsted</p> <p>Care Quality Commission</p> | 4 | 3 | 12 | Medium | All Executive Directors | Review January 2013 | |




| | | | | | | | | | | | | |
|-----------|-----------|---|--|---|---|---|---|---|-----|-------------------------|------------------------|--|
| | | | <p>Sub-risks</p> <ul style="list-style-type: none"> • A single TriBorough business planning process is not delivered impacting on the Governance of H&F | <ul style="list-style-type: none"> • unplanned way • Services start to do their own thing - Maverick decisions • Inconsistencies in service delivery start to emerge • Lack of transparency • Duplication of effort • Communication of objectives and values is lost • Target and Objective setting is diminished reducing the effectiveness of the performance management regime for officers | <ul style="list-style-type: none"> • feedback through local media • Customer experience and satisfaction surveys | | | | | | | |
| Strategic | Sovereign | <p>Market Testing (refer to Bi Borough Procurement Board RBKC & H&F)</p> <p>Sub-risks</p> <ul style="list-style-type: none"> • Tri Borough or Bi Borough procurement risk appetite may vary • Procurement procedures may become unclear across Tri or Bi Borough services | <ul style="list-style-type: none"> • Increase in threat of legal challenge on contract awards • Officers time away from other projects • Timescale of project is tight • Insufficient numbers of Officers designated to the project • Benefits are not realised • Data Quality (Accuracy, timeliness of information) results in variation to original contract spec. • Uncertainty about the most appropriate | <ul style="list-style-type: none"> • Transforming Procurement work with Agilisys procurement processes to make them slicker and more efficient • Transforming Procurement Programme with Agilisys undertakes to improve the knowledge base and skills throughout H&F • Consultation with other boroughs • Project managing the process • Separation or joining of projects to maximise benefit potential | <p>BiBorough Procurement Board (RBKC & H&F)</p> <p>Transformation Board</p> <p>HFBB</p> <p>Audit review conducted for Use of Contractors</p> <p>Internal Audit Substantial Assurance reports 2011/12 Market Testing H & F News, BTS, Legal Services</p> | 3 | 3 | 9 | Low | All Executive Directors | Review January 2013 | |

| | | | | | | | | | | | | |
|----------|--------|------------|--|---|--|--|---|---|---|--|--|----------------------------|
| | | | | procurement route, lengthen process due to reporting to 3 Member bodies | <ul style="list-style-type: none"> Realistic timetables agreed and reviewed at BiBorough Procurement Board (RBKC & H&F) Market Testing progress report to HFBB Programme & Project Management – Risk Logs being maintained, periodic risk reviews Revenue estimated from the contract to be included as a risk in the MTFs | Full Assurance report 2011/12 Market Testing Out of Hours Service | | | | | | |
| Page 108 | Change | TriBorough | Managing projects Sub-risks <ul style="list-style-type: none"> Projects do not consider enough time to mobilise in the event services are awarded to the private sector Project implementation is delayed due to protracted discussions regarding pensions transfers The risk of challenge to contract awards may increase during the harsher economic climate Large scale high risk high return projects are not led by a qualified or experienced project manager. | <ul style="list-style-type: none"> Customers needs and expectations are not fully met when projects are delivered Benefits of investment in creating toolkit not realised Threat of overspend on projects Benefits are not fully realised Delays in mobilisation of services through revised contracts | <ul style="list-style-type: none"> New Innovation and Managing Change Team brings together programme management skills from H&F and RBKC. Programme and Project management is supported by a recommended decision-making and governance process. Projects and programmes are managed through the context of the Transformational portfolios. A centralised | The Royal Borough of Kensington & Chelsea Internal Audit Departmental Project Management arrangements Audit 2012 2013 Bi Borough Procurement Board Transformation Board Internal Audit | 3 | 3 | 9 | Low  | Jane West lead – All Executive Directors Martin Nottage (Tri Borough Innovation and Change Management Division) | Review January 2013 |

| | | | | | | | | | | | | |
|----|--------|-----------|---|--|---|---|---|---|----|---|---|-----------------------------------|
| | | | <ul style="list-style-type: none"> • Too many projects are undertaken with unrealistic or unachievable targets • Successful delivery of the Tri-borough Managed Services Programme • Successful delivery of the Tri-borough ICT Programme • Successful delivery of the Tri-borough Total Facilities Management Programme • Housing Regeneration, Borough Investment Plan. | | <p>project register is also contributing this to goal by giving visibility of projects that are in department.</p> <ul style="list-style-type: none"> • Further training and capability is being advanced with RBKC and WCC. • Standard documentation is provided to support project and programme management. • Monthly reporting to Transformation Board (dashboard) • BiBorough Procurement Strategy Board (RBKC & H&F) monitor aspects of project management compliance • Procedures for TUPE transfer have been included in project management instructions | <p>review of specific contracts HFBB, Audit Pensions and Standards Committee</p> | | | | | | |
| 5. | Change | Sovereign | <p>Public Health Service and NHS Provision</p> <p>Sub-risks</p> <ul style="list-style-type: none"> • the Council remains concerned about the impacts of proposals to change the hospital arrangements in North | <p>The Council is remains active in debate with NHS decision-makers to ensure the best</p> | <ul style="list-style-type: none"> • The new Director of Public Health will attend Housing, Health and Adult Social Care Select Committee • Dedicated officers implementing the setting up of a Health & Well Being Board • The Council has no | <p>HFBB</p> <p>Education & Childrens Services Select Committee</p> <p>Cabinet</p> | 4 | 3 | 12 | <p>High</p>  | <p>Derek Myers, Director of Public Health (to be appointed)</p> | <p>Review</p> <p>January 2013</p> |


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|---|-------------|-----------|---|---|---|---|---|---|----|---|---|-----------------------------------|--|
| | | | <p>West London</p> <ul style="list-style-type: none"> The transfer of the Public Health Service from the NHS to local government may not go well | <p>possible deal for residents. The Council could face unexpected spending pressures from new responsibilities</p> | <p>obligation to cross subsidise Public HealthTri-borough Public Health service should be hosted at Westminster as agreed by the Leaders of the three councils</p> | | | | | | | | |
| 6 | Operational | Sovereign | <p>Business Resilience</p> <p>Sub-risks IT resilience</p> <ul style="list-style-type: none"> Systems not joined up and connected in the event of a H & F or Tri-Bi Borough event Strategic Information technology framework not implemented effectively Lack of top tier response plans ISP version update to the infrastructure of the internet will have to move over to a new system, IPv6 previous versions not being compatible Electronic information storage capacity Mobile Communications technology provider service failure | <p>If an event occurs</p> <ul style="list-style-type: none"> Customers face delays in service provision Non compliance with statutory duties - indirectly Threat to life - indirectly Time to recover power and IT Services could be between 6 & 8 weeks Loss of information Loss of productivity Increased cost of resurrecting services (only partially insurable) Wasted resources & staff duplication in recovery phase Cost of additional data storage capacity | <ul style="list-style-type: none"> Corporate Incident Management Procedures incorporate Business Continuity Training has been delivered to local service plan leaders A corporate service resilience group has been formed and meet periodically Directors of Resources have been appointed as Departmental contact leads Local Service Plans have been compiled, reviewed and refreshed and quality checked by Emergency Services H & F Bridge Partnership have submitted a Local Service Recovery, a major incident process has been established by HFBB as part of | <p>HFBB</p> <p>The Royal Borough of Kensington & Chelsea Internal Audit</p> <p>H&F Audit Pensions and Standards Committee</p> <p>The Royal Borough of Kensington & Chelsea Audit Committee</p> <p>Service Resilience Group</p> <p>ELRS DMT</p> <p>Substantial Assurance report 2011/12 Emergency Planning</p> <p>H&F Substantial Assurance Business</p> | 4 | 3 | 12 | <p>Medium</p>  | <p>Lyn Carpenter (Corporate Business Continuity) ELRS Bi Borough with the Royal Borough of Kensington and Chelsea</p> <p>Jane West (Insurance & H F Bridge Partnership contract monitoring)</p> <p>Jackie Hudson Tri Borough Information and Communications Technology Lead Advisor</p> | <p>Review</p> <p>January 2013</p> | |

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| | | | | | <p>Data recovery is insured under the councils corporate insurance package (but limited)</p> <ul style="list-style-type: none"> • the Service Desk Manual • A threat assessment has been compiled • Some ITC service has been moved to East London • The Business Continuity (BC) project now involves provision of IT BC for approximately 30 First Order applications as identified by H&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. | <p>Continuity Audit report 2011 2012</p> <p>Data storage & back up audit Audit report 2009/10 (Substantial assurance)</p> | | | | | | | |
| | | | Contractor Liquidity | <ul style="list-style-type: none"> • Delays/ interruption to the service as a replacement is found • Cost and time of | <ul style="list-style-type: none"> • Creditsafe Financial checks • Corporate Finance credit checking • Contractor Business | <p>Bi Borough Procurement Board</p> <p>Audit Pensions and Standards</p> | | | | | | | |

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|----|-------------|-----------|--|--|--|--|---|---|----|---|--|-----------------------------------|--|
| | | | Terrorist attack/Civil disturbance | <p>re-procuring the service</p> <ul style="list-style-type: none"> • Protection of contributions to the H&F Pension fund as more outsourcing is undertaken • Service interruption • Property loss or damage • Injury or harm | <p>Continuity Planning</p> <ul style="list-style-type: none"> • Pension fund performance bond • Terrorism insurance cover • Tri Borough councils are working together to prevent terrorism offering free interactive workshops to raise awareness of the Prevent Strategy • Prevent aims to stop people from becoming terrorists or supporting terrorism by focusing on supporting and protecting those who might be vulnerable to radicalisation. <p>NOTE Please refer to BCP Risk Assessment for highlighted risks and controls</p> | <p>Committee</p> <p>Cabinet Office COBRA</p> | | | | | | | |
| 7. | Operational | Sovereign | <p>Managing statutory duty</p> <p>Sub-risks Non-compliance with laws and regulations</p> <p>Breach of duty of care</p> | <ul style="list-style-type: none"> • Non compliance may result in prosecution or a Corporate Manslaughter charge | <ul style="list-style-type: none"> • Nigel Pallace is lead Sponsor on HFBB for Health & Safety • Pro-active Health, Safety and Welfare culture across the | <p>H&F Health & Safety Internal Audit planned in 2012/13</p> | 3 | 4 | 12 | <p>Medium</p>  | <p>Nigel Pallace</p> <p>Jane West (Equalities)</p> | <p>Review</p> <p>January 2013</p> | |

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|--|--|--|--------------|--|---|---|--|--|--|--|--|
| | | | | <ul style="list-style-type: none"> • Financial compensation may be claimed • Injury or death to a member of the public or employee • A breach of information security protocols may result in fines, harm to reputation and personal liability of Executive Directors • Inadequate level of service • Poor satisfaction with statutory services | <p>council</p> <ul style="list-style-type: none"> • TriBorough - The TotalFM contractor will manage a number of statutory and regulatory Health & Safety procedural, record and management processes • TriBorough Health & Safety protocols are being discussed and established • Contractors are managed within CHAS regime • Insurance cover is in place in the event of a claim for breach of duty of care and in respect of financial claims • Legislative changes are adopted and reflected in amendment to the council's constitution, budget allocation through MTFS (Now unified business & financial planning process) • Training and guidance packages and newly agreed performance management indicators • Periodic reporting to HFBB • Health & Safety campaign on slips, trips and falls | <p>Accommodation Gas Safety Audit 2012/13 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 Pensions and Standards Committee</p> <p>Education & Childrens Services Select Committee</p> <p>H&F Safety Committee</p> <p>TriBorough Safety Committees CHS and ASC</p> <p>Internal Audit 2012 2013 Review of Health & Safety Statutory & Regulatory compliance</p> | | | | | |
| | | | Departmental | | | | | | | | |

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|--|--|--|---|---|--|--|--|--|--|--|--|--|
| | | | <p>assurances</p> <p>Corporate Parenting</p> <p>Equalities (public sector equality duty or 'PSED') and Human Rights (a budget challenge could be in whole terms or of a single line)</p> | <ul style="list-style-type: none"> • The Executive, Hammersmith & Fulham Business Board, Executive Directors and Management Teams may not have been apprised of significant controls weaknesses that appear in the service area. • Harm to reputation, potential harm or injury to individual • Increased complaints, Ombudsman involvement, judicial review which can result in; quashing order, prohibiting order, mandatory order, declaration, injunction, damages, and potential further challenge to a budget. | <ul style="list-style-type: none"> • Health & Safety guidelines have been reviewed, refreshed and communicated • Promotion of the Occupational Health Service and Workplace Options Employee Assistance Scheme • Housing and Regeneration have rolled out personal safety training to over 130 staff through the Suzy Lamplugh Trust Training • FSB reviewed and approved a process to harmonise the Management Assurance process at Director and Divisional level with that of RBKC. • All child protection cases have remained allocated to a social worker despite of the high demand. • A detailed action plan has been implemented in response to the | <p>FSB, Executive Director of Finance and Corporate Governance, Chief Executive and Leader of the Council</p> <p>Local Safeguarding Childrens Board, Unannounced Safeguarding Inspection, Ofsted , Local and London Child Protection Procedures</p> <p>Limited Assurance report April 2012 H&F Application of the Equality Act 2010</p> <p>Officer Working Group</p> | | | | | | |
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| | | | | | <p>increased numbers of children with child protection plans, to safely manage the demand and reduce activity in line with that of our statistical neighbours.</p> <ul style="list-style-type: none"> • The number of qualified social workers delivering a child protection service has increased by two over the past year. • EIA's or Equality Statement (where applicable) must accompany all Cabinet, Full Council and Key Decision reports, KPI's • EIA's and Equality Statements address Human Rights where applicable • HFBB signed off actions that included a Policy for completion of Service Delivery EIA's (April 2012) and guidance for equality impacts of budget proposals to be drawn up and disseminated. | | | | | | | |
| 8. | Operational | Sovereign | Successful partnerships & Major | | | | 4 | 3 | 12 | Medium  | Derek Myers | Review January 2013 |


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|--|-------------|-----------|---|--|---|---|---|---|----|--------|-----------|------------------------|--|
| | | | <p>Contracts</p> <p>Sub-risks</p> <ul style="list-style-type: none"> Partnering activity with other boroughs and the NHS may blur the lines of responsibility, accountability, governance or liability in the event of service failure Local Housing Company Differing procurement processes Financial Regulations and Contract Standing Orders across TriBorough services | <ul style="list-style-type: none"> Joint objectives are not met Community expectations are not met A business plan may not be concluded Decisions may be made which contradict or challenge the Contract Standing Orders or Financial Regulations of H&F | <ul style="list-style-type: none"> Governance arrangements are in place Performance monitoring reports reported to Select Cttee's The Cabinet Member will be closely involved in business plan discussions Financial creditworthiness checks at BiBorough Procurement Board (RBKC & H&F) | <p>H & F Bridge Partnership Assurance process</p> <p>Internal Audit Substantial Assurance report 2011/12 Partnership Governance</p> <p>BiBorough Procurement Board (RBKC & H&F)</p> <p>HFBB, Audit Pensions and Standards Committee</p> | | | | | | | |
| | Operational | Sovereign | <p>Maintaining reputation and service standards</p> <p>Sub-risks</p> <ul style="list-style-type: none"> Multiplicity of external forces and initiatives Breach of Officer or | <ul style="list-style-type: none"> Threat to the status of the council Failure to deliver plans & savings. Ability to effectively lead and resource the transformation agenda is diminished Service delivery deteriorates Harm to the | <ul style="list-style-type: none"> The Annual Residents Survey A review of the corporate governance arrangements has been conducted by Internal Audit Annual Complaints review report April 2010 to March 2011 produced to Committee Combined Finance & Service Planning processes New Standards | <p>Cabinet Ofsted, Care Quality Commission, Annual Audit letter</p> <p>HFBB, Audit Pensions and Standards Committee, Overview and Scrutiny Board</p> | 4 | 3 | 12 | Medium | Jane West | Review January 2013 | |

| | | | | | | | | | | | | |
|--|--|--|---|---|--|---|--|--|--|--|--|--|
| | | | <p>Member code of conduct</p> <ul style="list-style-type: none"> • Information Management and Governance • Inappropriate Data released • Poor data quality internally or from third parties, breaches of information protocols, information erroneously sent to third parties. • Auto forwarding of information (Information control and threat of leakage) • Local information interconnectivity and data storage (hosting) | <p>council's reputation</p> <ul style="list-style-type: none"> • Potential adverse media reporting • Potential fines or action from the Information Commissioner • Quality and integrity of data held in support of Performance Management & Financial systems leads to under or over estimation • Data management 'without boundaries' could be more sensitive to local, national or geographical service interruption, theft, loss or duplication | <p>procedures are in place</p> <ul style="list-style-type: none"> • Standards issues now covered under the Audit Pensions and Standards Committee • Information governance forms part of the TriBorough ICT Programme • New Information Management Security Protocols published on the Intranet • Regular reporting on Security Incidents by the Information Management Team • Performance statistics are scrutinised by Select Committees, HFBB & DMT's • Corvu Performance Management System is able to pick up anomalies • Data Quality E-Learning module has been released • From Wednesday 1st August 2012, the Council is introducing a new contractor (industry specialists) for the collection and destruction of confidential waste | <p>TriBorough Information Management Project Board</p> <p>ITSOG</p> <p>Management Letter has been issued (based on comparison to requirements under the Data Protection Act)</p> | | | | | | |
|--|--|--|---|---|--|---|--|--|--|--|--|--|

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|-----|-------------|--|--|--|---|---|---|---|----|------|--|------------------------|
| | | | | | <p>from all Council offices in the H&F.</p> <ul style="list-style-type: none"> • Webmail has now been banned across H&F • New Egress system introduced to protect confidential e-mails going outside of Tri-borough | | | | | | | |
| 10. | Operational | Sovereign (TriBorough) (from April 2013) | <p>Managing fraud (Internal & External)</p> <p>Sub-risks Misappropriation of assets Appointeeship/custodian or guardian</p> <p>Contracting Gifts & Benefits Manipulation of performance data, collusion, billing, non-compliance with Financial and or Contract Standing Orders</p> <p>Misrepresentation of Personal or Commercial Circumstances</p> <p>NNDR</p> <p>Payroll</p> <p>Cheque</p> <p>Grant award</p> <p>Treasury</p> | <ul style="list-style-type: none"> • Loss of reputation • Financial loss • Loss of asset • Loss of revenue • Adverse regulatory /audit report | <ul style="list-style-type: none"> • Corporate Services review includes the Corporate Fraud Service. The aim of the project is to develop an adaptable Bi-Borough corporate fraud function which responds through a single professional and effective team to the challenging and changing range of fraud, both internally and externally executed. • Corporate Anti Fraud Service has been established • CAFS team now use a risk assessment to assist in targeting and workload prioritisation • New model being piloted to collate information from fraud cases and disseminate the recommendations through risk & assurance registers • Literature and | <p>HFBB receive quarterly summary information on anti-fraud activity</p> <p>Audit Pensions and Standards Committee receive quarterly reports on Fraud</p> | 4 | 3 | 12 | High | <p>TriBorough Nicholas Holgate RBKC Town Clerk and Executive Director of Finance and Business Lead, Internal Audit</p> <p>H&F Jane West lead – All Executive Directors</p> <p>WCC Barbara Moorhouse</p> | Review January 2013 |


| | | | | | | | | | | | | | |
|--|---------------|-------------------|--|---|--|---|---|---|---|-----|-----------------|--------|--------------|
| | | | Housing Tenancy or Benefit Fraud | | <p>training has been delivered to all levels of the authority</p> <ul style="list-style-type: none"> • Information and guidance has been published on the corporate intranet • Level of fraud is being tracked through FSB • Close working relationship is established with the Police • Bribery Act Policy and Risk Register • Money laundering policies recently reviewed and amended. | | | | | | | | |
| OPPORTUNITY RISKS (Where the is in excess of £3Million Benefit to H&F) | | | | | | | | | | | | | |
| | Change | TriBorough | Merging of education services (with Westminster Council and the Royal Borough of Kensington and Chelsea) | <p>Savings due to removal of duplication across the councils</p> <ul style="list-style-type: none"> • IT opportunities such as access and sharing of files and connecting to networks when at other sites. • HR workshops regarding specific topics such as Sick Leave, Pay etc. are currently being planned and more information will be available soon. | <ul style="list-style-type: none"> • Service Reviews, Looked after Children, Leaving Care • TriBorough Managers Induction • Tri Borough Mandate approved for Childrens Services at Cabinet 05-12-11 • Combined Senior Management Team • A single education commissioning function responsible for raising standards • A single commissioning function responsible for arranging services for early | <p>Cabinet</p> <p>Transformation Board</p> <p>Education & Childrens Services Select Committee</p> <p>External Audit (review 2012)</p> <p>Ofsted</p> <p>The Royal Borough of Kensington & Chelsea Internal Audit</p> <p>TriBorough</p> | 2 | 4 | 8 | Low | Andrew Christie | Review | January 2013 |

| | | | | | | | | | | | | |
|--|--|--|--|---|--|---|--|--|--|--|--|--|
| | | | | <p>Sub-risks</p> <p>Social enterprise</p> <ul style="list-style-type: none"> • The procurement for an ISP to help establish and support an employee-led mutual is highly innovative, and is being supported by the Cabinet Office as a national pilot. • 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. • As a commercial organisation the | <p>years, children, young people, social care, health, disability and workforce development.</p> <ul style="list-style-type: none"> • Three Borough-based delivery units with responsibility for protecting children, supporting families and delivering early help in the most efficient manner possible. • Shortlisting of potential partners has commenced through a) a moderated procedure and b) Competitive Dialogue • 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 | <p>Childrens Services Portfolio Board</p> <p>TriBorough Headteachers Executive Board</p> <p>Local Safeguarding Childrens Board</p> <p>BiBorough Procurement Strategy Board (RBKC & H&F)</p> | | | | | | |
|--|--|--|--|---|--|---|--|--|--|--|--|--|

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|----|--------|-----------|---|--|--|--|---|---|----|---|---------------|-----------------------------------|
| | | | | <p>ELM will also offer its services to non-maintained schools, such as Academies and Free schools. The services, supplies and works to the relevant educational facilities will include either direct provision by the ELM or the sub-contracting to other providers</p> | <p>establish an employee-led mutual.</p> <ul style="list-style-type: none"> 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 between the ISP and the employees (held on the employees' behalf in an employee benefit trust). Under a joint venture structure, the maximum holding for any independent sector partner will be capped to balance ownership in favour of employee ownership. | | | | | | | |
| 3. | Change | Sovereign | <p>Regeneration of King Street and Civic Offices</p> <p>Sub-risks</p> | <ul style="list-style-type: none"> 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 | <ul style="list-style-type: none"> The Leader of the Council has announced revised proposals regarding the height of buildings in the residential blocks. King Street Development will be | <p>Cabinet</p> <p>Planning Applications Committee</p> <p>Mayor of London</p> | 3 | 4 | 12 | <p>Medium</p>  | Nigel Pallace | <p>Review</p> <p>January 2013</p> |

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| | | | <p>GLA do not approve the proposals</p> | <p>temporarily accommodating staff through a relocation to facilitate repairs</p> <ul style="list-style-type: none"> • New office accommodation at no cost is being provided in exchange for land • A new modern building is also expected to save around £150,000 in energy costs • Jobs will be created in King Street • 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 • Successful redevelopment would enable the council to terminate contracts for various costly leased buildings around the borough savings around £2 million a year. | <p>reviewing the scheme over the coming months and a further consultation with residents' and amenity groups will follow later in the year.</p> <ul style="list-style-type: none"> • Hammersmith & Fulham Council has agreed to work with the GLA on a further independent rigorous assessment on viability • Exhibition of 3 bid schemes 2007 • 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. • Consultation with statutory groups; GLA, HAFAD, Port of London Authority, LFEPA, Metropolitan Police, English Heritage & Archaeology, Natural | <p>Greater London Authority</p> <p>Port of London Authority</p> <p>English Heritage</p> | | | | | | |
|--|--|--|--|---|--|---|--|--|--|--|--|--|

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| | | | | | <p>England,CAA, BAA Airports, Thames Water, Environment Agency, Tf</p> <ul style="list-style-type: none">• Residents Groups & Landowners; Thomas Pocklington Trust, Tesco, Quakers, Amenity Groups, Brackenbury Residents Assoc. The Georgian Group, HAMRA, the Hammersmith Soc. H & 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>Submitted by the Planning Applicant;</p> <ul style="list-style-type: none">• Environmental Statement, Energy Statement, Flood Risk Assessment,• Air Quality Assessment, Environmental Noise Assessment, Lighting Strategy• Phase 1 Habitat Survey & ecological | | | | | | |
|--|--|--|--|--|--|--|--|--|--|--|--|

| | | | | | | | | | | | | |
|----|--------|-----------|--|--|--|--|---|---|----|---|-------------|----------------------------|
| | | | | | database search • Telecommunications assessment | | | | | | | |
| 4. | Change | Sovereign | Earls Court regeneration Sub-risks GLA do not approve the proposals Delays due to Judicial Review | <ul style="list-style-type: none"> Comprehensive redevelopment allows existing housing stock to be replaced on a "new for old" basis and 16% of existing tenants who are overcrowded can be re-housed in homes with enough bedrooms to meet their need. Proposed guarantees for tenants and leaseholders include; <ul style="list-style-type: none"> - Brand new replacement homes, one move only within the local area. - Tenants remain secure Council tenants and continue to pay Council rents – there is no stock transfer and therefore no requirement for a ballot. - Phased approach allows communities to be moved together. <p>Comprehensive regeneration offers opportunity to secure</p> | <ul style="list-style-type: none"> Earls Court Regeneration Team supported by high quality advisory team comprising Jones Lang LaSalle, SNR Denton and PWC. All major decision reports reviewed by Tim Kerr QC in relation to Judicial Review challenge risk. Workshops in August 2012 to cover procurement, risk, finance, housing redevelopment, planning, legal and communications. Comprehensive report submitted to and approved by Cabinet 3rd September 2012. The council 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 completion of the CLSA not occur, the remaining £5m is not | Project Group chaired by Executive Director HFBB Cabinet Housing, Health And Adult Social Care Select Committee Planning Applications Committee The Royal Borough Major Planning Development Committee The Royal Borough Planning Applications Committee | 3 | 4 | 12 | Medium  | Mel Barrett | Review January 2013 |

| | | | | | | | | | | | | | |
|--|--|--|--|--|------------------------------------|--|--|--|--|--|--|--|--|
| | | | | major estate renewal across the West Kensington and Gibbs Green estates as well as offering major regeneration benefits including 7,500 new homes, 36,000 construction jobs, 9,500 permanent jobs and £99.5 million per annum of additional local expenditure, together with additional community facilities comprising new schools, leisure and health facilities, new open and play space and a significant increase in job opportunities. | refundable under any circumstances | | | | | | | | |
|--|--|--|--|--|------------------------------------|--|--|--|--|--|--|--|--|

Note 1. All key risks have been extracted from (but not limited to) a number of sources for analysis by the Hammersmith & Fulham Business Board. The sources include;

- i. Previous Corporate Risk & Assurance Register
- ii. World Economic Forum Global risks 2012
- iii. Information identified from Tri Borough Programme, 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
- xiii. Zurich Municipal, Grant Thornton and Price Waterhouse Coopers reports

Note 2. Categorized under the PESTLE methodology as published in the Hammersmith & Fulham Risk Standard. Compliant with BS31100/ ALARM/IRM/CIPFA best practice.

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

Appendix 2, Health & Safety experience

January 2011 to December 2011 (Attachment 2a)

January 2012 to December 2012 (Attachment 2b)

Appendix 3, Information Management incident experience

Total Incidents per year (by incident type)

| Department | 2010 | | | 2011 | | | 2012 | | | 2013 | | |
|---------------------|-----------|-----------|------------|-----------|----------|------------|-----------|-----------|------------|----------|----------|------------|
| | Incident | Loss | Dept Total | Incident | Loss | Dept Total | Incident | Loss | Dept Total | Incident | Loss | Dept Total |
| CHS | 6 | 12 | 18 | 3 | 2 | 5 | 6 | 9 | 15 | 0 | 0 | 0 |
| ASC | 1 | 1 | 2 | 1 | 2 | 3 | 3 | 2 | 5 | 0 | 0 | 0 |
| T&TS | 0 | 2 | 2 | 0 | 1 | 1 | 1 | 2 | 3 | 0 | 0 | 0 |
| FCS | 7 | 1 | 8 | 4 | 0 | 4 | 6 | 1 | 7 | 0 | 0 | 0 |
| HRD | 0 | 0 | 0 | 5 | 2 | 7 | 1 | 0 | 1 | 0 | 0 | 0 |
| HFBP | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 2 | 4 | 0 | 0 | 0 |
| ELRS | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 0 |
| Cross Dept | 4 | 0 | 4 | 2 | 1 | 3 | 1 | 0 | 1 | 0 | 0 | 0 |
| Unknown | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Yearly Total | 18 | 16 | 34 | 15 | 8 | 23 | 20 | 17 | 37 | 0 | 0 | 0 |

Appendix 4, Insurance 5 year Public and Employers Liability claims experience

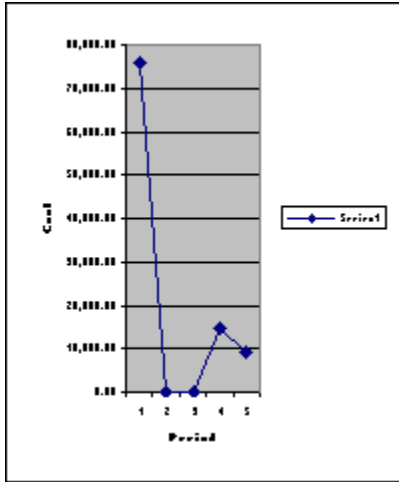
Summary Report by Department – APPENDIX 3 PUBLIC & EMPLOYERS' LIABILITY CLAIMS

| | Directorate | No. Claims | | | Payments | O/S Estimate | Total Claim |
|---------------------------------|--|------------|------|-------|------------|--------------|-------------|
| | | Closed | Open | Total | | | |
| 1st July 2007 to 30th June 2008 | ADULT SOCIAL CARE | 4 | 0 | 4 | 75,824.51 | 0.00 | 75,824.51 |
| 1st July 2008 to 30th June 2009 | ADULT SOCIAL CARE | 1 | 0 | 1 | 0.00 | 0.00 | 0.00 |
| 1st July 2009 to 30th June 2010 | ADULT SOCIAL CARE | 1 | 0 | 1 | 0.00 | 0.00 | 0.00 |
| 1st July 2010 to 30th June 2011 | ADULT SOCIAL CARE | 1 | 1 | 2 | 1,932.50 | 12,568.00 | 14,500.50 |
| 1st July 2011 to 31 March 2012 | ADULT SOCIAL CARE | 0 | 1 | 1 | 0.00 | 9,125.00 | 9,125.00 |
| | | 7 | 2 | 9 | 77,757.01 | 21,693.00 | 99,450.01 |
| 1st July 2007 to 30th June 2008 | CHILDREN'S SERVICES DEPT | 5 | 2 | 7 | 97,910.75 | 82,183.00 | 180,093.75 |
| 1st July 2008 to 30th June 2009 | CHILDREN'S SERVICES DEPT | 5 | 3 | 8 | 76,049.27 | 26,353.00 | 102,402.27 |
| 1st July 2009 to 30th June 2010 | CHILDREN'S SERVICES DEPT | 6 | 2 | 8 | 22,454.00 | 28,558.00 | 51,012.00 |
| 1st July 2010 to 30th June 2011 | CHILDREN'S SERVICES DEPT | 2 | 5 | 7 | 10,912.00 | 59,520.00 | 70,432.00 |
| 1st July 2011 to 31 March 2012 | CHILDREN'S SERVICES DEPT | 2 | 4 | 6 | 10,000.00 | 59,118.00 | 69,118.00 |
| | | 20 | 16 | 36 | 217,326.02 | 255,732.00 | 473,058.02 |
| 1st July 2007 to 30th June 2008 | ENVIRONMENT, LEISURE & RESIDENTS SERVICE | 28 | 0 | 28 | 21,674.29 | 0.00 | 21,674.29 |
| 1st July 2008 to 30th June 2009 | ENVIRONMENT, LEISURE & RESIDENTS SERVICE | 7 | 1 | 8 | 39,663.03 | 18,275.00 | 57,938.03 |
| 1st July 2009 to 30th June 2010 | ENVIRONMENT, LEISURE & RESIDENTS SERVICE | 8 | 6 | 14 | 26,171.56 | 44,395.00 | 70,566.56 |
| 1st July 2010 to 30th June 2011 | ENVIRONMENT, LEISURE & RESIDENTS SERVICE | 10 | 5 | 15 | 400.00 | 39,335.00 | 39,735.00 |
| 1st July 2011 to 31 March 2012 | ENVIRONMENT, LEISURE & RESIDENTS SERVICE | 6 | 6 | 12 | 15,080.28 | 58,079.00 | 73,159.28 |

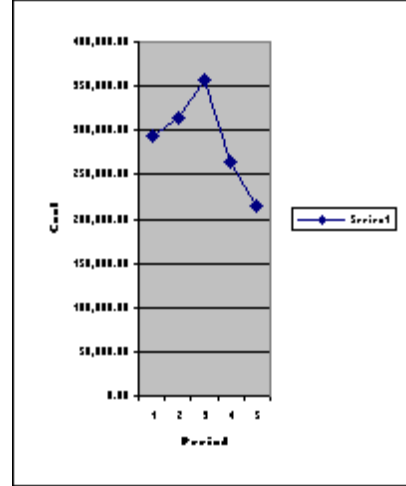
| | | | | | | | |
|---------------------------------|--------------------------------|-----|-----|-------|--------------|--------------|--------------|
| | | 59 | 18 | 77 | 102,989.16 | 160,084.00 | 263,073.16 |
| 1st July 2007 to 30th June 2008 | HOUSING & REGENERATION | 105 | 6 | 111 | 128,686.37 | 165,230.00 | 293,916.37 |
| 1st July 2008 to 30th June 2009 | HOUSING & REGENERATION | 108 | 12 | 120 | 227,644.26 | 85,571.00 | 313,215.26 |
| 1st July 2009 to 30th June 2010 | HOUSING & REGENERATION | 93 | 18 | 111 | 197,509.72 | 158,428.00 | 355,937.72 |
| 1st July 2010 to 30th June 2011 | HOUSING & REGENERATION | 54 | 29 | 83 | 103,500.00 | 160,428.00 | 263,928.00 |
| 1st July 2011 to 31 March 2012 | HOUSING & REGENERATION | 12 | 44 | 56 | 18,656.50 | 196,872.00 | 215,528.50 |
| | | 372 | 109 | 481 | 675,996.85 | 766,529.00 | 1,442,525.85 |
| 1st July 2007 to 30th June 2008 | TRANSPORT & TECHNICAL SERVICES | 96 | 5 | 101 | 185,413.41 | 87,329.01 | 272,742.42 |
| 1st July 2008 to 30th June 2009 | TRANSPORT & TECHNICAL SERVICES | 79 | 3 | 82 | 284,775.28 | 28,250.00 | 313,025.28 |
| 1st July 2009 to 30th June 2010 | TRANSPORT & TECHNICAL SERVICES | 86 | 9 | 95 | 38,681.98 | 107,045.00 | 145,726.98 |
| 1st July 2010 to 30th June 2011 | TRANSPORT & TECHNICAL SERVICES | 68 | 29 | 97 | 18,735.98 | 382,357.47 | 401,093.45 |
| 1st July 2011 to 31 March 2012 | TRANSPORT & TECHNICAL SERVICES | 25 | 47 | 72 | 38,467.91 | 354,122.00 | 392,589.91 |
| | | 354 | 93 | 447 | 566,074.56 | 959,103.48 | 1,525,178.04 |
| 1st July 2007 to 30th June 2008 | TOTAL | 238 | 13 | 251 | 509,509.33 | 334,742.01 | 844,251.34 |
| 1st July 2008 to 30th June 2009 | TOTAL | 200 | 19 | 219 | 628,131.84 | 158,449.00 | 786,580.84 |
| 1st July 2009 to 30th June 2010 | TOTAL | 194 | 35 | 229 | 284,817.26 | 338,426.00 | 623,243.26 |
| 1st July 2010 to 30th June 2011 | TOTAL | 136 | 69 | 205 | 136,430.48 | 654,208.47 | 790,638.95 |
| 1st July 2011 to 31 March 2012 | TOTAL | 45 | 102 | 147 | 82,204.69 | 677,316.00 | 759,520.69 |
| | | 813 | 238 | 1,051 | 1,641,093.60 | 2,163,141.48 | 3,804,235.08 |
| 1st July 2010 to 30th June 2011 | NOT LBH&F | 1 | 0 | 1 | 950.00 | 0.00 | 950.00 |

COST OF CLAIMS

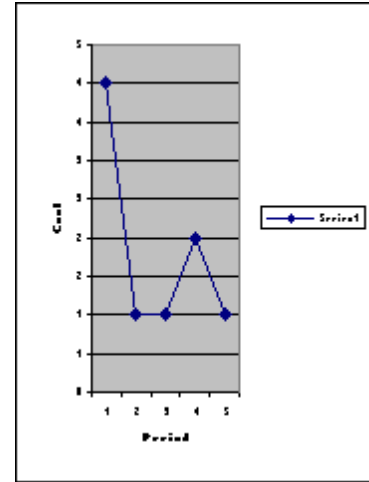
Adult Social Care



Housing and Regeneration

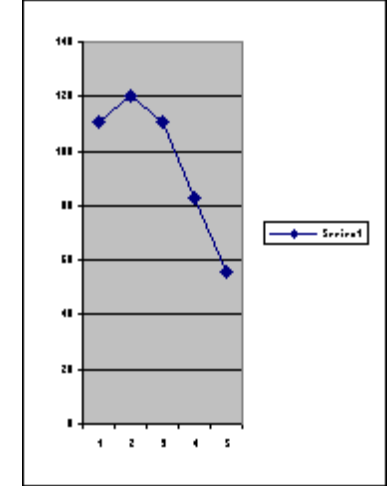


Adult Social Care

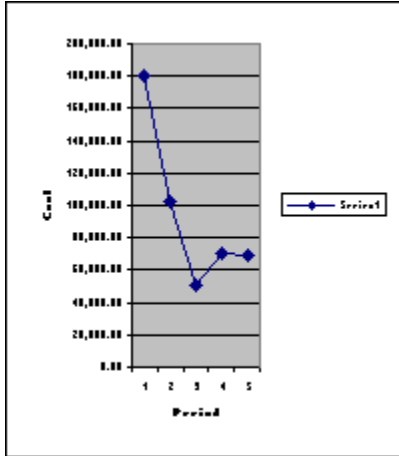


NUMBERS OF CLAIMS

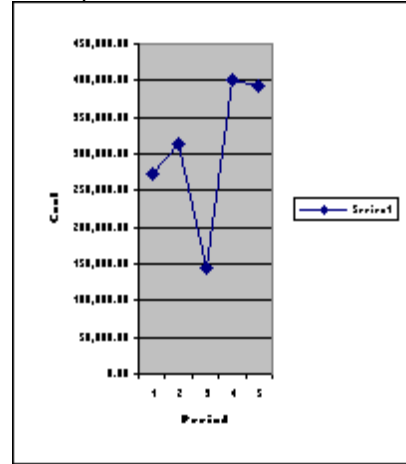
Housing and Regeneration



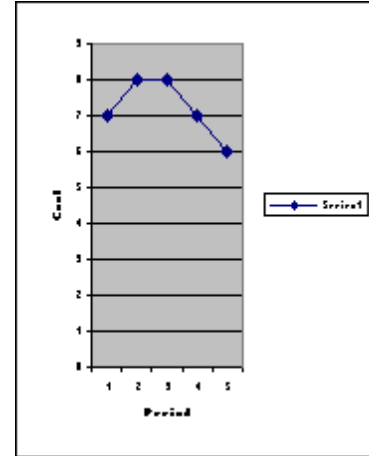
Childrens Services



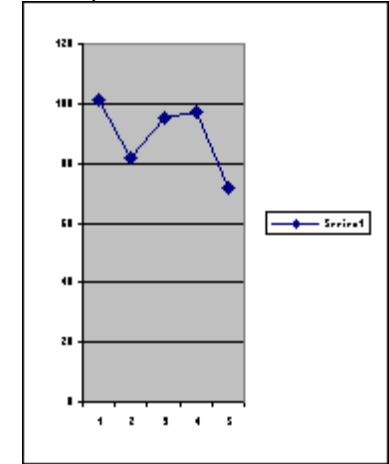
Transport and Technical Services



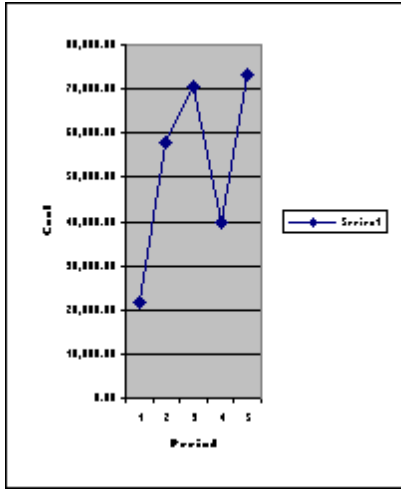
Childrens Services



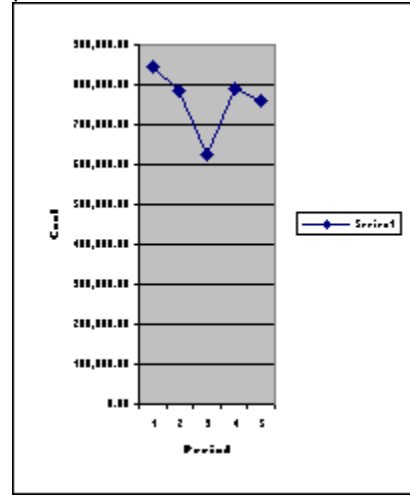
Transport and Technical Services



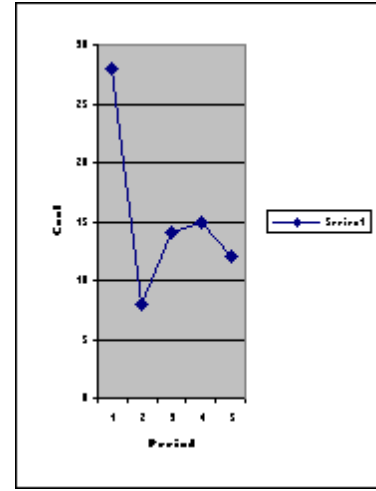
Environment Leisure and Residents Services



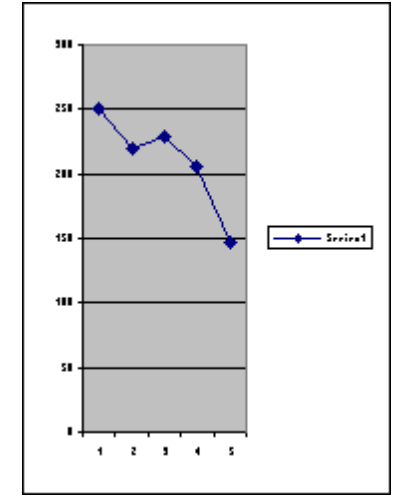
Total cost of PI & EL claims 5 year period




Environment Leisure and Residents Services



Total cost of PI & EL claims 5 year period



| | |
|---|--|
|  | London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 14 February 2013 |
| Draft 2013/14 Internal Audit Plan | |
| Open Report | |
| For Information | |
| Key Decision: No | |
| Wards Affected: None | |
| Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance | |
| Report Author: Geoff Drake – Chief Internal Auditor | Contact Details: Tel: 020 753 2529 E-mail: geoff.drake@lbhf.gov.uk |

1. EXECUTIVE SUMMARY

- 1.1. This report presents the 2013/14 Internal Audit Plan for approval.
- 1.2. This plan is based on the current risks facing the work of the Council and has been produced by considering the most Council's recent corporate, departmental and thematic risk registers and has been refined through discussions with departments, senior management and other key stakeholders.
- 1.3. The plan has been developed in conjunction with RBKC and WCC to take account of developing tri-borough and bi-borough arrangements

2. RECOMMENDATIONS

- 2.1. To approve the draft 2012/13 Internal Audit Plan

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

4. INTRODUCTION AND BACKGROUND

- 4.1. The audit plan attached as Appendix A based on the current risks facing the work of the Council and has been produced by considering the most Council's recent corporate, departmental and thematic risk registers.
- 4.2. It has then been refined through discussions with departments, senior management and other key stakeholders. These discussions remain ongoing.
- 4.3. We continue to develop the plans in collaboration with the other tri-borough audit services. We will also be sharing the plans with the other tri-borough audit services in order to provide a coordinated approach and shared assurances across jointly delivered services.
- 4.4. This plan is likely to be subject to change throughout 2013/14 following further discussions with departments and other key stakeholders as well as currently unforeseen developments. Any further changes will be reported to the Audit and Pensions Committee at the next available meeting.
- 4.5. In addition to the plan shown in Appendix A, we have also developed a reserve plan to facilitate the effective and efficient substitution of audits should that become necessary during the year.

5. PROPOSAL AND ISSUES

- 5.1. The internal audit plan is shown in appendix A

6. OPTIONS AND ANALYSIS OF OPTIONS

- 6.1. Not applicable

7. CONSULTATION

- 7.1. Not applicable

8. EQUALITY IMPLICATIONS

- 8.1. Not applicable

9. LEGAL IMPLICATIONS

- 9.1. Not applicable

10. FINANCIAL AND RESOURCES IMPLICATIONS

- 10.1. Not applicable

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

**LOCAL GOVERNMENT ACT 2000-
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

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

LIST OF APPENDICES:

Appendix A 2013/14 Internal Audit Plan

**London Borough of Hammersmith and Fulham
Draft Internal Audit Plan 2013/14**

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|---------------------------------------|--|-----------------------------|--|-------|
| Corporate / Cross Departmental | | | | |
| | Risk Management | Single | To be determined in consultation with Principal Consultant Risk Management | |
| | Departmental Risk Register | Single | <ul style="list-style-type: none"> • Assessment of the adequacy of the stated existing controls to manage the risks; • Testing of the effectiveness of existing controls recorded against each risk; • Assessment of areas where reliance is placed on third party assurances • Identification of additional sources of assurance where appropriate; and • Identification of areas where Internal Audit can potentially place reliance on third party assurance providers | |
| | Economic development/Business regeneration | Single | Schemes business cases including benefits identification; Approval and allocation of funds; Monitoring of delivery of schemes; long term monitoring of benefits delivery | |
| | Corporate and Partnership Governance | Single | To cover areas from three year rolling scope. Likely to cover standard of conduct and partnership governance | |
| | Service Demand Reduction Planning | Single | Planning to manage levels of service proactively | |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|--------------------------------|--|-----------------------------|---|-------|
| | Section 106 Funding | Single | <p>To cover:</p> <ul style="list-style-type: none"> - Governance and corporate oversight and coordination of section 106 funding - Set up of agreements - Monitoring and reporting of S106 expenditure | |
| Programmes and Projects | | | | |
| Programme/Project | Regeneration Programmes and Projects - Earls Court | Single | <p>Programme Governance Programme Management and Monitoring Change Control Delivery of Benefits Risk Management</p> | |
| Programme/Project | Regeneration Programmes and Projects - King Street and Civic Offices | Single | <p>Programme Governance Programme Management and Monitoring Change Control Delivery of Benefits Risk Management</p> | |
| Programme/Project | Regeneration Programmes and Projects - Shepherds Bush | Single | <p>Programme Governance Programme Management and Monitoring Change Control Delivery of Benefits Risk Management</p> | |
| Programme/Project | Tri Borough Portfolio | Tri Borough | <p>Programme/Portfolio Governance Management and Monitoring Change Control Delivery of Benefits Risk Management</p> | |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|---------------------------|-------------------|-----------------------------|--|--|
| Corporate Services | | | | |
| | Budgetary Control | Single | Budget Setting Budget Upload Budget Monitoring Alterations and Virements Yearend Processes Management Reporting | <i>Operational and strategic processes</i> |
| | Housing Benefits | Single | Policies and Procedures Interfaces to Other Systems Claim Processing Payments Cancellations and Overpayments Debt Recovery and Enforcement Management Reporting | |
| | Debtors | Single | Policies and Procedures Transactions and Records Standing Data Amendments Raising of Invoices Collection Refunds Debt Recovery and Enforcement Management Reporting | |
| | NNDR | Single | NNDR Transactions and Records- Valuation- Liability and reliefs- Billing- Collection- Refunds- Debt Recovery and Enforcement- Management Reporting | |
| | H&F Direct | Single | To pick up areas of H&F Direct service not covered by other audits. | |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|------------|--|-----------------------------|---|---|
| | Corporate Gas Safety: tenancies | Single | Identification of Properties Completion of Gas Safety Checks Record Keeping Performance Management and Reporting | <i>Part of rolling programme of coverage including tenancies, temp accommodation, schools, and corporate estate plus corporate oversight</i> |
| | Bribery Act | Single | Gap analysis against requirements of the Bribery Act | <i>Specific elements of the bribery act to be covered to be confirmed. Confirmed in FCS DMT that come recent changes had been made to procedures.</i> |
| | Local taxation | Single | Charging, Collection and Performance Management, focus on maximising additional income | |
| | Pre Implementation Audit Work on Developing Financial Procedures | Single | | <i>Checking updated systems and processes for adequacy of controls</i> |
| | Managed Services | Tri-Borough | Scope dependent on stage project has reached. Potential to undertake one of the following: - Programme/Project Management - Adequacy review of proposed system - Contract Management - Standard Systems audit | <i>Request in FCS DMT to undertake audit of the programme. Dependent on audit coverage by WCC in 2012/13</i> |
| | Managed Services - Attendance at Project board | Tri-Borough | Attendance at project board in 'critical friend' role. | |
| | Insurance | Tri-Borough | To include: Strategy, Policies and Procedures; Identification of Insurable risks; Administration of Insurance function; management review and reporting. | |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|------------|-----------------------------|-----------------------------|--|---|
| | Property Disposals | Bi Borough | To include: Service Objectives, Corporate compliance, Option Appraisal; Income maximisation performance management Business and Management Information (including Corporate challenge of property portfolio) and Budgetary Control | <i>An audit of property disposals at each of the three boroughs and a comparison of property disposal procedures.</i> |
| | Pensions Investments | Tri-Borough | To include: Service Objectives and Procedures; Security of Assets; Compliance with Investment Policy; Investment Performance; Governance Arrangements; and Management Information. | |
| IT | | | | |
| | IT Procurement | Single | The audit will cover IT procurement of key systems, hardware and software to assess that procedures are in line with formal standards. | <i>To consider including Zippora and one or more 'in flight' projects (e.g. Highways and Legal)</i> |
| | IT Security | Tri Borough | | <i>Carried forward from 2012/13 plan</i> |
| | IT Security - CLCH | Tri Borough | This audit will assess the level of compliance against the ISO27001 security standard. | <i>to include coverage of the integration with CLCH (ASC) Coverage of CLCH would need to be completed before June 2013.</i> |
| | IT Security - Public Health | Tri Borough | This audit will assess the level of compliance against the ISO27001 security standard. | <i>to include coverage of the working arrangements with the new public health dept. in WCC.</i> |
| | IT Programme | Tri Borough | Audit of the arrangements for managing the programme to set up the new IT governance arrangements | |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|------------|---------------------------------|-----------------------------|---|---|
| | IT Governance | Tri Borough | To review adequacy of IT governance arrangements across Tri-borough and link this with the Tri-borough IT Strategy 2012-2015 document. To include compliance with best practice, adequacy of governance structure and input from stakeholders and identification of keys risks. | <i>Scope to be based on rolling scope: IT Service Management (ITIL), IT Security Policy (ISO 27001), Data protection and Freedom of Information; IT Governance and project management standards; ICT Governance (ISO/IEC 38500)</i> |
| | IT Project Management Standards | Tri Borough | Audit of IT Project Management Standards and their application | <i>Scope to be based on rolling scope: IT Service Management (ITIL), IT Security Policy (ISO 27001), Data protection and Freedom of Information; IT Governance and project management standards; ICT Governance (ISO/IEC 38500)</i> |
| | Trent Contract Management | Single | Audit to cover management of the contract by HFBP | <i>Externally hosted and managed by Midland Trent.</i> |
| | Civica Purchase Ordering System | Single | Application audit to cover access controls; data input; data processing; output; interfaces; audit trails; backup and recovery; and system maintenance. Also some general audit compliance testing to provide assurance system is being used correctly. | |
| | BACS | Single | The audit will cover BACS security controls to cover: Creating Files for BACS IP; Loading and Sealing Files; signing and Sending Files; and Verification of BACS Processing | |
| | Telecommunications | Single | This audit will cover security over telecommunications and VOIP. | |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|------------|--|-----------------------------|---|--|
| | MyAccount and eServices | Single | Application audit to cover access controls; data input; data processing; output; interfaces; audit trails; backup and recovery; and system maintenance. To select a sample of areas that fall under Myaccount. | <i>Self-service system through a single environment enabling residents to create a single secure online account through which they can manage their own transactions for council services (needing only one password) including parking permit, council tax, benefits and visitor parking.</i> |
| | iWorld | Single | Application audit to cover access controls; data input; data processing; output; interfaces; audit trails; backup and recovery; and system maintenance. | <i>Housing application</i> |
| | Information Management | Bi-Borough | Code of Connection, secure e-mail (egress) and IGSOC | <i>To look at Legal, HR and Tri Borough arrangements. May be broken down into separate audits</i> |
| | New Social Care system (Children's and Adults) | Tri Borough | Application audit to cover access controls; data input; data processing; output; interfaces; audit trails; backup and recovery; and system maintenance. | <i>One instance of Frameworki case management system being implemented across three boroughs</i> |
| | New Social Care system - Attendance at Project Board | Tri Borough | Attendance at project board in 'critical friend' role. | |
| | Data Sharing | Tri Borough | Review robustness adequacy of arrangements and protocols for data security and sharing across the Council. Includes cross borough exchange of information, communication of protocols/ guidance on best practice and compliance with relevant legislation. Checking staff understanding and compliance with Information Governance and Information Security policies, guidance and review of training received. | <i>Main focus of audit to be Client Index. To include coverage of agreeing the purpose that the data will be used for.</i> |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|------------------|--|-----------------------------|---|--|
| | SharePoint Security | Tri Borough | <p>Application Review</p> <p>To review access / data security arrangements for document sharing on SharePoint. To include sharing of documents across the three boroughs and protocols over sharing sensitive protected data.</p> | |
| | Use of Mobile Applications and Devices | Bi-Borough | <p>Application Review</p> <p>To review introduction of mobile and hand held device technology within the Business Group and whether they have led to more efficient working practices. Identify scope for use of such technology within other service areas including Parking Enforcement, Noise and Nuisance, Highways Inspections and Street Enforcement Teams. Commencement of audit will be subject to sufficient use of mobile applications and devices by business group.</p> | |
| Contracts | | | | |
| Contracts | Agilisys - Enhanced Revenue Collection | Single | <p>Contract Formalities</p> <p>Contract Monitoring and Performance Management</p> <p>Payments</p> <p>Budget Management</p> <p>Value for Money</p> | |
| | SERCO | Bi-Borough | Scope of audit to be determined dependent on stage of procurement process. | <i>Included on plan due to size of contract.</i> |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|--------------------------|--|-----------------------------|--|--|
| | Quadron Services Ltd (Grounds Maintenance) | Bi-Borough | Contract Formalities Contract Monitoring and Performance Management Payments Budget Management Value for Money | <i>Moving towards open book accounting and an increased level of self-monitoring in H&F.</i> |
| | Contracts Register | Bi-Borough | Systems for adding contracts to the register and also for forward planning Also include 'sense check' of register with each department. | |
| | Energy Procurement | Single | An audit of the system in place to procure energy, process payments to providers and monitor usage. | |
| | eProcurement | Single | Policies and Procedures Workflow and Document Retention Access Rights Management Oversight | |
| Adult Social Care | | | | |
| | ASC Procurement, Commissioning and Contract Management | Tri/Bi Borough | A strategic review of the procurement, commissioning and contract management arrangements within ASC. | <i>Exact scope to be determined at time of audit.</i> |
| | CLCH/Operations merger - new integrated procedures | Tri Borough | 2012/13 proactive pre-implementation of new procedures. This would then be a post implementation test of effectiveness of those procedures | <i>Post implementation may be undertaken in 2014/15 depending on progress of project</i> |
| | ASC Budgetary and Financial Management | Tri-Borough | To include service objectives and procedures, budget setting, revised estimates, year-end processes, virements, budget monitoring, reporting and VfM | |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|----------------------------|--|-----------------------------|---|-------|
| | Supporting People (Contract) | Tri-Borough | To include procurement/commissioning under the new framework contract and contract management under existing contracts including payments, performance management. Budgetary Control and Management Information. | |
| | Direct Payments | Tri-Borough | Compliance with systems for managing and controlling direct payments. | |
| Public Health | | | | |
| | Public Health - new responsibilities (Audits TBC) | Tri Borough | May include coverage of Health and Wellbeing Board (governance); health intelligence; joint strategic needs assessment; health and wellbeing strategy; commissioning plans. Consider cost shunting, control of costs. | |
| Children's Services | | | | |
| School | Bayonne Nursery School | Single | Probity audit based on financial and governance systems | |
| School | Vanessa Nursery School | Single | Probity audit based on financial and governance systems | |
| School | Canberra Primary School | Single | Probity audit based on financial and governance systems | |
| School | John Betts Primary School | Single | Probity audit based on financial and governance systems | |
| School | Larmenier and Sacred Heart Catholic Primary School | Single | Probity audit based on financial and governance systems | |
| School | Lena Gardens Primary School | Single | Probity audit based on financial and governance systems | |


| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|------------|--|-----------------------------|---|---|
| School | Miles Coverdale Primary School | Single | Probity audit based on financial and governance systems | |
| School | Old Oak Primary School | Single | Probity audit based on financial and governance systems | |
| School | Sir John Lillie Primary School | Single | Probity audit based on financial and governance systems | |
| School | St Augustine's Catholic Primary School | Single | Probity audit based on financial and governance systems | |
| School | St Pauls Primary School | Single | Probity audit based on financial and governance systems | |
| School | St Thomas of Canterbury Catholic Primary School | Single | Probity audit based on financial and governance systems | |
| School | Wendell Park Primary School | Single | Probity audit based on financial and governance systems | |
| School | Phoenix High School | Single | Probity audit based on financial and governance systems | |
| School | William Morris Sixth Form | Single | Probity audit based on financial and governance systems | |
| School | Queensmill School | Single | Probity audit based on financial and governance systems | |
| | Strategic Overview of Commissioning, Procurement and Contract Management | Tri Borough | A strategic review of the procurement, commissioning and contract management arrangements within ASC. | <i>Exact scope to be determined at time of audit.</i> |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|---------------------------------|--------------------------------------|-----------------------------|---|--|
| Contract | Schools/SEN Transport | Tri-Borough | To include the procurement arrangements for commissioning the service; contract management, performance measurement; income control; budgetary control and Management Information | <i>New contract being let</i> |
| | Troubled Families | Tri-Borough | TBC | |
| | Schools ELM | Single | Governance structures over management of the Employee Led Mutual (ELM) | <i>carried forward from 2012/13</i> |
| Housing and Regeneration | | | | |
| Contract | Housing Repairs Contract | Single | Contract Formalities Contract Monitoring and Performance Management Identification of Repairs Work Orders and Variations Payments Budget Management Value for Money | <i>Possibly two audits. One shortly after mobilisation looking at financial control and one later in 2013/14 also covering operations and contract management.</i> |
| | Local Housing Development Company | Single | The systems of governance and performance management of the Local Housing Development Company | <i>Suggested Q2 start date</i> |
| | Sale of Council Housing Properties | Single | To cover sale of properties where income can be retained to spend on development of social housing. | |
| | Housing Applications and Allocations | Single | Application Selection and Allocation Maintenance of Property List Complaints and Appeals | <i>Possible link to iWorld IT application audit</i> |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|--|-----------------------------|-----------------------------|---|--|
| | Leaseholder Service Charges | Single | To provide coverage of areas not included in the 2012/13 audit: - Consultation and Statutory Notification on Service Provision - Calculation of Annual Services Charges - Billing - Follow up of 2012/13 audit recommendations | |
| | Fixed Term Tenancies | Single | To cover changes in arrangements and controls to deal with the impact of fixed term tenancies. | |
| Environment Leisure and Resident Services | | | | |
| | Waste Disposal | Bi-Borough | Systems in place to manage the disposal of waste to ensure this is cost efficient and effective Review process for determining the waste levy payable to Western Riverside Authority for collection and disposal of the Councils waste. To review whether calculation is based on sound principles and has been correctly determined | |
| | Service Reviews | Bi-Borough | TBC | <i>Suggestions of specific service reviews to be involved in to be provided by Director for Finance and Resources (TTS and ELRS) Scope to be confirmed but likely to include checking updated systems and processes for adequacy of controls</i> |
| Contract | Sports Centres Contracts | Bi-Borough | To cover contract management and statutory compliance and safeguarding | |

| Department | Subject | Single/Bi/Tri-Borough Audit | Coverage / miniscope | Notes |
|---|---------------------------------------|-----------------------------|--|---|
| | Libraries | TriBorough | To cover financial control and governance of new tri borough libraries arrangements. | <i>Tri borough libraries service hosted by WCC. Coverage may also include management of community libraries (Avonmore and Hurlingham and Chelsea)</i> |
| Transport and Technical Services | | | | |
| Contract | TFM | Tri-Borough | To include: Service Objectives; Contract and Performance Management; SLAs; Management Information; Budgetary Control, and Commissioning Arrangements | |
| Contract | Street Lighting (Contract) | Bi-Borough | To include service objectives; management of standing data; maintenance and renewals; contract management; contract tendering; management Information; Budgetary Control | |
| Contract | Traffic Management (Contract) | Bi-Borough | To include service objectives; contract and project management; work allocation and value for money; Management Information and Budgetary Control. | |
| Other | | | | |
| | Verification of P1 implementation | | Verification of P1 recs not included in follow-ups for quarterly reporting | |
| | End of year reports | | To produce year end reports on schools, IT, projects/project management, Finance (including a section on procurement) and others as agreed | |
| | Follow-up audits | | Follow up of limited assurance reports | |
| | Audit and Pensions Committee Training | Q2 | | |

Agenda Item 11

| | |
|---|--|
|  | London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 14 February 2013 |
| Internal Audit Quarterly report for the period 1 October to 31 December 2012 | |
| Open Report | |
| For Information | |
| Key Decision: No | |
| Wards Affected: None | |
| Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance | |
| Report Author: Geoff Drake – Chief Internal Auditor | Contact Details: Tel: 020 753 2529 E-mail: geoff.drake@lbhf.gov.uk |

1. EXECUTIVE SUMMARY

- 1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 October to 31 December 2012 as well as reporting on the performance of the Internal Audit service.

2. RECOMMENDATIONS

- 2.1. To note the contents of this report

3. REASONS FOR DECISION

- 3.1. Not applicable. No decision required.

4. INTRODUCTION AND BACKGROUND

- 4.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 October to 31 December 2012 as well as reporting on the performance of the Internal Audit service.
- 4.2. 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.

5. PROPOSAL AND ISSUES

5.1. Internal Audit Coverage

- 5.1.1. 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
- 5.1.2. A total of 17 audit reports were finalised in the second quarter of 2012/2013 (see Appendix A). In addition 12 management letters were issued.
- 5.1.3. Three audit reports issued in this period received limited assurance:
 - 5.1.3.1. The *Theft of Metals* audit made 5 recommendations of which 3 have been reported as implemented. A further 2 (Both P1) are due to be implemented by 30 April;
 - 5.1.3.2. The Greenside Primary School Audit made 9 recommendations of which 2 have been reported as implemented. The remaining 7 (1 P1, 3 P2 and 3 P3) were due to have been implemented by September 2012;
 - 5.1.3.3. The Cambridge School Audit made 9 recommendations of which none have been reported as implemented. The remaining 9 (2 P1, 6 P2 and 1 P3) were due to have been implemented by September 2012.
- 5.1.4. The Internal Audit department works with key departmental contacts to monitor the numbers of outstanding draft reports and the implementation of agreed recommendations.
- 5.1.5. Departments are given 10 working days for management agreement to be given to each report and for the responsible

director to sign it off so that it can then be finalised. There are currently 8 reports still outstanding that were due to be signed off on or before 31 December are listed in Appendix B for information.

5.1.6. Of these 8 outstanding reports the breakdown by department is as follows:

- Transport and Technical Services - 4
- Schools - 3
- Children's Services - 1

5.1.7. There are now 2 audit recommendations made since Deloitte commenced their contract in October 2004 where the target date for the implementation of the recommendation has passed and they have either not been fully implemented or where the auditee has not provided any information on their progress in implementing the recommendation. This compares to 2 outstanding as reported at the end of the previous quarter and represents no change in the overall position. We continue to work with departments and HFBP to further reduce the numbers outstanding.

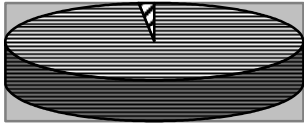

5.1.8. The breakdown between departments is as follows:

- Schools – 1
- Corporate Services – 1

5.1.9. We are very pleased to note that there are no recommendations outstanding for Adult Social Care, Environment, Leisure and Resident Services, Housing and Regeneration or Transport and Technical Services.

5.1.10. One of the recommendations listed is over six months past the target date for implementation as at the date of the Committee meeting. This relates to St John's CE Primary School. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will be arranging meetings with the relevant departmental managers responsible for all recommendations overdue by more than 3 months as and when this occurs.

5.1.11. The breakdown of recommendations implemented as a proportion of the total raised in each audit year can be seen below (*100% of recommendations made prior to and in 2010/11 have been implemented*)

| | | | |
|--|--------------|---|---|
| <p>Percentage of 2011/12 year audit recommendations past their implementation date that have been implemented.</p> | <p>99.4%</p> | <p>313 recommendations implemented out of a total of 315</p> <p>2 recommendations outstanding</p> |  <div data-bbox="1326 342 1489 465"> <input type="checkbox"/> Implemented <input checked="" type="checkbox"/> Not Implemented </div> |
| <p>Percentage of 2012/13 year audit recommendations past their implementation date that have been implemented.</p> | <p>100%</p> | <p>193 recommendations implemented out of a total of 193</p> <p>No recommendations outstanding</p> |  <div data-bbox="1326 784 1489 907"> <input type="checkbox"/> Implemented <input checked="" type="checkbox"/> Not Implemented </div> |

5.2. Internal Audit Service

5.2.1. 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 October to 31 December 2012 are shown below.

Performance Indicators 2012/13

| Ref | Performance Indicator | Target | Pro rata target | At end of Sep | Variance | Comments |
|-----|---|--------|-----------------|---------------|---------------------------|--|
| 1 | % of deliverables completed (2011/12) | 95% | 75% | 69% | Not achieved (-6%) | 74 deliverables issued out of a total plan of 108 (accounting for audits carried forward) |
| 2 | % of planned audit days delivered (2011/12) | 95% | 75% | 66% | Not achieved (-9%) | 654 days delivered out of a total plan of 994 days (accounting for audits carried forward) |
| 3 | % of audit briefs issued no less than 10 working days before the start of the audit | 95% | - | 100% | Achieved +5% | 30 out of 30 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% | - | 93% | Not achieved (-2%) | 39 out of 42 draft reports issued within 10 working days of exit meeting. |

5.2.2. While this shows that progress against target is behind for delivery of audit days and the audit plan, in fact given the slow start

imposed on Deloitte due to the need to coordinate tri- and bi-borough audit plans earlier this year Deloitte have done a very good job in attaining this position.

5.3. Audit Planning

5.3.1. Further to the plan agreed by the Committee at its last meeting, we have continued to liaise with our internal audit colleagues in the Royal Borough of Kensington and Chelsea and Westminster City Council with regards to the tri and bi-borough environment. Amendments that have been made to the 2012/13 Internal Audit Plan have been shown in Appendix C.

5.3.2. 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.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable

7. CONSULTATION

7.1. Not applicable

8. EQUALITY IMPLICATIONS

8.1. Not applicable

9. LEGAL IMPLICATIONS

9.1. Not applicable

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

**LOCAL GOVERNMENT ACT 2000-
LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT**

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

LIST OF APPENDICES:

| | |
|------------|--|
| Appendix A | Audit reports issued 1 October to 31 December 2012 |
| Appendix B | Internal Audit reports in issue more than two weeks as at 31 December 2012 |
| Appendix C | Amendments to 2012/13 Internal Audit Plan |

APPENDIX A

Audit reports Issued 1 October to 31 December 2012

We have finalised a total of 17 audit reports for the period to 1 October to 31 December 2012. In addition, we have issued a further 12 management letters.

Audit Reports

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

Audit Reports finalised in the period:

| No. | Audit Plan | Audit Title | Director | Audit Assurance |
|-----|------------|---|---------------------------|-----------------|
| 1 | 2011/12 | CAMSYS | Nigel Pallace | Satisfactory |
| 2 | 2011/12 | Wormholt Park School | Andrew Christie | Satisfactory |
| 3 | 2012/13 | St Mary's Catholic Primary School | Andrew Christie | Satisfactory |
| 4 | 2012/13 | St Stephen's Primary | Andrew Christie | Satisfactory |
| 5 | 2012/13 | Pope John School | Andrew Christie | Satisfactory |
| 6 | 2012/13 | Avonmore Primary School | Andrew Christie | Satisfactory |
| 7 | 2012/13 | Brackenbury School | Andrew Christie | Satisfactory |
| 8 | 2012/13 | New Kings School | Andrew Christie | Satisfactory |
| 9 | 2012/13 | Greenside Primary School | Andrew Christie | Limited |
| 10 | 2012/13 | Cambridge School | Andrew Christie | Limited |
| 11 | 2012/13 | Theft of Metals | Mel Barrett | Limited |
| 12 | 2012/13 | Cedar Unix Operating System | Jane West | Satisfactory |
| 13 | 2012/13 | Cash and Bank | Jane West | Satisfactory |
| 14 | 2012/13 | Cost Reduction Contract Management | Jane West / Lyn Carpenter | Satisfactory |
| 15 | 2012/13 | CCTV | Lyn Carpenter | Satisfactory |
| 16 | 2012/13 | Footways Contract Management | Nigel Pallace | Satisfactory |
| 17 | 2012/13 | Road Resurfacing and Road Marking Contract Management | Nigel Pallace | Satisfactory |

Substantial Assurance

There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be substantial and few material errors or weaknesses were found.

Satisfactory Assurance

While there is a basically sound system, there are weaknesses and/or omissions which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

Limited Assurance

Weaknesses and / or omissions in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk.

No Assurance

Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

Other Reports

Management Letters

| No. | Audit Plan | Audit Title | Director |
|-----|------------|--|-----------------|
| 18 | 2012/13 | Extended Contracts - Summary Report | Jane West |
| 19 | 2012/13 | Recently Tendered Contracts - face to Face Customer Transactions | Jane West |
| 20 | 2012/13 | National Fraud Initiative – Assessment of Controls | Jane West |
| 21 | 2012/13 | Finance Controls in the ITT for Housing Repairs | Mel Barrett |
| 22 | 2012/13 | Financial Actions in Housing ITT - updated actions | Mel Barrett |
| 23 | 2012/13 | Extended Contracts - Pay and Display Maintenance | Nigel Pallace |
| 24 | 2012/13 | Recently Tendered Contract - Framework for Innovative Housing | Mel Barrett |
| 25 | 2012/13 | Recently Tendered Contracts - Planned Maintenance to Existing Door Entry Systems | Nigel Pallace |
| 26 | 2012/13 | Extended Contracts - Broadway The Coninghams | Andrew Webster |
| 27 | 2012/13 | Safeguarding Adults Summary Report | Andrew Webster |
| 28 | 2012/13 | Thematic Report - Leasing Schools | Andrew Christie |
| 29 | 2012/13 | Schools Financial Value Standard | Andrew Christie |

APPENDIX B

Internal Audit reports in issue more than two weeks as at 31 December 2012

| No | Audit Year | Department | Responsible Director | Audit Title | Assurance | Draft report issued on | Responsible Officer | Target date for responses | Awaiting Response From |
|----|------------|--------------------------------|----------------------|---|--------------|------------------------|---|---------------------------|--------------------------------|
| 1 | 2012/13 | Children's Services | Andrew Christie | Hurlingham and Chelsea School | Substantial | 14/11/2012 | Headteacher | 28/11/2012 | Executive Director |
| 2 | 2012/13 | Children's Services | Andrew Christie | Fulham Primary School | Limited | 28/09/2012 | Headteacher | 12/10/2012 | Executive Director |
| 3 | 2012/13 | Children's Services | Andrew Christie | Bridge Academy | Satisfactory | 23/10/2012 | Headteacher | 06/11/2012 | Executive Director |
| 4 | 2012/13 | Children's Services | Andrew Christie | Central Financial Management of Schools | Satisfactory | 29/10/2012 | Principal Accountant - Children Social Care | 12/11/2012 | Executive Director |
| 5 | 2012/13 | Transport & Technical Services | Nigel Pallace | Health and Safety Risk Management and Assurance | Limited | 14/12/2012 | Bi Borough Director of Environmental Health | 28/12/2012 | Executive Director |
| 6 | 2012/13 | Transport & Technical Services | Nigel Pallace | Total Facilities Management | Substantial | 28/09/2012 | Assistant Director Building and Property Management | 12/10/2012 | Auditee and Executive Director |
| 7 | 2012/13 | Transport & Technical Services | Nigel Pallace | Common Contract Issues | Satisfactory | 23/10/2012 | Head of Professional Services and Facilities Management | 06/11/2012 | Auditee and Executive Director |
| 8 | 2012/13 | Transport & Technical Services | Nigel Pallace | LBHF Parking Software Contract Management | Satisfactory | 29/10/2012 | Head of Parking Services | 12/11/2012 | Executive Director |

Amendments to 2012/13 Audit Plan

| | Department | Audit Name | Nature of Amendment | Reason for amendment |
|----|----------------------------------|---|----------------------------|---|
| 1 | Corporate Services | Cash and Bank | Added | To align with three year cycle of audit for key financial systems |
| 2 | Children's Services | ICT In Schools | Removed | Transferred to RBKC Internal Audit plan |
| 3 | Children's Services | Social Enterprise | Removed | Transferred to RBKC Internal Audit plan |
| 4 | Housing and Regeneration | Housing Voids Performance Management | Added | Added at request of HRD Director of Finance and Resources |
| 5 | Housing and Regeneration | Leaseholder Service Charges Income Collection | Added | Added at request of HRD Director of Finance and Resources |
| 6 | Housing and Regeneration | Financial Controls of the ITT | Added | Added at request of HRD Director of Finance and Resources |
| 7 | Housing and Regeneration | Earl's Court Programme Management | Removed | Deferred to 2013/14 |
| 8 | Transport and Technical Services | EC Harris Contract Management | Removed | Notice Served on EC Harris as part of Total Facilities Management Project |
| 9 | Corporate Services | NFI Assessment of Controls | Added | Added at request of Chief Internal Auditor |
| 10 | Children's Services | Schools Financial Value Standard | Added | Added at request of Director of Finance |

This is a schedule of all recommendations where the target date for implementation has passed and either the recommendation has not been fully implemented, or the auditee has failed to provide information on whether it has been implemented.

| No. | Audit year | Department | Audit Name | Assurance | Recommendation | Priority (1/2/3) | Agreed Target date | Responsible Officer | Status/ Comments |
|----------|------------|--------------------|----------------------------|-------------|---|------------------|--------------------|---|---|
| 1 | 2011/12 | School | St Johns CE Primary School | Substantial | The Financial Policy and Whistle Blowing Policy should be reviewed, updated (where necessary) and approved by, the Governing Body or an appropriate Committee on a periodic basis of no more than two years. Approval should be recorded in the relevant meeting minutes. | 2 | 31/07/12 | Head Teacher | Update from school (9/2/12) Financial Policy and Whistle Blowing Policy will be reviewed at the Summer Full Governing Body meeting (date TBC). No further updates received. |
| Page 161 | | | | | | | | | |
| 2 | 2011/12 | Corporate Services | MTFS Programme Management | Substantial | It is recommended that a protocol is established for the reporting of risks to Portfolio Board level and the Transformation Board. We have been informed that the scoring of risks should be consistent across projects and therefore risks above a specific score could be reported. Portfolio Managers should consider reviewing risks at Project and Programme Board levels to ensure consistency of risk scoring to help ensure effective and consistent risk reporting. In addition, management should consider introducing a MTFS Programme wide risk register, focusing on the key risks associated with the achievement of the savings programme. | 2 | 30/09/12 | Transformation Portfolio Delivery Manager | Portfolios and their constituent programmes and projects identify and manage risks escalating where necessary to portfolio board and Transformation board via the portfolio on a page. Portfolio Managers are currently agreeing a pragmatic and consistent approach to scoring and by end April will review all projects and programmes to ensure that consistent scoring is in place and reflected in reporting. Transformation related risks to MTFS savings are covered in monthly consolidated report to Transformation Board on each "portfolio on a page". Periodically a consolidated report on key risks is produced. Risks to departmentally owned MTFS savings are initially managed by departmental management teams and reported through the corporate revenue monitor report. . |

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

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