

# Audit, Pensions and Standards Committee

## Agenda

Thursday 27 June 2013

7.00 pm

COURTYARD ROOM- HAMMERSMITH TOWN HALL

### MEMBERSHIP

Administration:	Opposition	Co-optees
Councillor Michael Adam (Chairman) Councillor Robert Iggulden Councillor Lucy Ivimy Councillor Charlie Dewhirst	Councillor Michael Cartwright Councillor PJ Murphy (Vice-Chairman)	Eugenie White (t.b.c)

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Date Issued: 24 June 2013

# Audit, Pensions and Standards Committee Agenda

27 June 2013

<u>Item</u>	<u>Pages</u>
<b>1. MINUTES OF THE PREVIOUS MEETING</b>	1 - 14
<p>(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 14 February 2013 and 20 May 2013, and</p> <p>(b) To note the outstanding actions.</p>	
<b>2. APOLOGIES FOR ABSENCE</b>	
<b>3. DECLARATIONS OF INTEREST</b>	
<p><i>If a Councillor has a disclosable pecuniary interest in a particular item, whether or not it is entered in the Authority's register of interests, or any other significant interest which they consider should be declared in the public interest, they should declare the existence and, unless it is a sensitive interest as defined in the Member Code of Conduct, the nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.</i></p> <p><i>At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a disclosable pecuniary interest or other significant 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.</i></p> <p><i>Where Members of the public are not allowed to be in attendance and speak, then the Councillor with a disclosable pecuniary interest should withdraw from the meeting whilst the matter is under consideration. Councillors who have declared other significant interests should also withdraw from the meeting if they consider their continued participation in the matter would not be reasonable in the circumstances and may give rise to a perception of a conflict of interest.</i></p> <p><i>Councillors are not obliged to withdraw from the meeting where a dispensation to that effect has been obtained from the Audit, Pensions and Standards Committee.</i></p>	
<b>4. MEMBERSHIP AND TERMS OF REFERENCE</b>	15 - 20
<p>This report sets out the Committee's membership and terms of reference for the 2013-14 municipal year.</p>	
<b>5. APPOINTMENT OF VICE-CHAIRMAN</b>	

<b>6.</b>	<b>APPOINTMENT OF CO-OPTED MEMBER</b>	21 - 22
<b>7.</b>	<b>PENSION VALUE AND INVESTMENT PERFORMANCE</b>	23 - 40
	This report prepared by P-Solve, provides details of the performance and the market value of the Council's pension fund investments for the quarter ending 31 <sup>st</sup> March 2013. It is attached as Appendix 1.	
<b>8.</b>	<b>ANNUAL REVIEW OF RETIREMENTS 2012-13</b>	41 - 47
	The report draws members attention to the Local Government Pension Scheme retirements that occurred in 2012/2013 and the consequential effect on the pension fund	
	It also reports the number and value of redundancy payments made by the Council in 2012/13 for information.	
<b>9.</b>	<b>HMRC USE OF CONSULTANTS AND INTERIMS - END OF PROJECT EVALUATION</b>	48 - 57
	This report contains, at Appendix 1, the end of project evaluation for the use of consultants and interims previously distributed to the Committee by e-mail.	
<b>10.</b>	<b>CORPORATE ANTI-FRAUD SERVICE ANNUAL REPORT</b>	58 - 74
	This report details the counter fraud work undertaken during the year to 31 <sup>st</sup> of March 2013 by the Council's Corporate Anti Fraud Service (CAFS) and the plans for the next financial year.	
<b>11.</b>	<b>HEAD OF INTERNAL AUDIT ANNUAL REPORT 2012/13 YEAR</b>	75 - 101
	This Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2012/13 financial year and provides assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management.	
<b>12.</b>	<b>COMBINED RISK MANAGEMENT HIGHLIGHT REPORT</b>	102 - 134
	This report updates the Committee of the risks, controls, assurances and management action orientated to manage Enterprise Wide risks.	
<b>13.</b>	<b>TRIBOROUGH RISK MANAGEMENT STRATEGY STATEMENT AND BIBOROUGH RISK MANAGEMENT SERVICE PROVISION</b>	135 - 147
	This report presents to the Committee the TriBorough Risk Management Strategy Statement and Policy Document for 2013 – 2016 ( <b>Appendix 1</b> ) and outlines the future joint service provision of a BiBorough Risk Management service for the Royal Borough of Kensington and Chelsea and Hammersmith and Fulham Council.	
<b>14.</b>	<b>EXTERNAL AUDIT RECOMMENDATIONS UPDATES &amp; ANNUAL GOVERNANCE STATEMENT ACTION PLAN</b>	148 - 159
	This report summarises:	
	<ul style="list-style-type: none"> <li>• Progress on implementing recommendations arising from the Audit Commission 2011/12 Annual Governance Report</li> <li>• The action plans relating to the control weaknesses identified</li> </ul>	

in the 2011/12 Annual Governance Statement and progress in implementing these action plans.

**15. INTERNAL AUDIT CHARTER AND STRATEGY STATEMENT 2013 2014** 160 - 174

This report presents to the Committee the Council's Internal Audit Charter and Strategy Statement for 2013 – 2014 at **Appendix 1**. The Charter is a document which explains the processes and procedures required to be in place to enable the Internal Audit Service to carry out its functions effectively and professionally.

**16. INTERNAL AUDIT QUARTERLY REPORT** 175 - 185

This report summarises internal audit activity in respect of audit reports issued during the period to 31 March 2013, as well as reporting on the performance of the Internal Audit service.

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

The Committee is invited to resolve, under Section 100A (4) of the Local Government Act 1972, that the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraphs 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.

**18. EXEMPT MINUTES OF THE MEETING ON 20 MAY 2013**

**19. EXEMPT RETIREMENTS AND REDUNDANCIES**



London Borough of Hammersmith & Fulham

## **Audit, Pensions and Standards Committee Minutes**

**Thursday 14 February 2013**

### **PRESENT**

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

**Other Councillors:** Stephen Cowan

**Deloitte:** Mike Clarkson

**P-Solve:** John Conroy

**KPMG:** Mike McDonagh, Samantha Maloney

**Officers:** Derek Myers, Chief Executive, Jane West, Executive Director of Finance and Corporate Governance, Tasnim Shawkat, Bi-Borough Director of Law, Geoff Drake, Chief Internal Auditor, Michael Sloniowski, Principal Consultant, Risk Management, Vishal Sharma, Treasury Manager, Westminster City Council, and Owen Rees, Committee Coordinator.

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

The minutes of the meeting held on 10<sup>th</sup> January 2013 be agreed as a true and correct record.

### **52. APOLOGIES FOR ABSENCE**

There were apologies from Councillor Ivimy and Sheela Selvajothe, the Trade Union representative.

### **53. DECLARATIONS OF INTEREST**

Councillors Murphy and Cartwright declared an other interest in item 54.

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

John Conroy, P-Solve, introduced the report, which set out the fund's performance in the quarter to 30 September 2012. He said that, due to the rescheduling of the meeting scheduled for December, the Committee had been briefed on performance for the period. He said that January had seen a continuation of the broadly positive market sentiment of the previous period, which he characterised as tempered confidence. He said that the 1 year return showed the fund repairing some of the losses caused in earlier periods, linked to the extraordinary performance of gilts.

He said that the fund's managers had performed well, and noted that Majedie had outperformed the market by 4.5%. He said that the managers who held dynamic asset allocation mandates had not performed as well, but this was reflective of their mandate. He said that both Barings and Ruffer had moved towards greater levels of equity holding, but remained understandably cautious about the fundamentals behind improved market sentiment. Their performance in 2012 had been further affected by a fall in the value of gold, but Mr Conroy said that P-Solve believed that the employment of the dynamic asset allocation mandates remained the correct strategy, given that doubts remained about the long term viability of a bull market.

He added that the matching fund managers had performed in line with expectation.

Eugene White observed that Ruffer and Barings had been appointed at a time when LIBOR had been at 4%, and the mandate had been designed to match the actuary's assessment of the liabilities. The collapse in LIBOR meant that the performance achieved would not be enough to meet actuarial expectations. She added that she was concerned that both managers appeared to be late to capture the rise in equities.

She also asked about the net cash outflow from the fund; she asked why the funds had been withdrawn from the equity section of the fund. Jane West, Executive Director of Finance and Corporate Governance, confirmed that net outflows of cash were now likely. Mr Conroy said that the funds had been withdrawn from equities as that element of the fund had been over target.

With regards to the issue of the benchmark for Barings and Ruffer, Mr Conroy said that the DAA mandates had been designed to allow the fund greater manoeuvrability. He said that their performance should be seen in the light of large negative returns for equities, and a difficult investment climate in other sectors. He said that while he accepted the concerns about whether the managers had moved with sufficient dynamism, this should be set against the continuing disparity between positive sentiment and negative sentiment.

With regards to the demands set by the actuary, he said that no investment strategy could have delivered the required return, given market conditions. He said that the strategy to diversify had been the correct one.

The Chairman noted that the volatility of previous years, with heavy negative returns in a single given month, would see the 3 and 2 year returns substantially improved as they were removed from the three year rolling programme. Mr Conroy confirmed that this was the case, and the next monthly return should show, presuming no downward shift in market sentiment, a further improvement in fund manager performance.

Councillor Murphy asked whether the benchmark for the DAA managers was sufficiently challenging. Mr Conroy said that it had been challenging, noting that capital protection was part of their role. Councillor Murphy asked if he believed they had been over-exposed to gold. Mr Conroy said that the reason for initiating DAA mandates was to ensure the fund could move flexibly. He said that he believed that the two managers had the liquidity and infrastructure to move quickly, and that they did not aim to hit the top or bottom of markets given the capital protection element of their role. He said that P Solve assessed them on the percentage of good and bad decisions that they had made, and believed that, on that measure, both managers had performed well.

The committee requested a report on the performance of the private equity mandates.

#### **RESOLVED THAT**

(i) The report be noted.

(ii) That officers be requested to report to the next meeting on the performance of the private equity mandates.

#### **55. TREASURY MANAGEMENT STRATEGY 2013-14**

Vishal Sharma, Treasury Manager, Westminster City Council, presented a report outlining the proposed Treasury Management Strategy for 2012-13. He said that the approach was unchanged, both in terms of the overall aim of debt reduction and in terms of the investment strategy as outlined in section 11 of the report.

Councillor Iggulden asked what was being done in light of the high penalties to redeem debt, given that income from asset disposals had been used to cut debt. Jane West, Executive Director of Finance and Corporate Governance, said that the Council was lobbying the Public Works Loan Board to have an amnesty on debt rescheduling, while there were other options in relation to the Housing Revenue Act and the CFR in general.

Councillor Iggulden asked about Santander's exclusion from the list of approved deposit holders. Mr. Sharma said that though the UK subsidiary of Santander was classed as a UK bank, officers still believed that caution should be exercised in respect of long-term holdings, given the parent's position; Santander was used for overnight deposits.

In response to a question from Cllr Ginn, Ms. West confirmed that the gap between external debt and the capital financing requirement was met from internal borrowing.

Eugenie White asked what had prompted the introduction of new investment categories. Mr. Sharma said that these had been introduced in Westminster since April 2012, and had offered better yields without additional risk.

Councillor Murphy asked for clarification of the relationship between asset disposal and debt. Ms. West said that it was possible, though it had not happened yet, that the Council would reach a point at which receipts could not be matched against debt with expiring terms, with the terms for early repayment onerous. The Council was therefore lobbying for forgiveness on early repayment of PWLB debt, while seeking other ways to configure capital spending if necessary.

Councillor Murphy asked whether involvement in fraudulent LIBOR reporting affected the Council's decision to invest in a bank. Ms. West said that the Council's chief concern was that any monies invested were returned, and it did not therefore take into account problems such as the LIBOR scandal. Mr. Sharma noted that while a number of banks had already been implicated in LIBOR fraud, others may be drawn in.

## **RESOLVED THAT**

The report be noted.

### **56. 2012-13 AUDIT OPINION PLAN**

Mike McDonagh, Partner, KPMG and auditor to the Council, introduced the report, which was the first of its kind since KPMG had appointed the Council as its auditor. He introduced himself, stating that he had been appointed as auditor of the three Councils comprising Tri-Borough, and said that Samantha Maloney would be the audit manager for Hammersmith & Fulham.

He said that his role replicated that previously held by the District Auditor, in terms of both responsibility and powers, and that he would review and sign off the Council's financial statements, form a view on value for money and answer questions and objections from electors.

He said that, for the sector as a whole, austerity measures represented the foremost risk to the Council, with a 25% reduction in funding meaning cuts to staff, disposal of assets and possible impact on services. He said that he had held discussions with the previous auditor and the responsible officers of the Council and had a good view of the Council's financial systems and procedures.

He added that KPMG had no conflicts over taking the contract, and that the scale of fees meant that it was unlikely to cause a conflict. He concluded by saying that the fee quoted was considerably smaller, but it required the Council to produce good quality working papers, without which the fee would require upward revision.



Councillor Iggulden asked how KPMG came to be appointed as the Council's auditor. Mr. McDonagh said that the Government had disbanded the Audit Commission's audit business, leaving the Audit Commission to oversee audit work as a much smaller organisation. The Audit Commission had tendered the work of auditing Councils on a regional basis, with KPMG winning the contract containing Hammersmith and Fulham for an initial 5 years with possibility of extension.

Councillor Murphy asked whether a client had ever had a reduction in fees due to the quality of their working papers. Mr. McDonagh said that this had happened in a handful of cases in his experience.

**RESOLVED THAT**

The report be noted.

**57. CERTIFICATION OF GRANTS AND RETURNS 2011/12**

Mike McDonagh, Partner, KPMG, introduced the report which set out the results of the audit of the Council's grant claims for the 2011-12 financial year. He said that the work underpinning the report had been done by KPMG's predecessors at the Audit Commission. He said that the number of claims requiring certification was falling, and that the Audit Commission had issued 3 unqualified opinions and 2 qualified, with the latter including an issue relating to NNDR which had previously been reported to the Committee.

**RESOLVED THAT**

The report be noted.

**58. EXTERNAL AUDIT RECOMMENDATIONS UPDATES & ANNUAL GOVERNANCE STATEMENT ACTION PLAN**

Geoff Drake, Chief Internal Auditor, introduced the report, which summarised progress against Audit Commission recommendations and against the AGS Action Plan. He said that progress in the quarter had been excellent, with recommendations either implemented or on track for implementation.

**RESOLVED THAT**

The report be noted

**59. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT**

Mike Sloniowski, Principal Consultant, Risk Management, introduced the report, which summarised risk management activity in the quarter. He said that work towards Bi-Borough Risk management was continuing, and it had been decided that RBKC would host the service, though the Council would remain an equal partner.

He also said that work had been done on simplifying director's statements for the next year's Annual Governance Statement, and that an emerging priority was looking at maturing intelligence, particularly in relation to the Council's supply chain, following the recent failure of a Council contractor.

In response to a question from Councillor Ginn, Mr. Sloniowski confirmed that Westminster had chosen to retain total sovereignty over their governance staff.

Eugenie White asked about the pattern of insurance claims, noting that it was hard to reconcile a trend. Mr. Sloniowski said that work was being done to measure the pattern, and that he was working with the officers responsible for insurance to see whether and if there was anything the Council could or should do to mitigate against further incidents. He added, in response to a question from Cllr Iggulden, that the nature of insurance settlements made it difficult to relate expenditure in a given year to incidents.

The Chairman asked about the failure of a Council contractor. Mr. Sloniowski said that it had come at a sub-contractor of a main contractor, and was therefore less easy to anticipate. He stated, however, that greater checks would be made of the critical aspects of a contractor's performance. Jane West, Executive Director of Finance and Corporate Governance, said that Credit Safe had shown the sub-contractor to be low-risk, and Mr. Sloniowski said that he was looking to broaden the Council's work in this area, including by speaking to private sector risk managers.

Councillor Murphy asked whether a Bi-Borough Service, with officers' time split between the two boroughs, represented a potential risk in itself. Ms. West said that the communality of risks between the two boroughs meant that the Council could retain a significant capacity at half the cost, but performance would be monitored.

## **RESOLVED THAT**

The report be noted.

### **60. DRAFT 2013/14 INTERNAL AUDIT PLAN**

Geoff Drake, Chief Internal Auditor, introduced the report, which set out the work plan for internal audit in 2013-14. He said the plan was increasingly Bi and Tri-Borough focused, with significant entries in relation to change management, given its key role in the current climate.

The Chairman proposed, and it was agreed, to lift the guillotine until 10.15pm. He asked if there was any change to the previously planned programme.

Mr. Drake said that size of the Council's change programme, and the arrangements that facilitated Tri and Bi-Borough, were of increased prominence.

The Chairman asked how the plan compared with the scope of work at other Councils. Mr. Drake said that he was aware of what happened at the other Tri-

Borough Council, and that the Council was an active member of the London Audit Group, and discussed its plans and practices with them.

**RESOLVED THAT**

The audit plan be agreed.

**61. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 OCTOBER TO 31 DECEMBER 2012**

Geoff Drake, Chief Internal Auditor, introduced the report, which summarised internal audit activity. He said that 17 reports had been issued in the period, and 12 letters sent for management response. 3 limited assurance reports were issued, which had been sent to the Committee, 2 of which concerned schools. All but 2 recommendations made in reports were either implemented or not due for implementation, and 7 outstanding reports were with Executive Directors for sign off.

Progress towards delivering the Audit Plan was good and it was expected to be 95% delivered at year end; the phasing of audit days had also improved.

Councillor Murphy asked about the management response to the audit report on the Theft Of Precious Metals. He noted that there was no intention to carry out a systematic risk assessment as suggested, and asked how this affected the likelihood of a further loss of precious metals.

Mr. Drake said that there was a risk, and the Council had had previous thefts; moreover, the cost of replacing stolen metals outweighed the cost of those metals alone. However, no funds were available for an inspection and cataloguing of all Council stock, so a sample survey, and the incorporation of an assessment of the vulnerability of metals into the rolling programme of inspection, had been agreed in the first instance.

Councillor Iggulden asked whether this represented a conscious decision to run the risk. Mr. Drake said that losses of £500,000 had already taken place, but raising awareness of the risk was key, particularly to encourage the reporting of metals at particular risk upwards.

**RESOLVED THAT**

The report be noted.

**62. EARLS COURT REGENERATION SCHEME - OUTCOME OF INVESTIGATION BY DELOITTE**

The Chairman moved that this item, which had been circulated after the main agenda, be heard first. He said that he hoped to hold discussion of the report in

open forum, but that if the Committee wished to discuss individuals named in the report by name, excluding the press and public would be necessary.

Derek Myers, Chief Executive, said that he was happy to be named in the discussions, and that the decision to redact personal details was the decision of Deloitte, who had been appointed to undertake an investigation. He said that Deloitte had been commissioned, further to a complaint made to the police by Jonathan Rosenberg, to investigate allegations of a "movers list". They were asked to assess whether any conduct by Council officers had been inappropriate and should lead to criminal or disciplinary investigation. He said that, in his opinion, the report offered assurance as to the probity of officers' conduct, and that no further investigation was necessary.

Mike Clarkson, Deloitte, confirmed that Deloitte had insisted on the report being redacted, due to the requirements of data protection legislation.

Councillor Iggulden asked what experience of investigation the Deloitte investigators had. Mr Clarkson said that he was the managing partner of the public sector internal audit and anti-fraud investigation team, and had considerable experience of investigation work. His colleagues also had many years of investigative experience.

Councillor Cartwright said that he did not have an issue with the redaction of personal details, but was concerned by the late distribution of the redacted version. Mr Myers said that both versions of the report were distributed within 24 hours of their receipt. He said that the view of the Chairman and Vice-Chairman of the Committee was that the report should be considered as soon as possible.

Councillor Cartwright said that he had three concerns with the way the investigations had been conducted. Firstly, he felt that an investigation of computer records should have been conducted, and did not believe that a search of e-mails was inappropriately onerous. Secondly, that there was no investigation of officers' qualifications, meaning that their ability to understand the potential illegality of their own actions was not tested. Thirdly, that there was no statement of truth by witnesses, as was common in tribunal investigations, though he acknowledged that Deloitte and the Council did not have police powers. Finally, he added that the suggestion put forward that a further investigation did not need to interview all tenants and residents, only those who had been listed on the database.

He concluded by stating that, in relation to the comments made in 5.9 of the report, local government officers should expect scrutiny when allegations of this nature were made.

Mr. Clarkson said that there was balance between cost and effort, and there would have been a very significant cost to an investigation of e-mail records. Deloitte's approach had been to attempt to identify incidents that would act as a gateway to a wider and deeper investigation; their investigation had not identified any such incidents. As for the qualifications of the staff involved, Mr Clarkson said that the Council had a recruitment policy, which had been followed; further investigation would be outside the terms of the terms of reference. As regards statements of truth, the majority of statements had been digitally recorded.

Mr. Myers, referring to para 5.9 of his report, said that the allegations were of criminal conduct by officers, and could not be considered part of normal scrutiny. He said that an investigation that continues for an indefinite period without proper cause was not appropriate.

Councillor Iggulden noted that if emails were sent they would have been received by someone and no such e-mails had been produced to support the original allegation. Councillor Cartwright clarified that internal e-mails were those most in need of examination.

Eugenie White asked what the consequences of the allegations would be if true, both for the officers accused and the Council's policy. Mr. Myers said that the issue was complicated, but that if the accusations had been substantiated, the matter would have very likely prompted both criminal and disciplinary investigation. He said that the allegations had arisen in the context of consultation on the future of the West Kensington and Gibbs Green estates. The Council had a statutory duty to consult its tenants, but it was not obliged to hold a ballot, and it had not held a ballot. He said that had the Council held a ballot, he could imagine why officers would have an incentive to offer residents preferable treatment for support. In the absence of a ballot, there was no comparable motivation. Further, he noted that Deloitte's analysis of the consultation responses, which compared responses to the consultation amongst those marked as "Seagrave Road" on the Council's database, showed a proportion of those residents as having objected to the proposals.

Councillor Ginn asked whether any evidence had been found that this list represented an early movers list. Mr. Clarkson said that while there was matching data between the hand written note and the information held within the overall consultation database, no evidence had been found that this constituted an early movers list.

Councillor Cartwright asked about the consultation meeting referred to in the report, where one slide had appeared to hold out the promise of early movement. He asked whether it was normal for no minutes to be kept of such meetings. Mr. Clarkson said that practices and standards varied, but that it was not unusual for no minutes to be kept, in Hammersmith and Fulham and at other authorities.

Councillor Iggulden said that residents had a clear incentive to move to Seagrave Road, but that the existence of a movers list had not been proven. He said that given that records had not been kept and the officers had denied any wrongdoing, it was unlikely that any evidence could be provided. Councillor Cartwright said that there was circumstantial evidence, and evidence that an individual resident believed themselves to be on the list.

The Chairman said that he was concerned that further investigation would be in the cause of proving a negative, in the absence of a "smoking gun". He said that the findings would be referred to the police, who had powers to interview under caution if they believed it necessary.

Councillor Murphy said that the decision not to examine computer records appeared to use a circular logic. He said that he believed that an examination of those records should have been a first step, and that Deloitte appeared to overestimate the onerousness of such an exercise.

Mr. Clarkson said that Deloitte had checked that the e-mails were secure, but had not found a gateway to explore a specific element of that e-mail.

Councillor Murphy said that the approach seemed to be seeking paper evidence when an e-mail was much more likely to contain material substantiating the allegations, if they were true. He asked whether, in light of the promises made in the slide presentation and Deloitte's acknowledgement of the perception amongst residents that a movers list existed, Deloitte ascribed this to incompetence on the part of the officers or as an inducement to residents.

Mr. Clarkson said that the slides were contradictory, and that, given that Seagrave Road was not originally included in the scheme, there was no evidence to support it being offered as an inducement.

Councillor Murphy asked if there was evidence that it had not.

Mr. Clarkson said that no evidence supporting the allegation that early moves to Seagrave Road had been offered as an inducement had been put forward during the interviews undertaken by Deloitte.

Councillor Murphy asked about the e-mail sent to an officer that had mentioned an early movers list. He said that the officer's reply had not refuted its existence.

Mr. Clarkson said that he disputed that interpretation, stating that the officer had made a general refutation of the e-mail.

Councillor Murphy asked why the Council had approached former officers on behalf of Deloitte, rather than Deloitte approaching them directly. Mr. Clarkson said that it was standard practice, and used to save time and assure those under investigation of the Council's involvement.

Councillor Murphy asked whether it was standard practice for a group of officers to submit a joint report to investigators.

Mr. Clarkson said that it had happened during past investigations.

Councillor Murphy suggested that the report had been rapidly produced, given the short period between Deloitte's appointment and the report being submitted, and asked Mr. Clarkson if he thought such behaviour raised questions. Mr. Clarkson said that Deloitte could not stop those under investigation from talking to each other, but that Deloitte had interviewed them separately and queried a number of points; he added that those under investigation had adopted this approach in the past.

Councillor Murphy asked if the Council document which had identified those ticked for Seagrave Road had any other purpose. Mr. Clarkson said that that the

references to Seagrave Road were part of a much larger database, which contained details of all interaction with residents over the proposals.

In response to a question regarding 5.9 of the report, Mr. Myers clarified that officers who had been the subject of investigation and who had then left the Council had done so as a result of natural career development, and no inference should be drawn that they had resigned as a result of the investigation.

Councillor Murphy said that he believed that the cover report written by Mr. Myers lacked objectivity in dealing with the outcome of the investigation. Councillor Iggulden suggested that this was a distorted perception.

Councillor Murphy asked if Deloitte had undertaken any work with CapCo. Mr. Clarkson said that, before beginning the investigation, he had performed a conflict check in line with Deloitte policy, which had returned no conflicts.

Councillor Murphy said that in summary, he believed that an investigation of e-mails should have been the first stage of investigation. He said that he believed that an investigation of those e-mails, together with interviewing those residents on the Seagrave Road list, was necessary to achieve adequate assurance.

Mr. Myers said that the investigation had been thorough, and the Committee should note that further investigation would be extremely costly. He said that an investigation of e-mails would cost tens of thousands of pounds, reflecting the very considerable effort to do undertake a complete examination.

Councillor Iggulden noted that no further evidence had been brought forward during the investigation, despite residents being aware of the initial allegation.

Councillor Murphy said that he did not believe that an investigation of e-mails using a word search function would be as onerous as Mr. Myers said. He proposed that the Committee should request officers to arrange an investigation based on Option 2, with an investigation of e-mails between officers and interviews for those residents listed under Seagrave Road only.

The Committee voted on this proposal, and agreed on Option 1, by 3 votes to 2.

#### **RESOLVED THAT**

That the Committee accepts the findings of Deloitte as set out in their report, recognises that the Deloitte report is credible and sufficient, and accept, on behalf of the Council, that there is no case for further enquiries at public expense.

### **63. 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 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.

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

**RESOLVED THAT**

The exempt minutes of 10 January 2013 be agreed as a true and correct record.

**65. CREATION OF AN EMPLOYEE-LED MUTUAL AND SELECTION OF THE BUSINESS PARTNER**

**RESOLVED THAT**

The report be noted.

**66. EARLS COURT REGENERATION SCHEME - OUTCOME OF INVESTIGATION BY DELOITTE- EXEMPT APPENDIX A**

**RESOLVED THAT**

The report be noted.

Meeting started: 7.00 pm  
Meeting ended: 10.04 pm

Chairman .....

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



# Audit, Pensions and Standards Committee Minutes

Monday 20 May 2013

## PRESENT

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

**Other Councillors:** None

**KPMG:** Samantha Maloney

**Officers:** Derek Myers, Chief Executive; Jane West, Executive Director of Finance and Corporate Governance; Tasnim Shawkat, Bi-Borough Director of Law; Geoff Drake, Chief Internal Auditor; John Collins, Director for H&F Direct; and David Viles, Committee Coordinator.

## 67. APOLOGIES FOR ABSENCE

There were no apologies for absence.

## 68. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 69. EXCLUSION OF THE PUBLIC AND PRESS

### RESOLVED:

That under Section 100A (4) of the Local Government Act 1972, the public and press be excluded from the meeting during the consideration of the following items of business, on the grounds that they contain the likely disclosure of exempt information, as defined in paragraphs 1, 2, 3 and 7 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

**70. NNDR REPORT FROM KPMG**

Meeting started: 7.00pm

Meeting ended: 8.25pm

Chairman .....

Contact officer: David Viles  
Committee Co-ordinator  
Governance and Scrutiny  
☎: 020 8753 2063  
E-mail: david.viles@lbhf.gov.uk

	<p>London Borough of Hammersmith &amp; Fulham</p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p>27<sup>th</sup> June 2013</p>
<b>MEMBERSHIP AND TERMS OF REFERENCE</b>	
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: Owen Rees, Committee Coordinator	<b>Contact Details:</b> Tel: 02087532088 E-mail: owen.rees@lbhf.gov.uk

## **Membership**

Councillor Adam (Chairman)  
Councillor Dewhirst  
Councillor Iggulden  
Councillor Ivimy  
Councillor Cartwright  
Councillor Murphy

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

### 1. **Membership**

- 1.1 The Committee will have the following membership:
  - 4 Administration Councillors
  - 2 Opposition Councillors
- 1.2 The Chairman will be drawn from one of the Administration Councillors; the Vice-Chairman will be an Opposition Councillor.
- 1.3 The Committee may co-opt non-voting independent members as appropriate.
- 1.5 The agenda of meetings of the Committee will be divided into separate sections for Audit and Pensions matters.
- 1.6 The Pension Fund's external investment managers will be required to attend meetings of the Committee when dealing with Pensions matters and to submit reports and make presentations as required.
- 1.7 The Trades Unions and representatives from the admitted and scheduled bodies in the Pensions Fund shall be invited to attend and participate in meetings considering Pensions matters, but shall not have a formal vote.
- 1.8 The Committee may ask the Head of Internal Audit, a representative of External Audit, the Risk Management Consultant, Assistant Director (Business Support) and any other official of the organisation to attend any of its meeting to assist it with its discussions on any particular matter.
2. **Quorum**
- 2.1 The quorum of the Committee shall be 3 members.
3. **Voting**
- 3.1 All Councillors on the Committee shall have voting rights. In the event of an equality of votes, the Chairman of the Committee shall have a second casting vote. Where the Chairman is not in attendance, the Vice-Chairman will take the casting vote.
4. **Procedures**
- 4.1 Except as provided herein, Council Procedure Rules (as applicable to all Committees) shall apply in all other respects to the conduct of the Committee.

4.2 Meetings of the Committee shall be held in public, subject to the provisions for considering exempt items in accordance with sections 100A-D of the Local Government Act 1972 (as amended).

## 5. **Meetings**

5.1 The Audit and Pensions Committee will meet at least four times a year.

5.2 Meetings will generally take place in the spring, summer, autumn, and winter. The Chairman of the Committee may convene additional meetings as necessary.

5.3 The Chief Executive may ask the Committee to convene further meetings to discuss particular issues on which the Committee's advice is sought.

## 6. **Reporting**

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

## 7. **Responsibilities**

### **(a) Audit**

7.1 The Audit and Pensions Committee will advise the Executive on:

- the strategic processes for risk, control and governance and the Statement on Internal Control;
- the accounting policies and the annual accounts of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management responses to issues identified by audit activity, including the external auditor's annual letter
- the Chief Internal Auditor's annual assurance report and the annual report of the External Auditors.
- assurances relating to the corporate governance requirements for the organisation;
- (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services.

- 7.2 The Committee's responsibilities in relation to the annual accounts will include:
- to approve the Council's Statement of Accounts, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003;
  - acting as the Approval of Accounts Committee, to be held in June;
  - to consider any report as necessary from the external auditor under Statement of Auditing Standard 610;
  - to re-approve the Council's Statement of Accounts following any amendments arising from the external audit, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003.
- 7.3 The Committee's responsibilities in relation to risk management will encompass the oversight of all risk analysis and risk assessment, risk response, and risk monitoring. This includes:
- the establishment of risk management across the organisation, including partnerships;
  - awareness of the Council's risk appetite and tolerance;
  - reviewing of the risk portfolio (including IT risks);
  - being appraised of the most significant risks;
  - determining whether management's response to risk and changes in risk are appropriate.
- 7.4 The Council has nominated the Committee to be responsible for the effective scrutiny of the Treasury Management Strategy and policies.

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

- 7.5 To determine the overall investment strategy and strategic asset allocation of the Pension Fund.
- 7.6 To appoint the investment manager(s), custodian, actuary and any independent external advisors felt to be necessary for the good stewardship of the Pension Fund.
- 7.7 To monitor the qualitative performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable.
- 7.8 To review on a regular basis the investment managers' performance against established benchmarks, and satisfy themselves as to the managers' expertise and the quality of their internal systems and controls,

- 7.9 To prepare, publish and maintain the Statement of Investment Principles, and monitor compliance with the statement and review its contents,
- 7.10 To prepare, publish and maintain the Funding Strategy Statement, the Governance Compliance Statement, and the Communications Policy and Practice Statement and revise the statements to reflect any material changes in policy,
- 7.11 To approve the final accounts and balance sheet of the Pension Fund and approve the Annual Report.
- 7.12 To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
- 7.13 To oversee and approve any changes to the administrative arrangements and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
- 7.14 To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately.
- 7.15 To approve the arrangements for the provision of AVCs for fund members.
- 7.16 To receive and consider the Audit Commission's report on the governance of the Pension Fund.

**(c) Standards**

- 7.17 To promote and maintain high standards of conduct by the Executive, non-executive Councillors, co-opted Members and church and parent governor representatives;
- 7.18 To assist Councillors, co-opted Members, and church and parent governor representatives to observe the Members' Code of Conduct;
- 7.19 To advise the Council on the adoption or revision of the Members' Code of Conduct;
- 7.20 To monitor the operation of the Members' Code of Conduct;
- 7.21 To advise and recommend training for Councillors, and co-opted Members and church and parent governor representatives on matters relating to the Members' Code of Conduct;
- 7.22 To fulfil the requirements under Section 28 of the Localism Act 2011 to put in place "arrangements" under which allegations that a Member or co-opted Member of the Council, or of a Committee or

Committee of the Council has failed to comply with Code of Conduct are considered, investigated and determined.

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

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
1.	None		



	<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p><b>27<sup>th</sup> June 2013</b></p>
<p><b>APPOINTMENT OF CO-OPTED MEMBER</b></p>	
<p><b>Report of the Executive Director of Finance and Corporate Governance</b></p>	
<p><b>This report is part exempt</b></p>	
<p><b>Classification: For Information</b></p> <p><b>Key Decision: No</b></p>	
<p><b>Wards Affected: All</b></p>	
<p><b>Accountable Executive Director:</b> Jane West, Executive Director of Finance and Corporate Governance</p>	
<p><b>Report Author:</b> Owen Rees, Committee Coordinator</p>	<p><b>Contact Details:</b>          Tel: 020 8753 3088          E-mail:  <a href="mailto:owen.rees@lbhf.gov.uk">owen.rees@lbhf.gov.uk</a></p>

## 1. BACKGROUND AND RECOMMENDATION

- 1.1 The Terms of Reference for the Audit, Standards and Pensions Committee, under 1.3, state that “The Committee may co-opt non-voting independent members as appropriate.”
- 1.2 Eugenie White served as a non-voting independent member on the Committee for the 2010-11, 2011-12 and 2013-14 municipal years.
- 1.3 It is proposed that, given the high level of Eugenie White’s contribution to the Committee’s work, she be reappointed as a

non-voting independent member for the 2012-13 municipal year.


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

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

Comments provided by: Jane West, Executive Director of Finance and Corporate Governance

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

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
1.	None		

	<b>London Borough of Hammersmith &amp; Fulham</b>  <b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b>  <b>27<sup>th</sup> June 2013</b>
<b>PENSION FUND VALUE AND INVESTMENT PERFORMANCE</b>	
<b>Report of the Executive Director of Finance and Corporate Governance</b>	
<b>This report is open to the public</b>	
<b>Classification: For Information</b>	
<b>Key Decision: No</b>	
<b>Wards Affected: All</b>	
<b>Accountable Executive Director:</b> Jane West, Executive Director of Finance and Corporate Governance	
<b>Report Author:</b> Jonathan Hunt, Tri-Borough Director of Pensions and Treasury	<b>Contact Details:</b> 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 31<sup>st</sup> March 2013. 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**

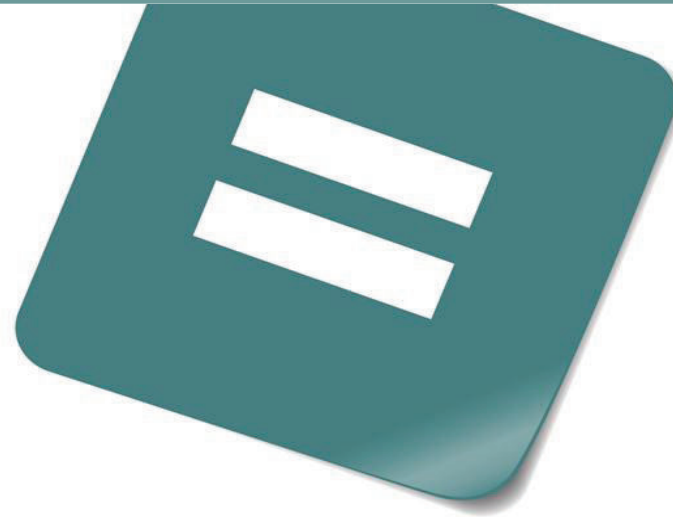
12.1. Not Applicable

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

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

**LIST OF APPENDICES:**

Appendix 1- P-Solve Quarterly Report



## Investment Governance Report – Quarter 1 2013

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>3 month Sterling LIBOR + 2% p.a.</i>
Legal & General	<i>Bespoke liability related benchmark (2 x LB - 3 month Sterling LIBOR)</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

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## Breakdown of Fund Performance by Manager as at 31st March 2013

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.
<b>Total Fund</b>		<b>725,891</b>	<b>100.0</b>	<b>100.0</b>	<b>10.4</b>	<b>15.1</b>	<b>11.6</b>	<b>10.0</b>
	<i>New Liability Benchmark + 2.2% p.a.</i>				8.0	11.6	16.5	13.9
	<i>Difference</i>				2.4	3.5	(4.9)	(3.9)
<b>UK Equity Mandate</b>		<b>173,369</b>	<b>23.9</b>	<b>22.5</b>				
	<b>Majedie</b>				9.6	20.7	13.4	11.8
	<i>FTSE All Share + 2% p.a.</i>				10.9	19.1	11.0	10.9
	<i>Difference</i>				(1.3)	1.6	2.4	0.9
<b>Overseas Equity Mandate</b>		<b>171,759</b>	<b>23.7</b>	<b>22.5</b>				
	<b>MFS</b>				13.9	16.4	11.7	10.0
	<i>MFS Custom Benchmark</i>				14.4	16.2	9.2	8.7
	<i>Difference</i>				(0.5)	0.2	2.5	1.3
<b>Dynamic Asset Allocation Mandates</b>		<b>203,111</b>	<b>28.0</b>	<b>30.0</b>	<b>7.1</b>	<b>9.3</b>	<b>7.0</b>	<b>7.0</b>
	<b>Barings</b>	123,116	17.0	18.8	5.6	7.9	6.3	6.4
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.1	4.7	4.9	4.8
	<i>Difference</i>				4.5	3.2	1.4	1.6
	<b>Ruffer</b>	79,994	11.0	11.2	9.6	11.3	8.0	8.1
	<i>3 month Sterling LIBOR + 4% p.a.</i>				1.1	4.7	4.9	4.8
	<i>Difference</i>				8.5	6.6	3.1	3.3
<b>Matching Fund</b>		<b>164,316</b>	<b>22.6</b>	<b>25.0</b>	<b>12.0</b>	<b>16.2</b>	<b>15.7</b>	<b>11.3</b>
	<i>Liability Benchmark + 1% p.a.</i>				7.6	10.3	15.2	12.7
	<i>Difference</i>				4.4	5.9	0.5	(1.4)
	<b>Goldman Sachs</b>	62,919	8.7	12.5	1.4	5.5	3.1	2.7
	<i>3 month Sterling LIBOR + 2% p.a.</i>				0.6	2.7	2.8	2.8
	<i>Difference</i>				0.8	2.8	0.3	(0.1)
	<b>Legal &amp; General</b>	101,397	14.0	12.5	19.8	24.0	26.4	18.3
	<i>Bespoke liability related benchmark (2 x LB - 3 month Sterling LIBOR)</i>				14.9	17.7	35.7	26.2
	<i>Difference</i>				4.9	6.3	(9.3)	(7.9)
<b>Private Equity</b>		<b>13,336</b>	<b>1.8</b>	<b>0.0</b>	<b>7.6</b>	<b>12.8</b>	<b>12.2</b>	<b>14.5</b>
	<b>Invesco</b>	7,265	1.0	0.0	7.1	12.7	15.9	16.2
	<b>Unicapital</b>	6,071	0.8	0.0	8.3	12.5	7.7	12.1

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### Notes:

- 1) Over the 3 months to 31 March 2013, 3 month LIBOR returned 0.1%, over a 12 month period the return was 0.7%.
- 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

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## Asset Reconciliation and Valuation

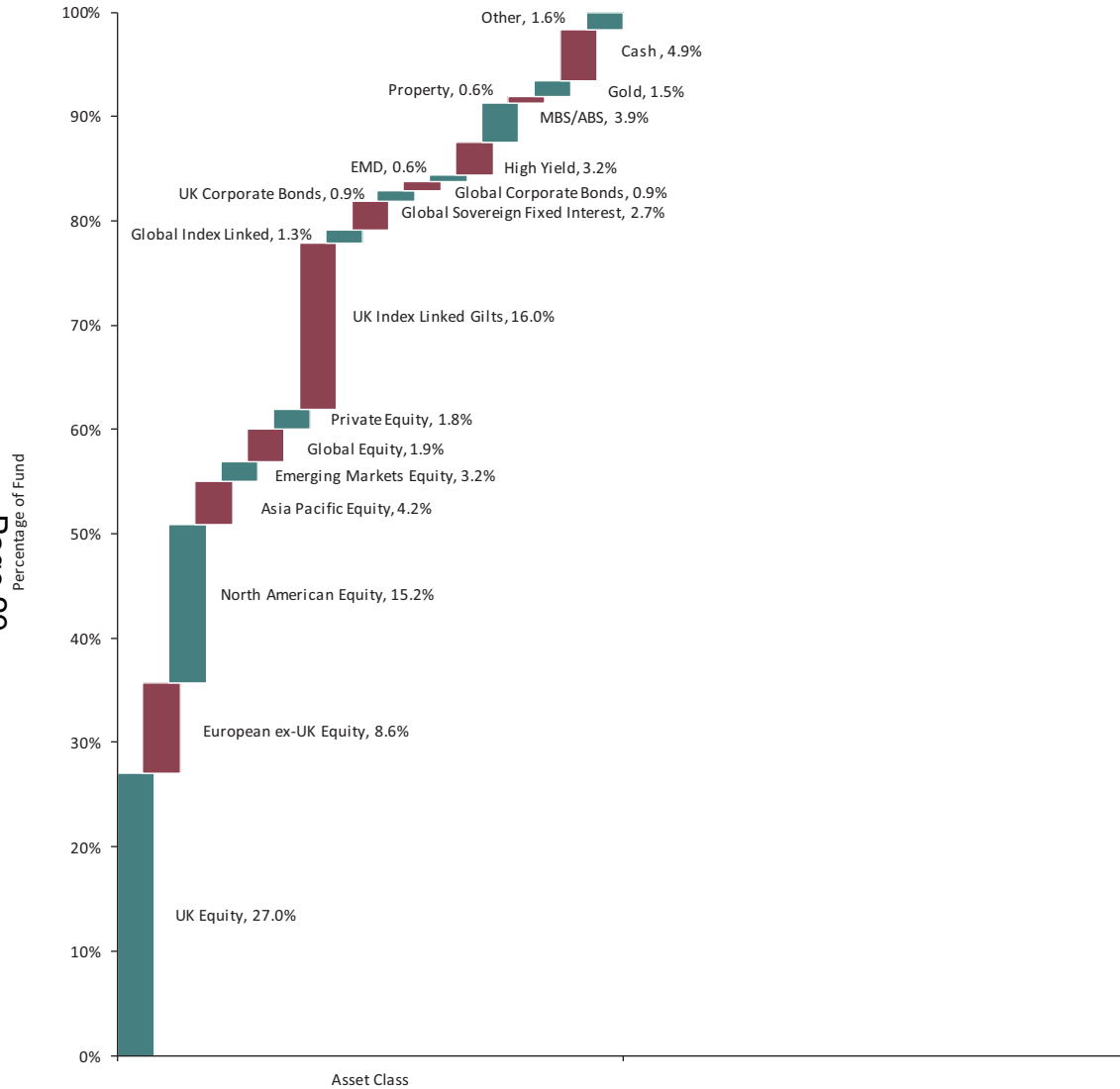
Fund	Manager	Closing Market Value as at 31st December 2012 £000	% of Total Fund	Net Investment £000	Appreciation £000	Income Received £000	Fees £000	Closing Market Value as at 31st March 2013 £000	% of Total Fund	Target % of Total Fund
<b>Total Fund</b>		<b>657,705</b>	<b>100.0</b>	<b>(1)</b>	<b>65,952</b>	<b>2,133</b>	<b>1</b>	<b>725,890</b>	<b>100.0</b>	<b>100.0</b>
UK Equity Mandate	Majedie	158,221	24.1	-	13,807	1,317	-	173,369	23.9	22.5
Overseas Equity Mandate	MFS	150,823	22.9	(1)	20,449	464	1	171,759	23.7	22.5
Dynamic Asset Allocation Mandates		189,594	28.8	-	13,136	352	-	203,110	28.0	30.0
	Barings	116,586	17.7	-	6,483	29	-	123,116	17.0	18.8
	Ruffer	73,008	11.1	-	6,652	323	-	79,994	11.0	11.2
Matching Fund		146,673	22.3	0	17,621	-	0	164,316	22.6	25.0
	Goldman Sachs	62,025	9.4	(0)	885	-	0	62,919	8.7	12.5
	Legal & General	84,648	12.9	0	16,736	-	-	101,397	14.0	12.5
Private Equity		12,393	1.9	-	940	0	-	13,336	1.8	0.0
	Invesco	6,787	1.0	-	477	0	-	7,265	1.0	0.0
	Unicaptial	5,607	0.9	-	463	-	-	6,071	0.8	0.0

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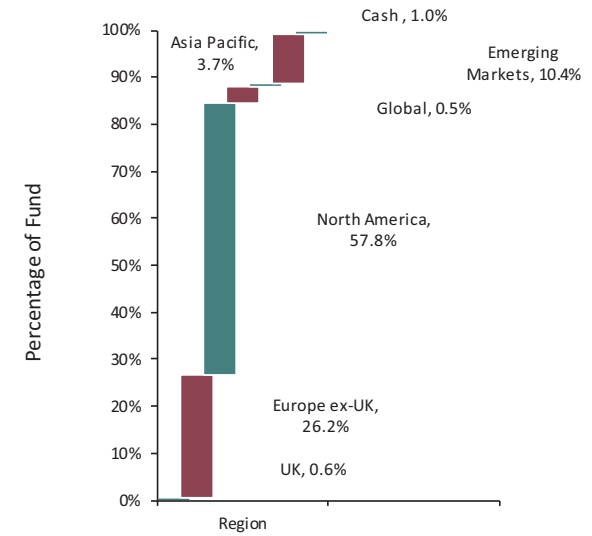
Notes: All numbers are sourced from the Custodian, Northern Trust, and have not been independently verified. Figures may be affected by rounding.



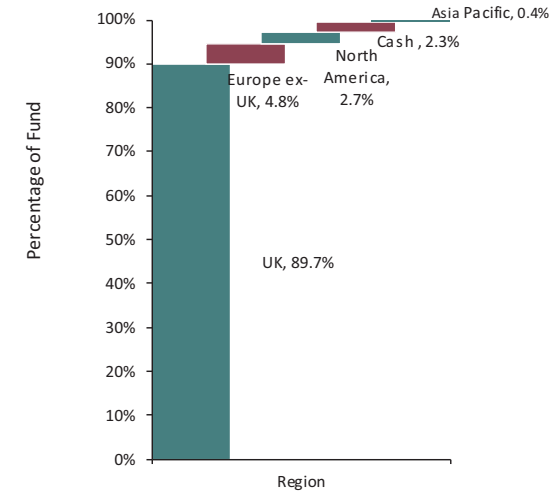
Asset Class Breakdown as at 31 March 2013



Breakdown of the MFS mandate

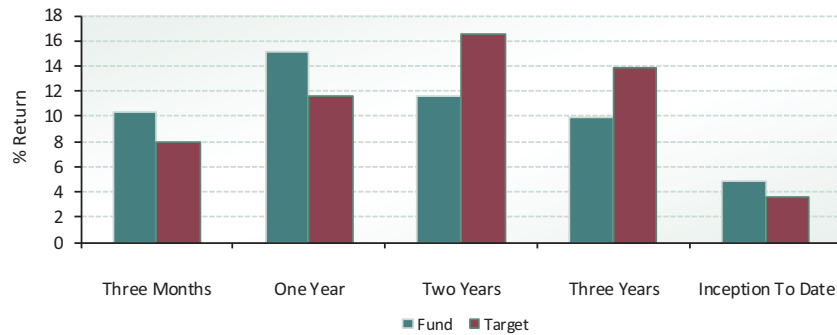


Breakdown of the Majedie mandate



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

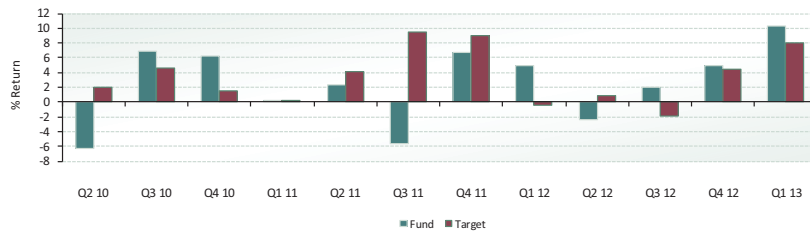
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	10.37	15.14	11.61	9.95	4.82
<b>Target</b>	7.96	11.60	16.54	13.85	3.63

The Fund outperformed its liability benchmark by 2.41% over the quarter, returning 10.37% compared to the target of 7.96%. The Fund's performance of 15.14% over the year was ahead of its target by 3.54%. The Fund has failed to keep pace over the last 3 years but has outperformed by 1.19% since inception.

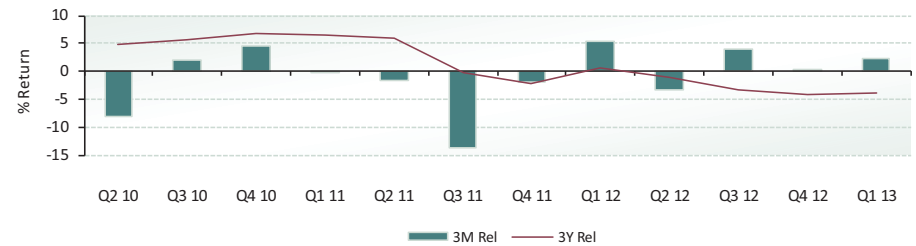
Three Years Rolling Quarterly Returns



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	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>Fund</b>	-6.34	6.87	6.20	0.14	2.27	-5.62	6.79	4.99	-2.42	1.96	4.85	10.37
<b>Target</b>	2.00	4.68	1.57	0.17	4.07	9.54	8.98	-0.42	0.94	-1.96	4.46	7.96

Three Years Rolling Relative Returns



	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>3M Rel</b>	-8.18	2.09	4.56	-0.03	-1.73	-13.84	-2.01	5.43	-3.33	4.00	0.39	2.41
<b>3Y Rel</b>	4.86	5.57	6.83	6.55	5.98	-0.22	-2.22	0.64	-1.12	-3.46	-4.07	-3.90

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.

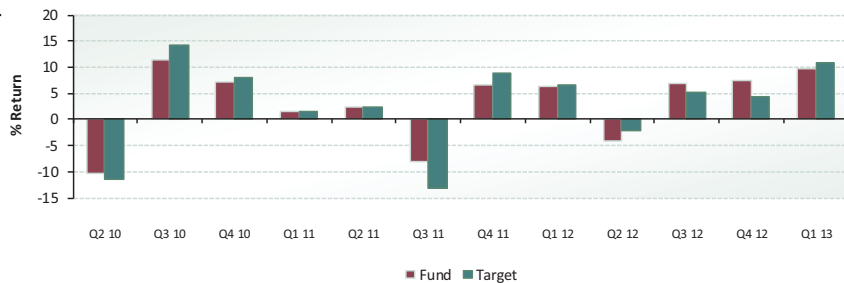
Majedie are a small boutique specialist active UK Equity manager with a flexible investment approach. Their approach to investment is mainly as stock pickers. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	9.57	20.73	13.38	11.78	10.94
<b>Target</b>	10.85	19.08	10.97	10.94	9.00

Three Years Rolling Quarterly Returns

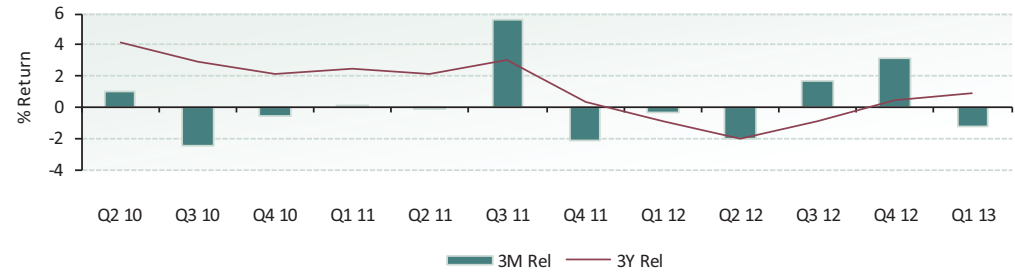


	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>Fund</b>	-10.47	11.36	7.29	1.56	2.34	-8.15	6.63	6.24	-4.10	6.96	7.42	9.57
<b>Target</b>	-11.35	14.17	7.90	1.53	2.41	-13.05	8.92	6.62	-2.14	5.21	4.33	10.85

### Quarterly Manager update

Organisation	No significant changes over the quarter.
Product	No significant changes over the quarter.
Performance	The fund performance was 9.57% over the quarter, 1.28% behind its target. Over 12 months, the portfolio was 1.65% ahead of its target. Performance drivers were holdings in HP and Sony, with other positive contributions from Brammer, Blur Group, Lookers, Bolo, ITM Power and Torotrak. The main negative contribution was from Telecom Italia whose share price fell due to a combination of weak operational results and further concerns regarding the domestic economy.
Process	No significant changes over the quarter.

Three Years Rolling Relative Returns



	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>3M Rel</b>	0.99	-2.46	-0.57	0.03	-0.07	5.64	-2.10	-0.36	-2.00	1.66	3.09	-1.28
<b>3Y Rel</b>	4.11	2.93	2.11	2.48	2.13	3.00	0.32	-0.92	-2.04	-0.90	0.48	0.84

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.

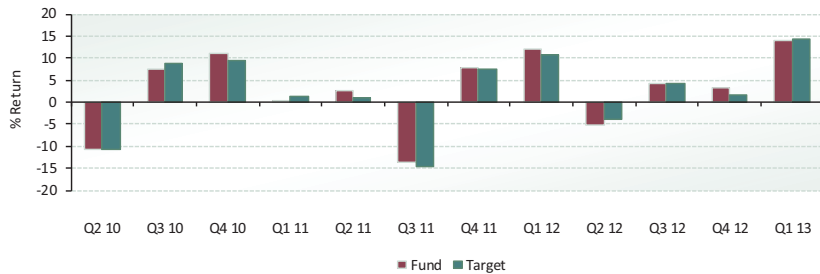
MFS are owned by Sun Life Financial based in Boston. Their investment philosophy is to select the best investment opportunities across regions and sectors. They were appointed in July 2005 following an OJEU tender process. They started managing investments for the fund in August 2005.

Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	13.88	16.40	11.71	10.00	10.77
<b>Target</b>	14.35	16.18	9.15	8.67	9.42

Three Years Rolling Quarterly Returns



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	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>Fund</b>	-10.85	7.54	11.19	0.04	2.73	-13.61	7.96	11.90	-5.08	4.31	3.23	13.88
<b>Target</b>	-10.65	8.77	9.57	1.16	0.86	-14.56	7.49	10.71	-3.97	4.20	1.53	14.35

Notes:

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Quarterly Manager update

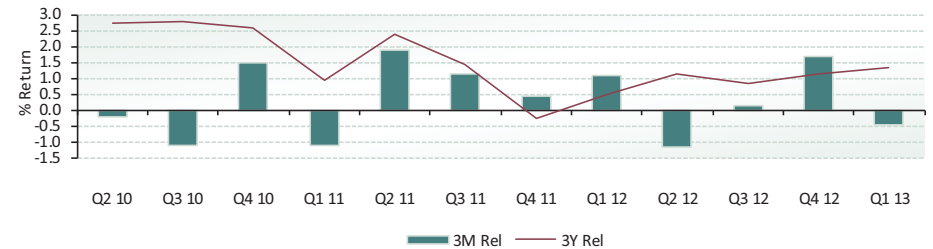
**Organisation** No significant changes over the quarter.

**Product** No significant changes over the quarter.

**Performance** The performance over the quarter was 13.88%, 0.47% behind the target. Over 12 months, the fund was 0.22% ahead of its target. An underweight position in materials sector and Apple, overweight position in Yahoo Japan and Franklin Resources (US asset management company) has aided performance. However, stock selection in Transportation and Health Care as well as Li & Fung (leading supplier), LVHM (global luxury goods company), Rio Tinto (mining company) and Saipem (oil services company) all detracted from performance over the quarter.

**Process** No significant changes over the quarter.

Three Years Rolling Relative Returns



	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>3M Rel</b>	-0.22	-1.13	1.48	-1.11	1.85	1.11	0.44	1.07	-1.16	0.11	1.70	-0.47
<b>3Y Rel</b>	2.71	2.76	2.59	0.90	2.38	1.44	-0.25	0.47	1.10	0.83	1.14	1.33

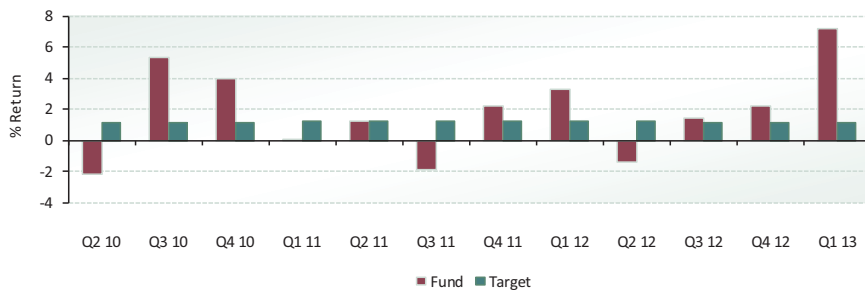
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	7.13	9.33	7.02	7.03	10.28
<b>Target</b>	1.11	4.72	4.85	4.82	4.91

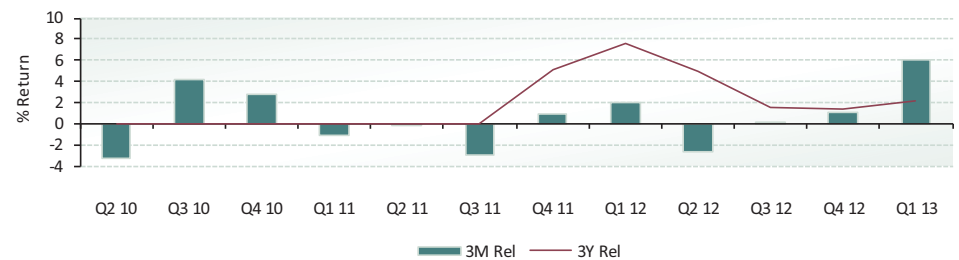
The performance of the group over the quarter was 7.13%, the LIBOR-based target returned 1.11%. Outperformance was driven by a continued rally in equity markets over the quarter while Index-linked gilts performed particularly well due to the surprise announcement by the National Statistician not to alter the way RPI inflation is measured. This means that the RPI rate will continue to run above the CPI measure for the foreseeable future. Over the past 12 months, performance has been 4.61% ahead of the target.

Three Years Rolling Quarterly Returns



	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>Fund</b>	-2.22	5.32	3.94	0.01	1.18	-1.86	2.16	3.27	-1.44	1.37	2.15	7.13
<b>Target</b>	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12	1.11

Three Years Rolling Relative Returns



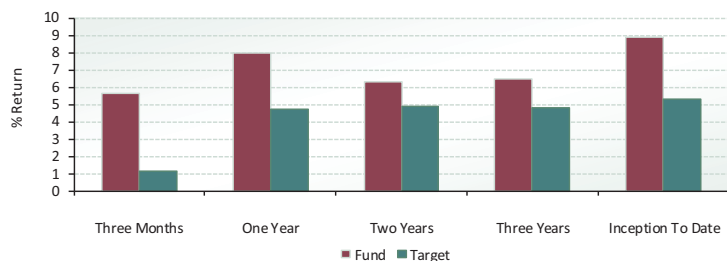
	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>3M Rel</b>	-3.34	4.10	2.74	-1.16	-0.01	-3.03	0.91	2.00	-2.64	0.20	1.03	6.02
<b>3Y Rel</b>	-	-	-	-	-	-	5.10	7.54	4.97	1.59	1.39	2.21

Notes:

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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
<b>Fund</b>	5.60	7.94	6.33	6.43	8.85
<b>Target</b>	1.11	4.72	4.85	4.82	5.27

### Quarterly Manager update

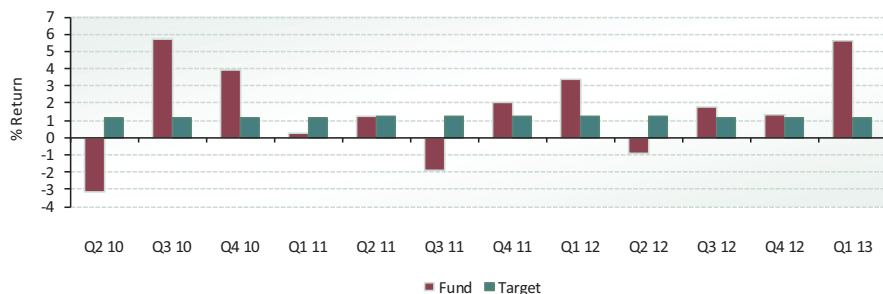
**Organisation** No significant changes over the quarter.

**Product** No significant changes over the quarter.

**Performance** The fund performance was 5.60% over the quarter, 4.49% ahead of its target. Over 12 months, the fund is 3.22% ahead of target. The strongest returns in the quarter came from UK equities followed by overseas equities with an additional modest return in Japanese equities. Overall currency hedging activity had a negative net contribution to returns due to a large position, hedging out of the US dollars back into Sterling to maintain the portfolio weight in the base currency above the 60% minimum level.

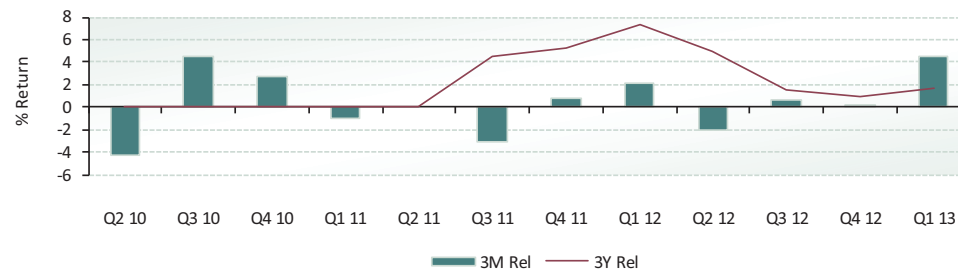
**Process** No significant changes over the quarter.

Three Years Rolling Quarterly Returns



	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>Fund</b>	-3.12	5.73	3.88	0.22	1.19	-1.89	2.07	3.35	-0.90	1.78	1.34	5.60
<b>Target</b>	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12	1.11

Three Years Rolling Relative Returns



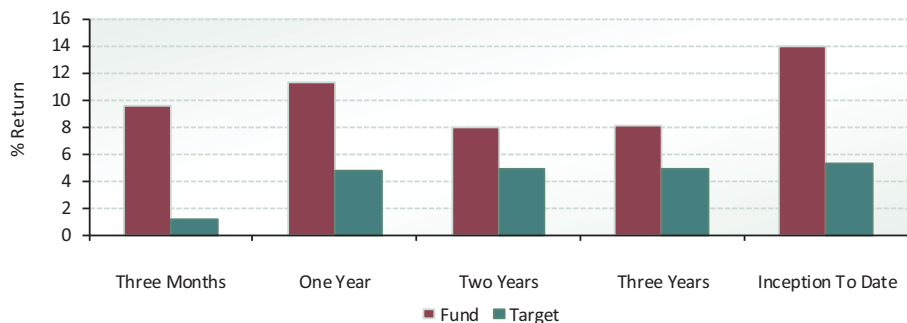
	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>3M Rel</b>	-4.23	4.51	2.68	-0.95	0.00	-3.06	0.82	2.07	-2.10	0.60	0.22	4.49
<b>3Y Rel</b>	-	-	-	-	-	4.51	5.26	7.38	4.90	1.46	0.98	1.61

**Notes:**

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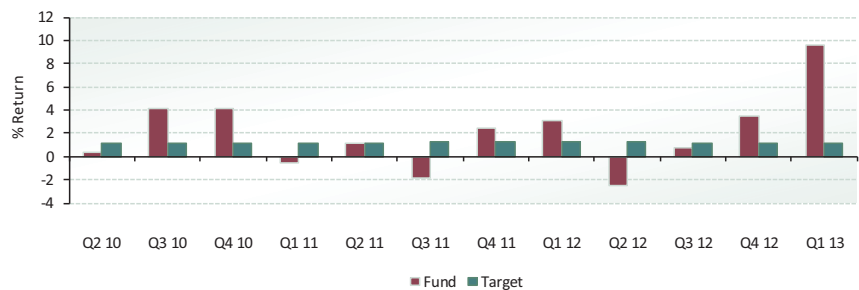
Ruffer are a small boutique investment manager investing in global asset classes. They were appointed for the Dynamic Asset Allocation mandate in June 2008 following an OJEU tender process. They started managing investments for the fund in August 2008.

Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	9.57	11.27	8.00	8.06	13.94
<b>Target</b>	1.11	4.72	4.85	4.82	5.27

Three Years Rolling Quarterly Returns



	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>Fund</b>	0.41	4.13	4.11	-0.61	1.13	-1.80	2.44	3.04	-2.55	0.71	3.47	9.57
<b>Target</b>	1.16	1.17	1.17	1.18	1.19	1.21	1.24	1.25	1.23	1.17	1.12	1.11

Notes:

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Quarterly Manager update

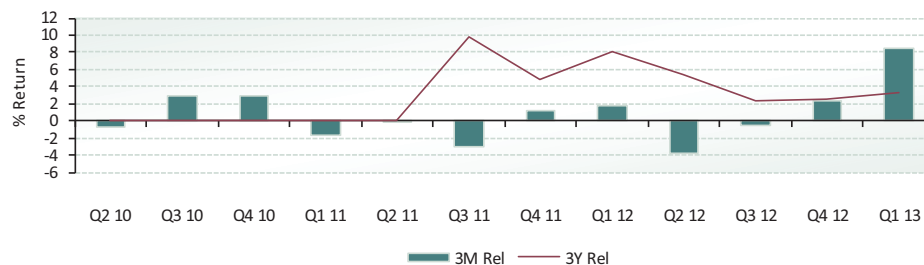
**Organisation** No significant changes over the quarter.

**Product** No significant changes over the quarter.

**Performance** The fund performance was 9.57% over the quarter, 8.46% ahead of its target. Over 12 months, the fund was 6.55% above the target. The returns for the portfolio were driven by positive contributions from Japanese equity exposure, index-linked bonds, US dollar position and UK and US equities. The main contributors to Japanese equity came from holdings in Daiei, Kao, Seven & I, SMFG and Toyota. There were no significant detractors to performance over the quarter.

**Process** No significant changes over the quarter.

Three Years Rolling Relative Returns



	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>3M Rel</b>	-0.74	2.93	2.91	-1.77	-0.06	-2.97	1.19	1.77	-3.73	-0.45	2.35	8.46
<b>3Y Rel</b>	-	-	-	-	-	9.79	4.86	8.01	5.34	2.35	2.60	3.24

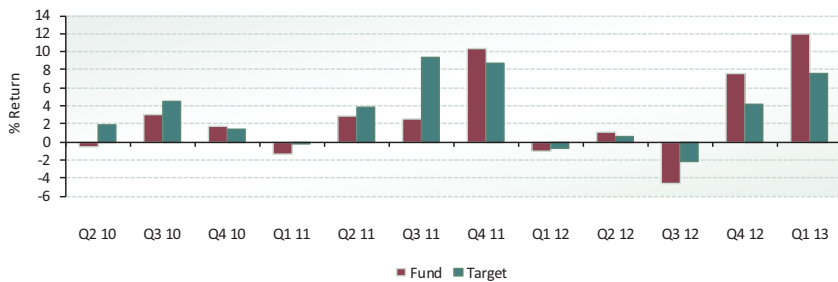
Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	12.03	16.17	15.71	11.27	8.74
<b>Target</b>	7.64	10.29	15.19	12.69	11.03

The performance of the Matching Fund over the quarter was 12.03%, 4.39% ahead of its gilts-based liability benchmark. The Matching Fund return of 16.17% over the year and was 5.88% above target. The UK Index-linked market was a strong performer due to the decision by the Statistical Office not to change the method of calculation of RPI index. Yields were already negative on these instruments, but they went further into negative territory on the announcement.

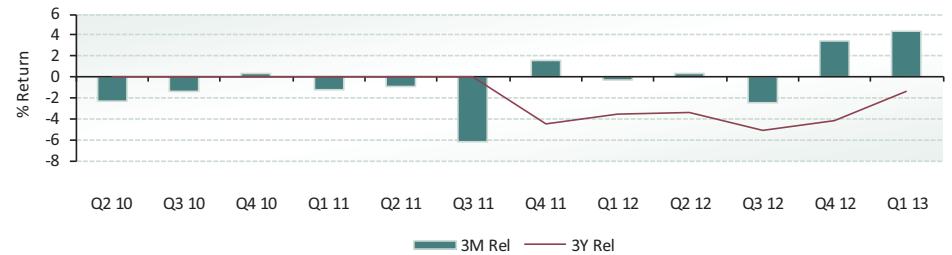
Three Years Rolling Quarterly Returns



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	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>Fund</b>	-0.48	2.98	1.75	-1.32	2.90	2.50	10.42	-1.04	1.03	-4.60	7.59	12.03
<b>Target</b>	1.81	4.49	1.38	-0.01	3.88	9.35	8.67	-0.71	0.64	-2.25	4.15	7.64

Three Years Rolling Relative Returns



	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>3M Rel</b>	-2.25	-1.45	0.36	-1.31	-0.94	-6.26	1.61	-0.33	0.39	-2.40	3.44	4.39
<b>3Y Rel</b>	-	-	-	-	-	-	-4.47	-3.64	-3.45	-5.07	-4.23	-1.42

Notes:

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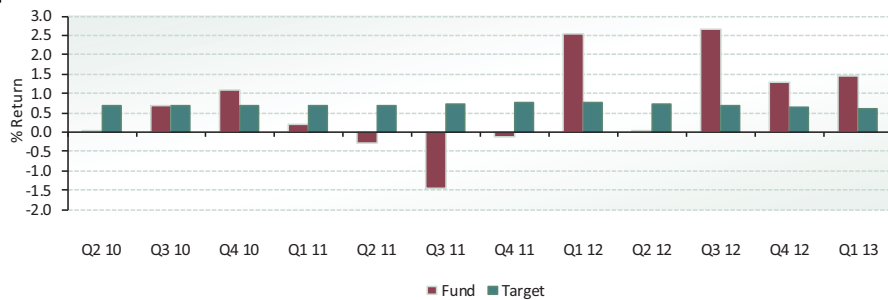
Goldman Sachs are a very large American investment bank who were first appointed in 1999 following a tender process. They have managed both equities and bonds on an active basis and since February 2009 managed an active bond fund.

Historical Fund Performance



	Three Months	One Year	Two Years	Three Years	Inception To Date
<b>Fund</b>	1.44	5.50	3.06	2.71	3.18
<b>Target</b>	0.62	2.70	2.83	2.81	2.13

Three Years Rolling Quarterly Returns



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	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>Fund</b>	0.03	0.68	1.10	0.18	-0.27	-1.45	-0.11	2.55	0.03	2.67	1.27	1.44
<b>Target</b>	0.67	0.68	0.68	0.69	0.70	0.72	0.75	0.76	0.74	0.68	0.63	0.62

**Notes:**

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**Quarterly Manager update**

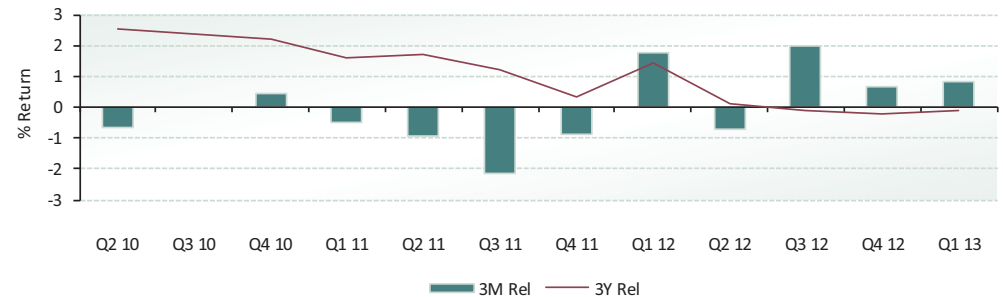
**Organisation** No significant changes over the quarter.

**Product** No significant changes over the quarter.

**Performance** The fund performance was 1.44% over the quarter, 0.82% ahead of its target. Over 12 months, performance was 2.80% ahead of the target. The portfolio's outperformance was again led predominantly by the fund's cross-sector and currency strategies. The duration strategy, however, detracted from excess returns over the quarter. The short Japan 7-year futures trade detracted from excess returns over the period.

**Process** No significant changes over the quarter.

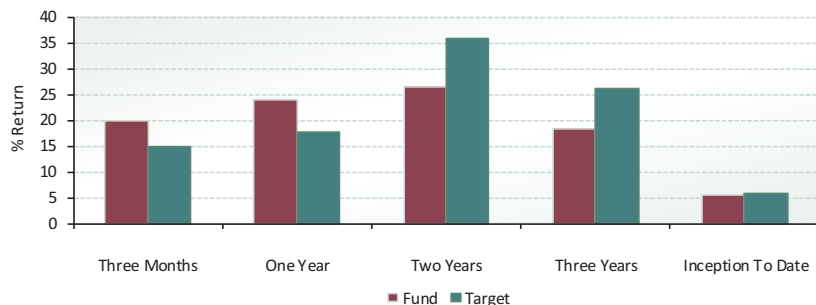
Three Years Rolling Relative Returns



	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>3M Rel</b>	-0.64	0.00	0.42	-0.51	-0.96	-2.15	-0.85	1.78	-0.70	1.98	0.64	0.82
<b>3Y Rel</b>	2.51	2.37	2.19	1.60	1.68	1.20	0.34	1.42	0.12	-0.10	-0.23	-0.10

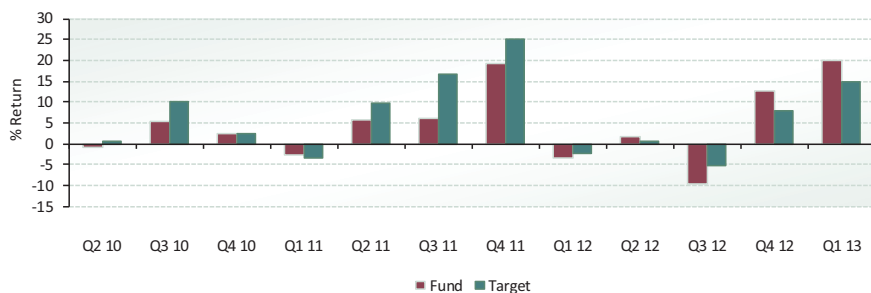
Legal & General are a very large manager of indexed funds. They were first appointed to manage investments for the fund in 1993. They have managed both equities and bonds on an indexed basis. Their current investment mandate started in the first quarter of 2012, although performance has been blended 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
<b>Fund</b>	19.79	23.95	26.38	18.33	5.59
<b>Target</b>	14.89	17.66	35.72	26.24	5.76

Three Years Rolling Quarterly Returns



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	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>Fund</b>	-0.96	5.18	2.34	-2.69	5.85	5.96	19.04	-3.50	1.76	-9.81	12.75	19.79
<b>Target</b>	0.39	9.89	2.38	-3.30	9.60	16.73	25.16	-2.22	0.38	-5.27	7.69	14.89

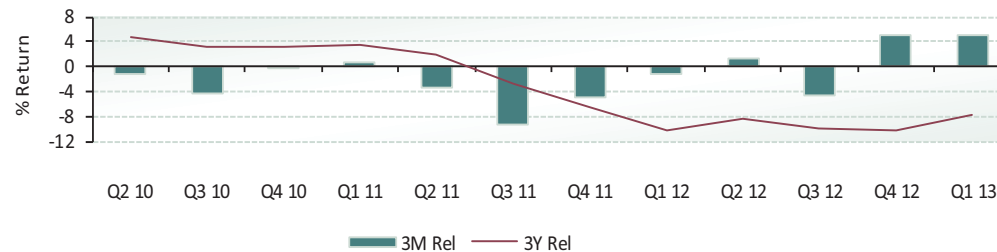
Notes:

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Quarterly Manager update

- Organisation** No significant changes over the quarter.
- Product** No significant changes over the quarter.
- Performance** The fund performance was 19.79% over the quarter, 4.90% ahead of its bespoke target. Over 12 months, performance was 6.29% ahead of the target.
- Process** No significant changes over the quarter.

Three Years Rolling Relative Returns



	Q2 10	Q3 10	Q4 10	Q1 11	Q2 11	Q3 11	Q4 11	Q1 12	Q2 12	Q3 12	Q4 12	Q1 13
<b>3M Rel</b>	-1.34	-4.29	-0.04	0.63	-3.42	-9.23	-4.89	-1.31	1.37	-4.79	5.06	4.90
<b>3Y Rel</b>	4.71	3.23	3.22	3.37	1.89	-2.92	-6.51	-10.32	-8.41	-10.01	-10.26	-7.91

Continued loose monetary policy and improving investor confidence helped risky assets make a strong start to the year. While the return of European debt issues in the form of a banking crisis in Cyprus slowed momentum in late March, some equity markets still reached record highs over the quarter and others surpassed levels last seen before the 2008 financial crisis.

US equities were amongst the strongest performers with both the major stock indices posting double digit returns and reaching record highs. UK equities followed suit, also producing double digit returns while European markets lagged slightly. High yield corporate credit posted modest gains over the quarter and in contrast to developed markets, emerging market debt and equity experienced small losses due to concerns about inflation, a slowdown in China and depressed commodity prices.

In currency markets the big news over the quarter was the sharp fall in the value of sterling which depreciated substantially versus most major currencies before recovering somewhat towards the end of March. The slide took many by surprise with lots of explanations put forward including continued poor growth figures, stubbornly high government debt and an easing of concerns in the Eurozone leading to a reduction in the need for sterling as a safe haven.

Despite the general risk-on theme of the first quarter, gilt yields remained largely unchanged over the period. Index-linked gilts performed particularly well due to the surprise announcement by the National Statistician not to alter the way RPI inflation is measured. This means that the RPI rate will continue to run above the CPI measure for the foreseeable future, resulting in a larger than expected rise in the liabilities of schemes heavily linked to inflation.

In a move that was largely expected by investors, ratings agency Moody's cut the UK's credit rating one notch from its coveted AAA status citing continued sluggish growth, largely as a result of on-going poor growth prospects for the global economy in 2013. George Osborne presented his fourth annual budget in March announcing that economic growth is now expected to be half of that originally forecast at just 0.6% for this year, while borrowing and public sector debt are now both projected to be higher in the coming years than originally expected. A number of measures were announced including further plans to help struggling home buyers, an increase in the personal tax allowance a year earlier than planned and an updated remit for the Bank of England to allow the use of "unconventional monetary instruments" to boost economic growth.

In Europe, key events included the Italian elections held in February which yielded no clear winner and the emergence of the Cypriot banking crisis which served as a reminder that European sovereign debt issues still pose a significant threat to markets and global growth, irrespective of the size of the particular economy in focus. Away from the furore, economic fundamentals for the region as a whole remain depressed as unemployment reached a record high of 12%, manufacturing continued to contract and growth remains sluggish. Given that most governments are looking to control their fiscal budgets and reduce debt to more sustainable levels, a tough economic climate is expected to continue in the short to medium term with 2013's growth forecast pointing to a 0.4% contraction.

The US economy continued to lead the way for much of the rest of the developed world, with key economic indicators such as job creation and manufacturing experiencing strong growth. The housing market, a bellwether of the economic recovery, also showed signs of strengthening with gains in house prices, homes sales and construction spending.

Elsewhere, in Asia, Japanese equity markets have seen some of the strongest returns over the quarter with the Nikkei index rising over 20%. This was largely in response to the new Prime Minister, Shinzo Abe, announcing his intentions to loosen monetary policy via a new large stimulus package and a higher inflation target of 2%.

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## Fund Actuary

Graeme Muir, Barnett Waddingham

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 FCA Rules. As such, it has not been prepared for distribution to individual scheme members or retail investors.

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	<p>London Borough of Hammersmith &amp; Fulham</p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p>27<sup>th</sup> June 2013</p>
<b>ANNUAL REVIEW OF RETIREMENTS 2012/2013</b>	
<b>Report of the Executive Director of Finance and Corporate Governance</b>	
<b>This report is part exempt- Appendices 2 and 3 are exempt from disclosure under paragraph 3 of Schedule 12A of the Local Government Act 2000.</b>	
<b>Classification: For Information</b>	
<b>Key Decision: No</b>	
<b>Wards Affected: All</b>	
<b>Accountable Executive Director:</b> Jane West, Executive Director of Finance and Corporate Governance	
<b>Report Author:</b> Les Green, Pension Liaison Manager	<b>Contact Details:</b> Tel: 020 8753 1878 E-mail: les.green@lbhf.gov.uk

## Summary

The report draws members attention to the Local Government Pension Scheme retirements that occurred in 2012/2013 and the consequential effect on the pension fund

It also reports the number and value of redundancy payments made by the Council in 2012/13 for information.

## Recommendations:

- (i) To note the contents of the report.
- (ii) To note that the annual review of 2012/2013 specifically in relation to ill health retirements does not give rise to an increase in the employer contribution rate for Hammersmith and Fulham Council or any of the other employers who participate in the fund

## 1 Background

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

## **2 Retirements in 2012/2013**

- 2.1 Retirement data for 2012/2013 was supplied to the actuary in order to carry out the annual review. See Appendix 1
- 2.2 In summary the details were as follows:

Deferred benefits into payment	101
Ill health retirements	13
Age retirement	1
Voluntary retirement	36
Early retirement with employer consent	3
Flexible retirement	6
Redundancy retirement	42
Late retirement	23
Total	225

## **3 Actuaries report**

- 3.1 In accordance with Regulations 38(5)b and 38(6) of the Local Government Pension Scheme Administration Regulations 2008, the fund actuary, Barnett Waddingham has carried out an annual comparison of the early retirement costs that have arisen in the Fund, with the costs anticipated in the Fund valuation as at 31 March 2010. This report is attached as

Appendix 3 and recommends no change to the employer contribution rate for LBHF or any of the participating employers.

3.2 One ill health retirement occurred with Turners Cleaning, but given that this employer's pensions admission agreement will end on 30 September 2013 and an indicative cessation valuation has taken place showing that the employer is 101% funded, the actuary recommends that no adjustment is made to this employer's current employer contribution rate of 19.00% as it is likely that the employer will be fully funded on exit.

#### **4 Redundancy payments made in 2012/13**

Appendix 2 shows all redundancy payments made by the Council in 2012/13, in respect of staff that left service from 1 April 2012 to 31 March 2013, for information.

- 4.1 Statutory redundancy is the amount the Council is obliged to pay under the Employment Rights Act based on the weekly earnings limit, which is currently £450.00 per week (pro-rated for part time employees).
- 4.2 Discretionary redundancy is the amount payable by waiving the earnings limit, so it is the amount calculated by using the employee's actual weekly pay, less the statutory redundancy amount.
- 4.3 Enhanced severance is paid under the Council's policy for managing organisational change, to low earning employees and it is the amount calculated by using a weekly pay figure equal to 1.5 x the Minimum Earnings Guarantee (pro-rated for part time employees), less the Statutory and Discretionary redundancy payments.
- 1.4 Taxable redundancy is the amount of the total statutory redundancy, discretionary redundancy and enhanced severance, which exceeds £30,000.00 and is therefore subject to income tax

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

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
<b>1</b>	<b>None</b>		

# London Borough of Hammersmith and Fulham Pension Fund

## Early Retirements Report 2012-13

### Introduction

We have been requested by the London Borough of Hammersmith and Fulham (“the Administering Authority”) to undertake a review of early retirements over the year to 31 March 2013 within the London Borough of Hammersmith and Fulham Pension Fund (“the Fund”), and advise whether certified contribution rates for any of the Fund’s participating employers should be revised as a result.

This report complies with all Generic Technical Actuarial Standards (TASs) and the Pensions TAS.

### Data

We have been provided with data from Capita (as administrators to the Fund) of early retirements within the year to 31 March 2013 in order to carry out the review. We have not carried out any data validation checks on this data. The data categorised by type of retirement is summarised below.

Type of Retirement	Number	Total Pension in Payment
Deferred to Pensioner	102	345,394
Ill Health Retirement	13	98,691
Age Retirement	1	1,534
Voluntary Retirement	36	215,022
With Employer Consent	3	12,321
Flexible Retirement	6	76,150
Redundancy Retirement	42	424,090
Late Retirement	23	139,688
<b>Total</b>	<b>226</b>	<b>1,312,889</b>

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

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

When an employee retires early on voluntary grounds or via flexible retirement, the pension is actuarially reduced and so is expected to be close to cost neutral on the funding basis. Similarly, when the employee retires later than 65 then their pension is actuarially increased and so is also expected to be close to cost neutral on the funding basis.

When an employee retires on redundancy or efficiency grounds, or where the employer has given their consent for the actuarial reduction to be waived, admitted bodies are required to immediately fund the additional cost separately and so these retirements can also be ignored within this review.

When an employee retires on ill health grounds there are three tiers of benefit based on how likely the member is to be capable of obtaining gainful employment after they leave service of the employer. Dependent on tier, the member



may receive an enhancement to their pension and although some allowance is made in the employer's contribution rate set at triennial valuations, these allowances may not be sufficient if there are more ill health retirements than expected and the Fund can enact a change to the contribution rate if the Fund actuary considers it necessary.

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

## Assumptions

The financial assumptions used for the purposes of these calculations are as follows;

Financial Assumptions	% per annum
Discount Rate	6.7%
Rate of Pay Increases	5.0%
Rate of Pension Increases	3.0%

These assumptions are in line with the 2010 actuarial valuation of the Fund. The derivation method can be found in the formal valuation report. Demographic assumptions are also in line with the 2010 actuarial valuation of the Fund.

## Review of Retirements

### Calculation of Allowance

For each employer within the Hammersmith and Fulham Pension Fund, we allow for the expected ill health retirement experience in each year as part of the future service cost.

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

It is more relevant to the funding position to consider the expected amount of pension (and the value of that expected pension) that would come into payment as a result of ill-health retirement, rather than just the number of retirements.

We have compared the funding cost of the total ill-health pension coming into payment with the value of the expected pension allowance already made through the future service cost, for each employer. If this is breached, we may consider seeking payment from the Employer through a revised rates and adjustments certificate, rather than allowing the cost to be picked up at the next funding valuation.

## Review of Retirements

The table below summarises the ill-health retirement pensions that have come into payment in the year from 1 April 2012 to 31 March 2013.

Employer Code	Employer	Number of IH retirements in 2012/13	Pension in payment
80	London Borough of Hammersmith and Fulham	11	90,028
92	Hammersmith and Fulham Homes	1	6,463
835	Turners Cleaning	1	2,199
<b>Total</b>		<b>13</b>	<b>98,691</b>

For each of these members, we have estimated the cost of the ill health retirement to be the value of post ill-health pension and lump sum **less** the value of pre ill health accrued pension and lump sum, calculated on the assumptions stated above.

We have then summed these for each employer and allowed for the value of the expected ill-health pension being recovered through the future service cost. We can then decide whether this excess cost is large enough to consider revising the employers' contribution rates, based on the recovery period remaining as at 31 March 2013.

We have shown the current contribution rates, and suggested new contribution rates as a result of the excess ill-health costs below.

Employer Code	Employer	Current Rate 13/14	Suggested New Rate 13/14
80	London Borough of Hammersmith and Fulham	23.3%	<b>no change</b>
92	Hammersmith and Fulham Homes	23.3%	<b>no change</b>
835	Turners Cleaning	19.0%	<b>no change</b>

### *London Borough of Hammersmith and Fulham and Hammersmith and Fulham Homes*

Hammersmith and Fulham Homes are pooled with the London Borough of Hammersmith and Fulham and so for the purposes of this exercise we can treat them as one employer.

Although, more ill-health pension has come into payment than allowed for in the contribution rates, the increase required is very small and therefore not material. The impact of the ill-health retirements will be taken into consideration as part of the actuarial valuation as at 31 March 2013.

### *Turners Cleaning*

Our estimate of the excess cost of the ill health retirement for Turners Cleaning, measured as an addition to the contribution rate as a percentage of payroll is 0.9% per annum, which takes into consideration the length of recovery period discussed below.

The Fund's admission agreement with Turners Cleaning is due to cease on 30 September 2013 with the active members transferring to a new employer within the Fund. The responsibility for funding the deferred and pensioner members will return to the London Borough of Hammersmith and Fulham although extra funding will be required from Turners Cleaning on exit if the section is found to be less than 100% funded on the ongoing basis.

We produced an indicative cessation valuation for Turners Cleaning as at 31 March 2013 which revealed an estimated ongoing funding level of 101%, although various data estimates were made in order to produce that valuation. Turners

Cleaning are currently paying a contribution rate of 19% of payroll and this amount includes an allowance of approximately 3% per annum for the deficit measured at the 2010 funding valuation.

Therefore, although the ill health retirement may have reduced the funding level slightly, we believe there is sufficient margin within the current contribution rate that it is likely that the contract will be fully funded at exit on 30 September 2013.

## Conclusion

As a result of this review, we don't recommend any changes to the current contribution rates.


We would be happy to answer any questions in relation to this report.

The image shows two handwritten signatures in blue ink. The signature on the left is 'A Short' and the signature on the right is 'R McGee'.

**Anna Short FFA**  
**Associate**  
**Barnett Waddingham LLP**

**Roisin McGee FFA**  
**Actuary**

# Agenda Item 9

	<b>London Borough of Hammersmith &amp; Fulham</b>  <b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b>  <b>27 June 2013</b>
<b>Use of Consultants and Interims- End Of Project Report</b>	
<b>Open Report</b>	
<b>For Information</b>	
<b>Key Decision: No</b>	
<b>Wards Affected: None</b>	
<b>Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance</b>	
<b>Report Author: Debbie Morris, Bi-Borough Director of HR</b>	<b>Contact Details:</b> Tel: 020 753 2529 E-mail: debbie.morris@lbhf.gov.uk

## 1. EXECUTIVE SUMMARY

- 1.1. This report contains, at Appendix 1, the end of project evaluation for the use of consultants and interims previously distributed to the Committee by e-mail.

## 2. RECOMMENDATIONS

- 2.1. That the report be noted

## 3. REASONS FOR DECISION

- 3.1. As contained in Appendix 1

**4. INTRODUCTION AND BACKGROUND**

4.1 As contained in Appendix 1

**5. PROPOSAL AND ISSUES**

5.1 As contained in Appendix 1

**6. OPTIONS AND ANALYSIS OF OPTIONS**

6.1 As contained in Appendix 1

**7. CONSULTATION**

7.1. Not applicable

**8. EQUALITY IMPLICATIONS**

8.1. Not applicable

**9. LEGAL IMPLICATIONS**

9.1 As contained in Appendix 1

**10. FINANCIAL AND RESOURCES IMPLICATIONS**

10.1. As contained in Appendix 1

**11. RISK MANAGEMENT**

11.1. As contained in Appendix 1

**12. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

As contained in Appendix 1

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

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
1.	None		

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## Use of Consultants and Interims – End of Project Evaluation

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### 1. Executive summary

LBHF had a process for recruiting consultants and interims through personal service companies (PSC's) which was not fit for purpose and was given nil assurance opinion in an Internal Audit report in June 2011. A robust new procedure was developed and implemented in August 2011.

A review of all off payroll engagements entered into between August 2010 and August 2011 was also carried out by the Council at its own initiative. The review identified that LBHF managers were not applying and did not understand the process for determining employment status. Additional guidance about employment status was developed and incorporated into the new procedure. Training and briefing to the HR and Payroll teams and to departmental management teams was delivered. The revised procedure came into full operation in January 2012.

In early 2012 the scope of the review was extended to schools. Guidance specifically aimed at schools and new contract templates were developed and published to all schools. Scrutinies of engagements were carried out face to face in just under half the borough's schools.

Because the Council had identified a total of 94 people who had been incorrectly treated for tax and National Insurance Contributions (NIC's) purposes as self-employed, a voluntary disclosure was made to HMRC. After detailed exchanges of information and a series of meetings a final liability of £357k including penalties and interest over a six year period from 2006 - 2012<sup>1</sup> has been agreed. Given a worst case scenario of £640k, this represents the best outcome which the Council could have achieved. HMRC have complimented the Council on the effectiveness and efficiency with which it has managed its voluntary disclosure<sup>2</sup> and that has led to a nil penalty for most of the liability.

An Internal Audit follow up report published in March 2013 has confirmed that all the recommendations made in its June report have been implemented and no further action is required.

The Council has successfully concluded a difficult and sensitive issue and in doing so learned important lessons and played an important part in clearing up the distinction between independent contractors and people who should be treated as employees. In order to ensure that LBHF maintains its position, this report concludes with three recommendations:

- Management teams should be informed that the voluntary disclosure to HMRC has been successfully concluded and reminded of the importance of complying with Council procedure;
- A full internal audit of the operation of the new process including employment status should be commissioned; and

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<sup>1</sup> This is the period over which HMRC can go back to claim unpaid tax with penalties and interest. This report does not intend to suggest that this is when the issues identified first began to arise.

<sup>2</sup> Agreed minute of a meeting between LBHF and HMRC in August 2012

- HM Treasury has published an action note about the tax arrangements of public appointees. LBHF already applies most of the guidance given, but it should consider a recommendation to seek formal assurance from contractors that income tax and national insurance obligations are being met.

## **2. Introduction**

This report summarises the outcomes from a project which began in June 2011 as a result of an Internal Audit report which identified serious weaknesses in the procurement by the Council of consultants and interims engaged through PSC's.

What began as an exercise to put in place a commercial value for money procedure for buying in additional external resources, however, developed into a comprehensive review of all engagements with consultants and interims whether through personal service companies or as independent self-employed contractors.

The review identified gaps in the Council's approach to employment status and led to a recommendation that it make a voluntary disclosure to HMRC. At the same time the council reviewed its new procedure for recruiting additional resources and added detailed guidance on the determination of employment status.

In early 2012, having identified similar concerns in their approach to bringing in additional resources, the Council extended the scope of its review to schools. Visits were made to just under half the borough's schools, individual engagements were reviewed and comprehensive guidance prepared and distributed.

Following extensive discussions and negotiations with HMRC, LBHF has confirmed a tax and NIC's liability of £483k, a 15% penalty for the tax years 2006 – 2007 and 2007 – 2008 of just over £6k and a nil penalty for the years 2008 – 2009, 2009 – 2010, 2010 – 2011 and 2011 - 2012. Set off will reduce the liability by just under £150k. Interest will add approximately £18k. The total liability will, therefore be approximately £356k.

## **3. Recruiting additional external resources into the council**

The Council's process for the procurement of consultants and interims was not fit for purpose. It suffered from a high level of non-compliance and left significant control gaps. An Internal Audit report on the engagement of consultants and interims through PSC's published in June 2011 gave a nil assurance opinion.

In July 2011 a robust new procedure for the recruitment of additional resources which addressed the recommendations made in the Internal Audit report was approved by the Executive Management Team of LBHF. The procedure put in place:

- A single point of control in Human Resources, which became the gatekeeper for the recruitment of such additional resources;
- A requirement that requests for additional resources were approved by Executive Directors based on a clear business case;
- Measures for ensuring value for money; and
- Steps to ensure proper contractual arrangements and effective due diligence checks in relation to such things as professional indemnity insurance.

A standard contract template was also developed for both personal service companies and sole traders.

The new procedure was implemented in August 2011.

#### **4. A comprehensive review of all engagements with consultants and interims**

At its own initiative, the Council also decided to review all its existing engagements with consultants and interims, including those engaged as independent self-employed contractors. The review began in August 2011 and covered the preceding year. A total of 215 engagements with people not operating through PSC's were examined. Initially a view was formed that about 30 of these contractors had been incorrectly treated as self-employed for tax NIC's purposes.

Conversations with hiring departments confirmed that the existing process for determining employment status was not being applied and was not sufficiently well understood by managers. With this in mind PwC were commissioned to carry out a review of the new procedure. They recommended a number of revisions:

- The inclusion of additional tax guidance;
- The development of a robust employment status test; and
- The use of process flow charts to help people navigate through the procedure.

PwC confirmed that, subject to their recommendations being implemented and providing that the procedure was communicated to the right staff and applied in practice, it was robust, fit for purpose, would meet the expectations of HMRC and would minimise the risk of any further tax or NIC's non-compliance.

Revisions were made to the procedure for recruiting additional resources addressing each of these points. A revised procedure was approved by the H&F Business Board in January 2012. Training in the procedure and the determination of employment status was provided to the HR and Payroll teams and briefings were given to the management teams of each of the Council's departments. At the same time action was taken to put in place more appropriate contractual arrangements with those engaged. Some of the contractors were offered contracts of employment and some were converted into suppliers.

#### **5. Recruiting additional external resources into schools**

A significant number of the independent self-employed contractors identified by LBHF during the course of its review were found to have been engaged by schools. A total of 59 people, who were being paid without deduction of tax and National Insurance Contributions, were working in schools in the borough. The majority of these engagements were low value and were intended to provide additional teaching or enrichment activity, such, for example as guitar lessons or tennis coaching.

Schools now enjoy considerable freedom to engage with and pay people who are not employees and LBHF was not in a position to deal with them as it had its own managers by developing and implementing a new procedure.

Visits were arranged to the majority of the schools which had recruited additional resources. Heads and School Business Managers were given an in depth briefing about employment status and its implications and individual engagements were



reviewed. Recommendations for change were confirmed in writing and in the majority of cases engagements were converted into contracts of employment. A revised zero hours contract was developed reflecting the specific needs of schools for a flexible “on and off” arrangement when dealing with things like sports coaching and music teaching.

Comprehensive tailored guidance was also developed and circulated to all the borough’s schools in early 2012. This has been supplemented by briefings at, for example, the School Business Managers’ forum.

## **6. Voluntary disclosure to HMRC**

The identification of a number of people who had been incorrectly treated as self-employed for tax and National Insurance contributions purposes led to a recommendation that LBHF consider making a voluntary disclosure to HMRC.

Following a tendering process, Deloitte LLP were invited to carry out a more detailed review of individual cases and make a recommendation with respect to the need for a voluntary disclosure. Work on the review began on 24<sup>th</sup> January 2012. It was quickly established that a voluntary disclosure would be necessary and on 21<sup>st</sup> February HMRC were notified that the Council was considering this step.

When the review by Deloitte LLP had been completed a total of 52 people had been identified who had been incorrectly treated as self-employed between August 2010 and August 2011. In addition there were still a number of “unknowns” for whom there was insufficient information on which to make an employment status decision<sup>3</sup>. The report prepared by Deloitte to support the voluntary disclosure, made in April 2012, included a calculation of the Council’s potential liability based on two key assumptions. First, that HMRC would accept an argument limiting the disclosure to two tax years. Secondly, that only a proportion of those who were unknowns would be included in the liability calculation.

At a meeting with HMRC on 24<sup>th</sup> March it was agreed that HMRC would accept the two years presented in the Deloitte report as the basis for the disclosure rather than requiring LBHF to carry out a full review of every year for the past six years, but would require retrospection for each of those named. It was also agreed that the “unknowns” would have to be dealt with case by case on their merits. HMRC would not accept the idea of applying proportions as a means of determining LBHF’s liability. That ultimately brought the total number of people incorrectly treated as self-employed to 94.

The decision was made to make a payment on account to HMRC. This step has the effect of preventing the accumulation of further interest on any subsequent liability. A first payment of £175k was made on 10<sup>th</sup> July 2012 and a second of £125k on 19<sup>th</sup> November 2012.

Over the course of the summer and autumn, the Council exchanged case by case calculations with HMRC and agreed a final tax liability of £263k and a final NIC’s liability of £220k – a total of £483k. HMRC also agreed to apply its procedure for setting off tax already paid through their self-assessment returns by the individuals with whom LBHF had contracted. This has resulted in a reduction of the liability by

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<sup>3</sup> A number of people had stopped working for the council at the time that the review took place in March 2011 and we were either unable to contact them or speak with those responsible for hiring them. Letters were sent, but the majority of these went unanswered.

£150k to £333k. We have also been involved in detailed negotiations with respect to penalties. The period of the voluntary disclosure spanned two different penalty regimes. For the years up to 2008 a 15% penalty has been recommended by HMRC. That amounts to just over £6k and is half the maximum penalty that could have been imposed. For the subsequent years a nil penalty has been recommended. This reflects the fact that we were successful in establishing that the disclosure was unprompted as well as our openness with information and access to records and the assistance we provided to HMRC in working out the size of the error. The maximum penalty would have been 15%.

That leaves only the calculation of interest, which is charged on the amount of tax and NIC's after the application of set off. The greatest amount of interest that could be charged, assuming an average rate of interest over six years of 5.5%, would be £18k. HMRC do not charge interest on a compound basis.

The Council's final liability will therefore be as follows:

- Tax and NIC's liability      £333k
- Penalties                              £ 6k
- Interest                                £ 18k
- **Total**                                **£357k**

The best case scenario which was reported to the Audit Pensions and Standards Committee in September 2012 was £350k. The worst case was £640k.

## 7. Internal Audit follow up

The Internal Audit report which led to the instigation of this project was issued in June 2011 with a nil assurance opinion.

In accordance with procedures agreed with the Council, a follow up audit of the recommendations made in the report was undertaken in February 2013. All recommendations were found to have been implemented in full. An extract from the Internal Audit report is given in Table 1.

**Table 1: Follow Up Report from Internal Audit March 2013**

	<b>Recommendation</b>	<b>Priority</b>	<b>Assessment</b>	<b>Further Action Required</b>
1	Corporate policy on appointment of Personal Service Companies	1	Implemented	No
2	Demonstrating compliance with the Council's financial regulations	1	Implemented	No
3	Appointment of individuals operating as PSC's	1	Implemented	No
4	Retention and monitoring of agreements	1	Implemented	No
5	Due diligence	2	Implemented	No
6	Records of PSC's engaged by the Council	2	Implemented	No
7	Performance monitoring	2	Implemented	No

## 7. Project costs and benefits

The total expenditure on the project is given in the Table 2 below.

In terms of tangible benefits, the investment of time and effort resulted in a reduction of the liability from a worst case of £558k to £483k. A gain of £75k with a concomitant reduction in interest (£4k).

**Table 2: Project expenditure**

<b>Item</b>	<b>Amount</b>
PwC - process reviews and recommendations	£26,000
Deloitte LLP – individual case reviews and advice on voluntary disclosure	£27,269
Interim manager – project management, research, reporting and liaison with consultants and HMRC (162 days)	£76,950
LBHF staff time – confirming calculations, reviewing reports, agreeing recommendations and attending meetings	£19,212
<b>Total</b>	<b>£149,431</b>

LBHF might also have expected to face a penalty of between £145k (had HMRC not been persuaded to accept that this was an unprompted disclosure) and £72k had HMRC not been encouraged by the way in which the process was managed to reduce the penalty for the last four years of the disclosure to nil.

In terms of intangible benefits, LBHF and the schools for which the Council is the employer now have a fit for purpose procedure for recruiting additional resources and a clear understanding of the issues at stake when taking on people other than as employees. Provided that the new procedure continues to be applied in practice, LBHF will meet the expectations of HMRC and minimise the risk of any future non-compliance and the reputational damage to which such non-compliance may give rise.

LBHF has also been able over the last 18 months to build a more positive and engaged relationship with HMRC and is exploring with it the possibility of cooperating on the development of more comprehensive guidance for employers.

## 8. Conclusion

LBHF and the schools for which it is the employer now have a robust, fit for purpose process for approving the business case for engaging a contractor, for recruiting and selecting and contracting with him or her, for carrying out all the necessary due diligence checks, for managing contractor performance and for determining employment status before engagements begin. That process will minimise the risk of any noncompliance with HMRC requirements. It also gives the council an increased assurance that the procurement, deployment and management of consultants and interims will be a response to a clearly defined business need and that it will be effectively controlled and monitored.

Contracts are in place with all of those engaged through personal service companies, or who have been supplied as contractors by agencies, and all the necessary due diligence checks have been carried out.

The Council has successfully completed a detailed voluntary disclosure to HMRC. HMRC has complimented the council on the effectiveness and efficiency of its approach and has recognised that it has done everything that it could have done to resolve the matter. As a result of the Council's management of the process with HMRC we have been able significantly to reduce its liability and to achieve a nil penalty for four out of the six years covered by the disclosure.

Although with the benefit of hindsight the Council might ask how the issues which emerged in 2011 came about, we must also recognise that:

- From the late 90's there has been a rapid rise in the number of personal service companies (over 3.5 million companies in the UK employ only one person). This has been prompted in part by policies encouraging the creation of a more flexible and competitive workforce, in part by changes in tax regulations and in part by recession. The rapid rise has outstripped the development of the understanding of and processes for engaging with this resource;
- Employment status is a complex and difficult area about which there was only limited guidance. A very large number of local authorities were and remain the same position as LBHF. Indeed many have come to the Council for advice, guidance and copies of its procedure and templates. In 2012 the Council was invited to give a presentation about its experience and approach to the London Councils' HR Directors Forum;
- The Council is a far leaner organisation than it was and that means that there will be times when it has to buy in specialist expertise and skills. Engaging people as consultants and interims is a cost effective and flexible way of responding to a fast changing environment. This is not uncommon in either the public or the private sectors; and
- There is no suggestion that anyone has acted other than in good faith or that the people engaged by the Council did not manage their own tax affairs entirely properly.

The Council has successfully concluded a difficult and sensitive issue and in doing so learned important lessons and played an important part in clearing up the distinction between independent contractors and people who should be treated as employees. In order to ensure that LBHF maintains its position, this report concludes with three recommendations:


- Management teams should be informed that the voluntary disclosure to HMRC has been successfully concluded and reminded of the importance of complying with the procedure for the recruitment of additional resources;
- A full internal audit of the operation of the new process including employment status should be commissioned to identify any remaining control gaps; and
- HM Treasury has published an action note about the tax arrangements of public appointees. LBHF already applies most of the guidance given, but it should consider a recommendation to seek formal assurance from contractors with off payroll arrangements lasting more than six months and costing over £220 per day that income tax and national insurance

obligations are being met. This would require an amendment to the existing contract template.

Debbie Morris  
Bi-Borough Director of HR

22 May 2013

# Agenda Item 10

	London Borough of Hammersmith & Fulham  Audit Standards and Pensions committee  27 June 2013
Corporate Anti Fraud Service Report 1 April 2012 to 31 March 2013	
Open Report.	
For Information	
Wards Affected: None	
Accountable Executive Director: Jane West	
Report Author: K Quinn Head of Corporate Anti Fraud Service	Contact Details: Tel: 0208 753 2551 E-mail: <a href="mailto:kirsten.quinn@lbhf.gov.uk">kirsten.quinn@lbhf.gov.uk</a>

## 1. EXECUTIVE SUMMARY

- 1.1 This report details the counter fraud work undertaken during the year to 31<sup>st</sup> of March 2013 by the Council's Corporate Anti Fraud Service (CAFS) and the plans for the next financial year.
- 1.2 The service spend has continued to reduce with vacancies not being filled, currently the service has 8.6 investigators to actively investigate fraud.
- 1.3 CAFS has delivered a very respectable performance this year achieving 12 successful prosecutions, plus a further 153 sanctions (these include administrative penalties, 20 recovered properties, 90 removals from the council's Housing Register, etc). This total of 165 successful outcomes compares to a target of 130. All officers continued to improve their skills and extend their experience. The team identified fraud and error to the value of £8,279,283 and were responsible for the recovery by the council of £510,205. A further £5,205,079 is recoverable by the council plus to the public purse £2,564,000.

- 1.4 The work undertaken by the team has continued to expand with increased referrals for tenancy fraud and internal fraud, plus joint work undertaken with the police. We have two qualified Financial Investigators who also acted as our proactive resource.
- 1.5 As from the 1<sup>st</sup> of July 2013 the unit joins with RBKC to become a Bi Borough Service. There will be a shared Head of Service and a Fraud manager hosted by Kensington and Chelsea. The direction and priority for the service going forward will be a matter for the new management structure in consultation with both organisations.

1.2

## 2 RECOMMENDATIONS

2.1 Read and agree the comments

## 3 REASONS FOR DECISION

3.1 To inform the committee of the actions of the councils counter fraud response.

## 4 INTRODUCTION AND BACKGROUND

4.1 CAFS performance is measured on outputs which are successful outcomes including the number of sanctions successfully applied and the number of fraudulent issues stopped or prevented. We also keep under review the value of fraud and error identified plus the amount of recovered and recoverable losses identified for the Council and the public purse. The CAFS target for the year was 130 successful outcomes, which has been exceeded, the final outturn of 165 detailed in **Figures 2 and 3** at Appendix 1.

4.2 The service continues to receive more allegations than it can investigate. CAFS received 228 benefit, 221 tenancy related, 45 internal or corporate referrals. Of these 203 cases were rejected for investigation either because of insufficient quality of information or due to insufficient capacity to proceed representing 41% of all referrals. There were 802 open cases carried forward from the year before, and 524 cases have been carried forward into the 2013/14 year. This is summarised in **Figure 1** of Appendix 1.

4.3 The measurable financial value of CAFS work involves cash recoveries received from the application of penalties or court awards, Housing Benefit overpayments which become a debt owed to the Council plus a 40% 'bounty' on these overpayments which is paid to the Council from subsidy, the recovery of property or removals from the Housing Register which the Audit Commission (AC) have put a value of £18,000 (this is the newest figure provided by the AC to be used as a nominal value, reduced for the £75k previously quoted in these reports) per property, the prevention of fraudulent Right to Buy applications which would



attract a discount of £16,000 per property, and other overpaid benefits which are recoverable and while bringing no specific value to the Council do represent a saving made to the public purse. The analysis of the value of fraud identified and recovered is contained in the table at **Figure 4** in Appendix 1.

- 4.4 The value of the savings to the public purse of £8,279,293 identified by fraud including £510,204 recovered in-year by the council and a further £5,715,283 that is recoverable. This compares well to the cost of the service which was an operational cost of £950k, and a gross cost of £1.1 million.

## 5 PROPOSALS AND ISSUES

- 5.1 CAFS no longer employ temporary staff and now have a reduced, the management structure has been flattened and the teams condensed.
- 5.2 The core CAFS work covers housing benefit, fraudulent tenancies, and corporate fraud. Additional activities include investigating applications on the Housing Register, and a significant amount of fraud and error identified through management of the National Fraud Initiative exercise. The deterrence effect of the publicised work of the Service cannot be ignored, which includes the press releases made for every successful prosecution. The unit has appeared on prime time television this year and in most of the leading daily papers. A selection of articles is at Appendix 3 however should you wish more details or to see the full collection of articles please contact the Head of Anti-Fraud who will arrange for you to have access to the information.
- 5.3 The profile of the Service, the Council, and the fight against fraud in Hammersmith and Fulham has been raised as a result of joint working with the police and other investigative agencies. The close relationship has been maintained with the police even though the LBHF office is no longer permanently seconded to the police.
- 5.4 In order to maximise the realisable benefits from fraud work, two CAFS officers have trained as accredited Financial Investigation Officers. Two

senior officers have also trained as senior authorising officers. We now apply to the courts to make restraints ourselves, rather than being dependant on the police. We are also able to complete confiscation and cash seizure in-house. The advantage is that previously we divided any assets seized and confiscated and allocated by the court between the Council and the police. As we apply the restraints and bring proceedings ourselves, we have the opportunity to maximise income to the Council.

- 5.5 Following a small trial CAFS now offer the Financial Investigation service out to other units and organisations. With the help of the legal unit we have developed a contract to be used for this purpose and we will be paid for our services. This is likely to be part of the new Bi Borough service and will be reported on as it develops.
- 5.6 Tenancy fraud is being widely recognised as a growing area of concern and the National Fraud Authority (NFA), national government and the Audit Commission make strong recommendations that Local Authorities do all in their power to crack down on an estimated 98,000 social tenancies which are subject to fraud (unlawful tenancies or sublets) nationwide. Following pressure from varying organisation a private members bill was passed this year to criminalise social tenancy fraud. LBHF in partnership with RBKC received DCLG funding to support a project to assist the social landlords in our area address their Tenancy fraud risk. We have been actively pursuing Tenancy fraudsters within the councils stock this year and as a direct result of fraud action 20 properties have been removed and returned to proper use. One individual has been criminally prosecuted for their actions. Hammersmith has been involved in a large scale data match project in partnership with Experian and this year will be part of the innovative programme launched by call credit to create a “London Hub”, the first of its kind country wide. Prevention and better use of intelligence are high on all political agendas and we are, and have been prioritising these areas
- 5.7 The service has lead on the investigation of a large scale corporate allegation this year which has diverted significant resources away from the day to day plans of the unit. The case has resulted in a member of staff being dismissed and charged with three serious criminal offences. .

The estimated loss for this one case is £5.3 million and the case is likely to last at least four weeks when it goes to trial in September.

## **Future Plans**

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

- 5.9 Changes in governmental policy around social benefits will have a significant effect on the way welfare benefits are delivered. The likely roll out for this is from April 2013 to April 2017. LBHF are involved in the forefront of these changes and CAFS are involved in the shaping of the service that will investigate any payments made under UC.

### **Bi Borough Anti-Fraud Service**

- 5.10 CAFS have been part of a Bi Borough Project which culminates from 1/07/2013 with the service at Hammersmith merging with the service at RBKC to provide a Bi Borough resource. The service will be hosted by RBKC under a Director of Internal Audit, Risk and Fraud (Moyra McGarvey) and a single Head of Bi Borough Fraud (Andy Hyatt). The current fraud manager at LBHF (Mark Dalton) will assimilate into the new structure. The 2013/14 year plans include reductions in the fraud service or H&F which will be taken into account in the delivery plans for the new service.

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

- 5.11 The service is working in partnership with other West London Authorities and a software company (Call credit) to create the first regional intelligence hub for Tenancy fraud. We are also working closely with Agylisis on the Multi View Project and with the Business intelligence project to develop ways to better exploiting the possibilities presented by the data we hold internally within the council and the credit reference agencies we have access to.

Closer working has been developed with the risk manager to create a Fraud Risk register and linked that to our proactive programme which then links with our Internal Audit colleagues creating a seamless approach to identifying weaknesses in our systems and putting in place solutions plus making sure those solutions are implemented.

## **Benchmarking**

- 5.12 We have joined with CIPFA and other investigation agencies around the country to create a benchmarking club. The current Head of Service at LBHF has been part of the steering group to shape the questionnaire and effectively use the information provided by this club. Ongoing membership and attendance at the steering group will part of the decisions made by the new service management team.

## **Conclusion**

- 5.13 2012-13 has been a successful year for counter fraud investigation for LBHF. The restructure and flattened management structure has been embedded and all staff now function as generic investigators. The level of referral continues to increase due in part to the high profile maintained by the CAFS team and partly the effect of improving liaison between the Council and its partners. Fraud investigation is high on the national agenda and LBHF is an active participant in this.
- 5.14 The aim of the Corporate Anti Fraud Service going forward is to continually improve on results to date. With reduced funding the intention is to focus on achieving better results with the resource to hand, by improving the referral and risk scoring process, making better use of intelligence and increasing our focus on proactive work such as data mining, and by improving the deterrence effect by focussing on delivering sanctions and prosecutions.
- 5.15 With the establishment of a Bi Borough service from 1st July 2013 there is likely to be a greater emphasis on working collaboratively with colleagues in K&C and establishing joint projects and shared resource programmes.
- 5.16 The work of local government fraud units will be substantially altered by the proposed national government changes which will be rolled out over the next few years up to 2017. The changes to the council tax systems and new social tenancy fraud bill will offer significant opportunities to both fraud investigation units and fraudsters. The work of the NFA has raised the profile of procurement fraud and this may well form a greater part of the service's business in the future. The unit will be looking to involve itself in the business re-engineering processes which are taking

place round the council with a view to designing out as much fraud as possible.

- 5.17 The unit attracted income of over £49,755 which helped the overall savings required by the council. The financial investigators will be actively pursuing opportunities with other organisations to sell their services and we will be considering the use of more civil court actions to recover losses to the council where possible

## **6. OPTIONS AND ANALYSIS OF OPTIONS**

*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**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of holder of file/copy</b>	<b>Department/ Location</b>
1.	Operational and performance management papers.	K Quinn	HTH

## Performance Tables

**Fig. 1 Cases Opened, Rejected, and Closed 2012 -13**

Fraud Area	B/fwd from 2011//12	Referred	Rejected (no resource)	Closed	C/fwd into 2013/14
Benefit Fraud	364	228	91	186	277
Tenancy Fraud	304	221	50	287	168
Housing Register	42	0	0	35	7
Other Housing Fraud	0	0	0	0	0
Internal or Corporate Project	92	45	2	63	72
<b>Total</b>	<b>802</b>	<b>494</b>	<b>142</b>	<b>571</b>	<b>524</b>

*Cases are rejected either due to lack of resource or poor quality.*

**Fig. 2 Performance by Outcome Achieved**

	Prosecutions Successfully Undertaken	Caution, Penalty, Recovery or Disciplinary Sanction	Positive Outcome / Action Achieved	Totals
Housing Benefit	11	4	18	33
Tenancy	1	20	90	111
Corporate	0	12	9	21
<b>Total</b>	<b>12</b>	<b>36</b>	<b>117</b>	<b>165</b>

**Fig. 3 Performance Outturn against Target**

	Annual Outturn
	Total
<b>Total 2012/13 (Target 130 )</b>	<b>165</b>
Total 2011/12	209
Total 2010/11	286
Total 2009/10	278
Total 2008/09	186
Total 2007/08	130
Total 2006/07	132

Financial Benefits of CAFS Work		Recovered		Recoverable	Additional value to public purse	Speculative Income
		Recovered by CAFS	Recovered to LBHF	Recoverable by LBHF	Value of properties recovered or lets avoided	Value of Assets Currently Restrained
<b>Benefits</b>	Penalties	6,742				
	Costs, Compensation, POCA	102,515		1,850		
	HB Overpayments		214,467*	452,047		
	40% Bounty on HB O/Ps		180,818			
<b>Tenancy</b>	**Tenancies recovered (20)				360,000	
	***Housing Register removals (90)				1,620,000	
	****Right to buys(1)				16,000	
	Housing other					
<b>Corporate</b>	Corporate cases (21)		170,000	4,737,025	568,000	
<b>NFI</b>	HB Overpayments			14,157		
	40% Bounty on HB O/Ps		5,662			
	Pay & pensions					
	Creditors					
Assets Restrained: Benefits cases						
Assets Restrained: Corporate cases						295,051
<b>Total</b>		<b>109,257</b>	<b>400,947</b>	<b>5,205,079</b>	<b>2,564,000</b>	<b>295,051</b>
<b>Total recovered</b>		<b>510,204</b>				
<b>Total balance recoverable</b>				<b>5,205,079</b>		
<b>Total overall recoverable value to the council</b>		<b>5,715,283</b>				
<b>Total value to council due to CAFS work</b>				<b>8,279,283</b>		

\* The sum calculated as collected by instalment for overpayments raised from fraud cases

\*\* Valued at £18k/property as per the Audit commission guidance

\*\*\* Valued at £18k/removal as per the Audit commission guidance

\*\*\*\* Valued at £16k/application

## APPENDIX TWO

### Press Coverage

#### Sandra ALLDER

##### ***Another fraudster sentenced***

Tuesday November 13, 2012

A fraudster who swindled Hammersmith & Fulham (H&F) Council out of almost £30,000 of benefits has avoided jail.

Sandra Alder, of Carthew Road, Hammersmith claimed the cash despite having more than £40,000 saved in her bank account.

When she was questioned by H&F Council's corporate anti fraud service, she claimed that the money was not hers and this it was for her son who has learning difficulties.

In total, Alder, 56, illegally claimed £22,340 of housing benefit, £5,096 of council tax benefit and £8,127 of income support.

She pleaded guilty to fraud at Hammersmith Magistrates on Thursday October 4.

At Isleworth Crown Court, on Friday November 9, Alder was sentenced to 24 weeks in jail, suspended for 12 months. She was also told to do 150 hours unpaid work.

Deputy Leader, Cllr Greg Smith, said: "Whatever your personal circumstances may be, it is simply unacceptable to cheat the public purse. We will continue to clamp down hard on those who think that fraud is acceptable."

#### Richard SMITH

##### ***Fraudster handed suspended sentence***

Monday November 5, 2012



A benefit fraudster who did not tell the council that had savings of almost £70,000 has been handed a suspended sentence.

Richard Smith, of Carnwath Road, South Fulham had been in receipt of Housing Benefit and Council Tax Benefit since June 2004 on the basis that he was too ill to work and had no savings.

However, an investigation from Hammersmith & Fulham (H&F) Council's corporate fraud service and the Department for Work and Pensions Fraud Team revealed that rogue was actually sitting on a small fortune of £69,168. The threshold for claiming housing and council tax benefit is £16,000.

Under interview, Smith, 48, claimed some of the money was given to him from his girlfriend.

Council fraud busters also uncovered that Smith had been operating a business. When questioned about this, Smith said he was 'just helping people out'.

In total, he defrauded the council out of £4,126 of housing benefit, £770 of council tax benefit. He also illegally claimed £2,353 of Income Support.

At Hammersmith Magistrates Court, on October 24, 2013, Smith was given a 12 months suspended sentence and told to do 180 hours community work.

Cllr Greg Smith, deputy leader said: "Benefit fraud will not be tolerated in Hammersmith & Fulham and we will continue to bring those who cheat the system to justice. The council carefully scrutinises how every penny of tax-payers money is spent and will continue to clamp down hard on those who think that fraud is acceptable."

### **Anna Maria Musetti**

#### ***Con artist sentenced***

Friday December 21, 2012

A wealthy con artist who claimed more than £15,000 in benefits despite sitting on an inheritance of more than £400,000 has been sentenced.

Anna Maria Musetti, 39, of Robert Owen House, Fulham, was this week (Tuesday December 18) given a four month custodial sentence, suspended for two years and ordered to carry out 200 hours of unpaid work within a year at the hearing at Hammersmith Magistrates' Court.

Musetti also agreed to repay all the money she had falsely claimed from Hammersmith & Fulham Council and the Department for Work and Pensions, money towards her rent arrears and the council was awarded full costs.

Musetti claimed housing benefit and council tax benefit from Hammersmith & Fulham Council (H&F) from 2002 onwards and defrauded DWP out of £19,110.

However, a joint investigation between the council and the Department of Work and Pensions (DWP) uncovered that Musetti had not declared her enormous inheritance.

During an interview under caution, Musetti admitted that she had failed to declare her true circumstances to the benefit agencies and apologised for what she had done.

At court, District Judge Sweet said that Musetti showed 'an element of greed' and 'knew what she should have done' when she inherited the money.

Musetti had pleaded guilty to eight counts of benefit fraud at an earlier hearing at Hammersmith Magistrates' Court on Tuesday, December 4.

Cllr Greg Smith, deputy leader said: "It beggars belief that this fraudster had the audacity to claim benefits when she had so much money stored away. Benefits are for those who genuinely need it, not for someone who struck it rich, and I am pleased that we have been able to recover this money."

### **Mary Williams**

#### ***Fraudster couple jailed***

Thursday December 6, 2012

A husband and wife fraudster team with dual identities, who spun a complicated and profitable web of lies and deceit to con the taxpayer out of almost £100,000, has been jailed this week.

Fifty-year-old Abiodun Ganiat Animashaun and her husband Kehinde Ade Solate, 60, were sentenced to a total of 32 months for stealing £96,256.11 in housing benefit and council tax benefit from Hammersmith & Fulham Council and Merton Council for six years. Animashaun was jailed for 14 months and Solate was sent down for 18 months on Tuesday (December 4) at Kingston Crown Court. Between December 2004 and September 2010 used the aliases of Mary Williams and Kehinde Sina Williams Solate to lie and cheat their way through the benefit system. They lived together with their children in Seaforth Avenue, New Malden, while illegally sub-letting a housing association flat in Gledstanes Road, West Kensington, where Animashaun was claiming she lived to claim benefits from H&F as Mary Williams, a single mother.

The couple had conspired to produce fabricated tenancy agreement for that house, claiming Animashaun was the tenant, and her husband was the landlord - despite the fact that they were living together at the house as a married couple with their children, and Solate owned the property.

They also created false tenancy agreements for three other address in the capital - a house in Sandy Hill Road in Plumstead and two separate addresses in Tavistock Place in Central London - to claim benefits from Merton Council.

As well as having two names, Animashaun had two national insurance numbers, and it was eventually through her dual identity that the authorities caught up with her. An investigation by the councils and police in July 2011 found links to prove that Animashaun and Williams were, in fact, one and the same person.

These included a deed poll document showing a name change from Animashaun Abiodun Ganiat to Mary Williams, several documents addressed to Mary Williams at the address in West Kensington, a marriage certificate, birth certificates of the couple's children, and a pay slip from Faith's Riverside Café in Putney in the name of Mary Williams but with a national insurance number belonging to Amimashaun.

Cllr Greg Smith, deputy leader of H&F Council and cabinet member for residents' services, said: "These people lived a lie so that they could swindle tens of thousands of pounds out of hard-pressed taxpayers. This deception was calculated and conniving but the sentencing shows that no matter how complicated crooks try to make it for our investigators, we will always find them and they will be made to pay." Animashaun and Solate were found guilty of a total of 16 fraud offences related to making false claims to obtain benefits after an eight day trial in Kingston Crown Court on November 22.

## **Rhona BUCHANAN**

### ***Benefit trickster sentenced***

Wednesday February 6, 2013

A benefit cheat who stole more than £15,000 has been sentenced.

Rhona Buchanan, of Darlan Road, Fulham, falsely received £9,414 in housing benefit, £1,268 in council tax benefit and £4,778 in jobseekers allowance between 2009 and 2011.

The 38-year-old did not tell Hammersmith & Fulham Council or the Department for Work and Pensions that she had a regular income from renting out a car parking space and was receiving financial help from her father.

Buchanan, who in 2009 worked part time for marketing agency, Five33 Ltd, in Kings Road, Fulham pleaded guilty to four counts of making false representations and failing to notify the authorities that her circumstances had changed, with a view to obtaining money dishonestly.

Deputy leader of Hammersmith & Fulham Council, Cllr Greg Smith, said: "This is a lesson to people that if you are not honest and do not declare your finances or changes of circumstances, then you must be prepared to pay the penalty."

She was sentenced to eight weeks in jail, suspended for six months, at West London Magistrate Court in Hammersmith on Tuesday (January 29).





	<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>(AUDIT, PENSIONS AND STANDARDS COMMITTEE)</b></p> <p><b>(27 June 2013)</b></p>
<p><b>Head of Internal Audit Annual Report 2012/13 Year</b></p>	
<p><b>Open Report</b></p>	
<p><b>For Information</b></p>	
<p><b>Key Decision: No</b></p>	
<p><b>Wards Affected: None</b></p>	
<p><b>Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance</b></p>	
<p><b>Report Author: Geoff Drake – Chief Internal Auditor</b></p>	<p><b>Contact Details:</b>          Tel: 020 753 2529          E-mail:  <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a></p>

## 1. EXECUTIVE SUMMARY

1.1. This Head of Internal Annual Assurance report is a summary of all audit work undertaken during the 2012/13 financial year and provides assurances on the overall System of Internal Control, the System of Internal Financial Control, Corporate Governance and Risk Management. In all cases a satisfactory assurance has been provided with the exception of the significant control weaknesses recorded in the report. The report is a key element of the evidence supporting the Annual Governance Statement (AGS).

## 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. See report below

## 5. PROPOSAL AND ISSUES

5.1. See report below

## 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**

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

**LIST OF APPENDICES:**

Appendix A	Assurance Levels 01/04/2012 – 31/03/2013
Appendix B	Internal Audit Performance – 2012/13
Appendix C	Internal Audit work for which an assurance opinion was not provided
Appendix D	Follow up Audits



# London Borough of Hammersmith and Fulham

## Head of Internal Audit Report

### For The Year Ended 31 March 2013

This management letter has been prepared on the basis of the limitations set out on page 23

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

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## 1. Executive Summary

### 1.1. Introduction

- 1.1.1. The purpose of this report is to meet the Head of Internal Audit annual reporting requirements set out in the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 Standards.
- 1.1.2. 2013 sees the introduction of the new United Kingdom Public Sector Internal Audit (PSIA) Standards that will apply across the whole of the public sector from 1 April 2013.
- 1.1.3. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 Standards advises at paragraph 10.4 that the report should:
- a) Include an opinion on the overall adequacy and effectiveness of the organisation's internal control environment;
  - b) Disclose any qualifications to that opinion, together with the reasons for the qualification;
  - c) Present a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
  - d) Draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the statement on internal control;
  - e) Compare the work actually undertaken with the work that was planned and summarise the performance of the Internal Audit function against its performance measures and criteria; and
  - f) Comment on compliance with these standards and communicate the results of the Internal Audit quality assurance programme.
- 1.1.4. The Code of Practice also states at Paragraph 10.4.1 that:
- 1.1.5. "The Head of Internal Audit should provide a written report to those charged with governance timed to support the Statement on Internal Control."
- 1.1.6. Therefore in setting out how it meets the reporting requirements, this report also outlines how the Internal Audit function has supported the Authority in meeting the requirements of Regulation 4 of the Accounts and Audit Regulations 2003 and amending regulations. These state that:
- "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

## **Head of Internal Audit Opinion on the Effectiveness of Internal Control 2012/13**

1.1.7. This opinion statement is provided for the use of the London Borough of Hammersmith & Fulham and is used to support of its Annual Governance Statement.

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

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

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

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

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

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

1.4.1. The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 Standards states that the internal control environment comprises three key areas, internal control, governance and risk management processes. Our opinion on the effectiveness of the internal control environment is based on an assessment of each of these key areas.

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

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

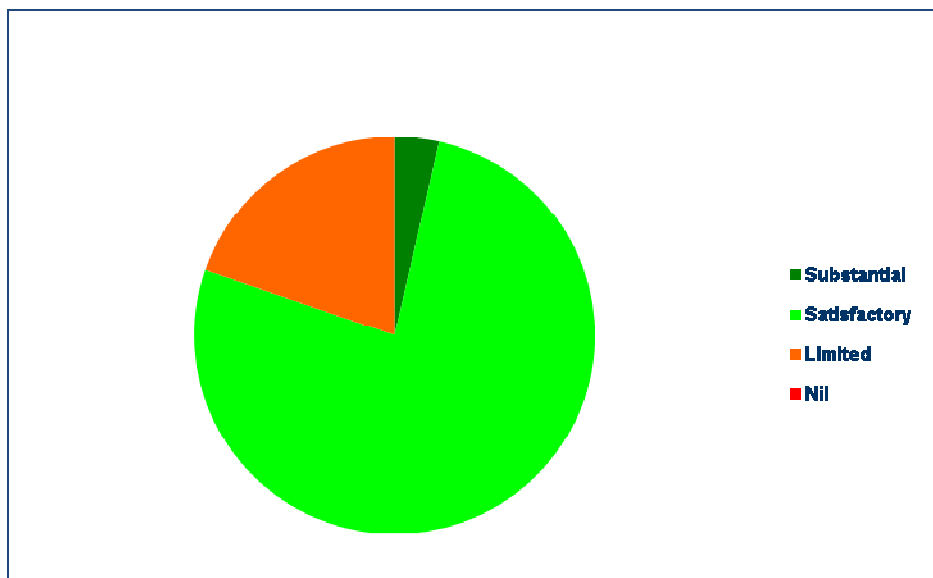
## 1.6. Head of Internal Audit Annual Opinion Statement

- 1.6.1. Our opinion is derived from work carried out by Internal Audit during the year as part of the agreed internal audit plan for 2012/13, including our assessment of the London Borough of Hammersmith & Fulham's corporate governance and risk management arrangements.
- 1.6.2. The internal audit plan for 2012/13 was developed to primarily provide management with independent assurance on the adequacy and effectiveness of the systems of internal control.

## 1.7. Basis of Assurance

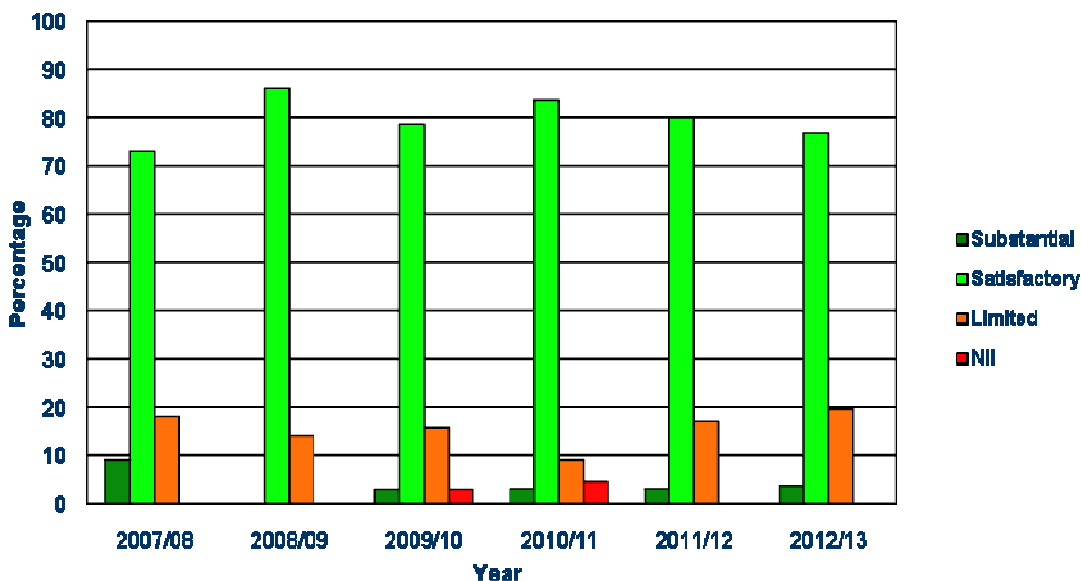
- 1.7.1. We have conducted our audits both in accordance with the mandatory standards and good practice contained within the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006 and additionally from our own internal quality assurance systems. We are also working towards full compliance with the CIPFA PSIA Standards.
- 1.7.2. Our opinion is limited to the work carried out by Internal Audit based upon the internal audit plan. Where possible we have considered the work of other assurance providers, including such as External Audit and the Internal Audit services of Royal Borough of Kensington and Chelsea and Westminster City Council as part of the tri borough arrangement.
- 1.7.3. The audit work that was completed for the year to 31 March 2013 is listed in Appendices A, C and D. Appendix A lists all the audits where assurance opinions are provided.
- 1.7.4. The pie chart below shows the levels of audit assurance achieved for the 2012/13 year. 79% of the systems audited achieved an assurance level of Satisfactory or higher, of which two audits received Substantial assurance (Cost Reduction Contract Management and Total Facilities Management). 21% received a limited assurance, no Nil assurance reports were issued in 2012/13. . Four of the limited assurance reports were for schools, a further 4 were audits undertaken at the request of management who had already identified weaknesses.

### Assurance Levels for the year to 31 March 2013



1.7.5. The bar chart below shows the levels of assurance provided for all systems audited since the 2007/08 financial year. The distribution of assurance opinions shows a slight increase in Limited assurance reports over the last three years; however, over a longer period the number of Nil and Limited assurance reports has remained broadly stable. Given the significant changes taking place across the Council, which would usually be expected to increase levels of control weakness, and that some of the limited assurance audits were at management request for known areas of weakness this is considered a positive outcome.

**Assurance Levels of Reports from 2007/08 to 2012/13**

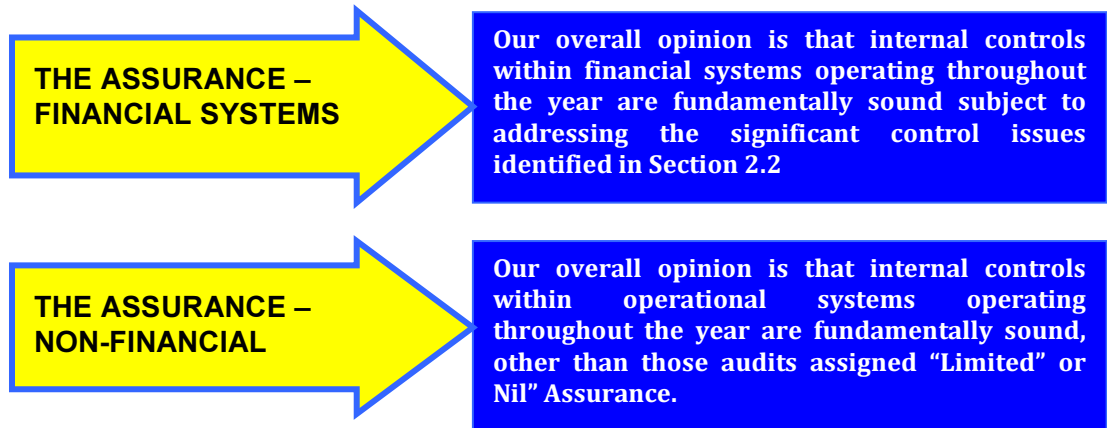


1.7.6. Recommendations to take corrective action were agreed with management and we will continue to undertake follow up work in 2013/14 to confirm that they have been implemented. The table below shows the percentage of recommendations past their implementation date reported as implemented. 100% of all recommendations made prior to and within 2009/10 have been implemented. The volume of recommendations that have been implemented over the period help demonstrate the value of Internal Audit as an agent for change and improvement. Recommendations that have not been implemented that have passed their implementation deadline will continue to be reported to Departmental Management Teams and the Audit, Pensions and Standards Committee.

Financial year	Recommendations Raised	Recommendations Implemented	% Implemented as at 31 March 2012
2012/13	324	321	99%
2011/12	327	322	98.5%
2010/11	274	271	98.9%

## 1.8. 2011/2012 Year Opinion

1.8.1. From the Internal Audit work undertaken in 2012/13, it is our opinion that we can provide reasonable assurance that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham for the year ended 31 March 2013 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report. The assurance can be further broken down between financial and non-financial systems, as follows:



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

- a) The whole programme of internal audit work undertaken by Deloitte between 1 April 2012 and 31 March 2013. This included a review of the Council’s Corporate Governance and Risk Management arrangements;
- b) Internal Audit work undertaken by Royal Borough of Kensington and Chelsea and Westminster City Council on LBHF functions.
- c) Year-end review of Internal Audit against CIPFA’s Public Sector Internal Audit Standards as part of the Annual Governance Statement (AGS) process in March 2013 provided a positive result;
- d) The outcome of audit work for which no assurance level was provided. A summary of work undertaken and key findings can be found in Appendix C; and
- e) Follow up of audits undertaken in the previous years. A summary of the outcome of these follow up visits can be found in Appendix D.

## 1.9. The System of Internal Financial Control

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

- Codes of practice and Financial Regulations;
- Standing Orders, Standing Financial Instructions and Schemes of Delegation;
- Comprehensive budgeting systems;

- Regular reviews of periodic and annual financial reports which indicate financial performance against the forecast;
  - Setting targets to measure financial and other performance;
  - Clearly defined capital expenditure guidelines; and
  - A formal programme and Project management discipline.
- 1.9.2. Our review of the effectiveness of systems of internal financial control is informed by:
- The work of internal audit as described in Appendices A, C and D; and
  - The external auditors in their management letter and other reports.
- 1.9.3. From the above, we are satisfied that the Council has in place a sound system of internal financial controls, with the exception of those significant control weaknesses identified within this report. Based on the management responses provided to our recommendations, we are also satisfied that mechanisms have been put in place which would identify and address any material areas of weakness.

## **1.10. Corporate Governance**

1.10.1. In my opinion the corporate governance framework complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE and updated in 2013. This opinion is based on the work of Internal Audit as described in Appendix A, which provided a 'substantial' level of assurance as to the Corporate Governance systems in place.

## **1.11. Risk Management**

1.11.1. One risk management audit was completed as part of the 2012/13 audit plan. Namely, a gap analysis against sections of the BSI Standard for Risk Management (BS31100). This gap analysis is intended to form part of a four year rolling programme under which compliance with the BSI Standard is assessed.

1.11.2. No assurance opinion was provided for this work. A number of gaps against the standard were identified including the following:

- Although each borough has its own risk management arrangements, there is no agreed Bi-Borough risk management framework in place and the Tri-Borough framework has been discontinued;
- Risk management is not effectively integrated in the service planning framework because there is no corporate led business planning process;
- Risk management guidance does not include reference to initiating and terminating instances of the risk management process; and
- Reassessing risks with respect to changed service delivery models (such as those resulting from outsourcing and automating more processes) may not always be undertaken promptly.

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

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



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

**CHIEF INTERNAL AUDITOR**

**May 2013**

## 2. Detailed Report

### 2.1. Introduction

2.1.1. This section outlines the following:

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

### 2.2. Significant Control Weaknesses

2.2.1. Internal Audit is required to form an opinion on the quality of the internal control environment, which includes consideration of any significant risk or governance issues and control failures which arise. During the financial year 2012/13, the following significant issues were identified:

- A Limited Assurance opinion was provided for our audit of National Non Domestic Rates (NNDR). It should be noted that management have taken action to address control weaknesses since this audit report was issued;
- Four schools received Limited Assurance opinions (Greenside, Cambridge, Fulham Primary and Kenmont), which is a deterioration since the previous year where all schools received a Satisfactory Assurance opinion;
- Weaknesses were identified in the governance arrangements and system of control over the Housing Capital Programme;
- Weaknesses were identified in the project management arrangements for the Edward Woods Regeneration Project;
- A number of areas of non-compliance were identified with regards to health and safety and the management of health and safety risk;
- Weaknesses were identified in the newly formed tri-borough fostering service with staff having to use multiple systems to provide the shared service function and CRB disclosures not being up to date.

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

- **Business Continuity - Supply Chain Resilience.** Following an increase in the number of outsourced services and the continuing broad economic uncertainty, it has been identified that the council is exposed to an increased supply chain risk. Following a recent collapse of a significant sub-contractor an internal audit of Supply Chain Resilience has been approved to establish the effectiveness of the system of internal control. Whilst the council remains resilient to its main contractors it remains at risk of service interruption in responding to the failure

of a critical subcontractor and business continuity plans do not always allow for this risk. The BiBorough Procurement Strategy Board are reviewing the systems and processes associated with resilience of the supply chain. Proposals to improve controls, that are proportionate to the risk and support the resilience of the council, will be made.

- **Contract Management.** Chief Officers are responsible for all contracts tendered and let by their Department. They are accountable to the Cabinet for the performance in relation to contract letting and management, which is to ensure compliance with English and EU legislation and Council Policy to ensure value for money in all procurement matters. The council is required under its contract standing orders to record its contracts through a register as a basis for the planning, preparation and oversight of contracts. Furthermore it is required to keep proper records of all contracts awarded (using the London Councils Contracts Database where these have a total value of £50,000 and over). It is apparent that the register is incomplete. A review of contract management is being undertaken by Internal Audit. Any evidence of non-compliance with contract standing orders and Financial Regulations may result in recommendations to improve the system of internal control.
- **Health and Safety.** There has been substantial progress in delivering a reasonable Health & Safety environment throughout 2012/13 following a prosecution by the Health and Safety Executive. This has included enhanced training, support, resource and guidance. A map of Health and Safety risks has been compiled and is reviewed quarterly. Safety Committees exist for TriBorough departments. There is some evidence that health & safety contractors property risk assessment plans are not being effectively monitored resulting in breaches of statutory Health & Safety legislation. One notifiable incident has been made to the Health and Safety Executive in this regard. Progress already made includes an appointed person in post for the management of Asbestos, to improve the controls, which will be monitored by Hammersmith and Fulham Business Board, Action Plans have been modified to improve the system of internal control in this area.

## 2.3. Key Issues

2.3.1. There are a range of key issues that are likely to be of significance for the 2013/14 year and beyond that Internal Audit need to be aware of. These include:

- The impact of the current economic climate on the Council's finances through reduced levels of income with councils facing continued reductions in the amount of money they receive from Government. This is coupled with other factors such as likely increases in demand for services and the performance levels and financial stability of organisations the Council works with;
- The transformation programme and projects continue to be undertaken to deliver MTFS savings. This brings challenges in implementing a series of interconnected transformation projects successfully without impacting on service delivery. We would expect Internal Audit involvement in transformation projects and new initiatives at an early stage, both to provide assurance and provide support for new systems being 'right first time';

- Continued cross borough working with Westminster Council and the Royal Borough of Kensington and Chelsea during this period of change may give rise to additional risks related to governance, delegation of powers, performance management and financial management of shared services;
- In April, responsibility for public health moved from the NHS to local authorities. The three councils will manage a ring fenced budget of £70 million in 2013/14 to prevent disease and promote good health across the three boroughs. Public Health will impact on many Council services and not only Children's Services and Adult Social Care; and
- On 11 February 2013 Hammersmith & Fulham signed up to a managed services contract with BT that will begin a radical redesign of the Council's human resources and finance services and aims to save more than £6million through reduced back office costs over the next eight years. This procurement forms one stream of the wider Pan-London Athena programme. This project will lead to significant changes to systems, process and ways of working across the Council.

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

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

#### **2.5. Other Assurance Bodies**

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

- a) The annual letter from the Authority's external auditors; and
- b) Internal audit work undertaken by Royal Borough of Kensington and Chelsea and Westminster City Council as part of the Tri Borough arrangement.

#### **2.6. Risk Management Process**

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

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

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

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

This Policy has been communicated to key employees and can be accessed on the Authority's intranet. The Council is currently in the process of implementing Bi Borough risk management arrangements.

##### **2.6.3. Risk Registers**

The Authority has departmental and divisional risk registers in place, as well as

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

## **2.7. Audit Plan**

- 2.7.1. The Operational Plan for the 2013/14 year drew on corporate and departmental risk registers and other issues brought to the attention of Internal Audit. We agreed and discussed the audit plan with Executive Directors, Directors and Heads of Service. We also consulted various other sources.
- 2.7.2. Our operational planning is designed to provide an even flow of work throughout the year, and to allow us to monitor progress. As a result, this information can be used as a key benchmark against which progress on individual assignments can be measured.

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

- 2.8.1. Appendix A sets out the level of assurance achieved on each systems audit and the change in assurance opinion where the audit has been undertaken previously. A number of areas audited this year have shown deterioration in control since the last time they were audited: NNDR, Cambridge School, Greenside School and Kenmont School. Furthermore, one school has remained at Limited Assurance since the last time it was audited (Fulham Primary). There is an ongoing programme of follow up work for all reports receiving a "Limited" or "Nil" audit assurance opinion to ensure that recommendations are implemented.
- 2.8.2. Of the 11 audits that received a limited audit assurance (six final and five draft reports) four fell within the Children's Services Department, four within Housing and Regeneration, two within Corporate Services and one within Transport and Technical Services. In all cases, audit recommendations were agreed with management at the time of the audit along with an action plan to address the identified weaknesses. Follow up audits will be undertaken in each case to review the adequacy and effectiveness of the corrective action taken.
- 2.8.3. Seven follow up visits were undertaken in 2012/13 to determine if recommendations raised within the 2010/11 audit visits have been implemented. A summary of our findings can be found in Appendix D. For the three recommendations found to be partly implemented in the Cedar Application follow up, all three have now been confirmed as implemented.
- 2.8.4. We also undertook follow-ups on priority 1 recommendations raised in reports given 'Substantial' assurance and Management Letters where no assurance level was provided. Of the seven priority 1 recommendations followed up, six were assessed as fully implemented and one as not implemented. The recommendations and results of our follow up work can be seen in appendix D.
- 2.8.5. In total, 44 recommendations have been followed up, of which 40 were either fully implemented or no longer relevant, representing 91% of all those tested. If partially implemented recommendations are added this totals 98% of all those tested. This is a reasonable result and an improvement on previous years, which provides confidence that recommendations generally are being effectively implemented. The follow up regime will continue so that it can continue to provide this confidence going forward.

## **2.9. Internal Audit Performance**

2.9.1. Appendix B sets out pre-agreed performance criteria for the Internal Audit service. The table shows the actual performance achieved against targets. Overall performance of Internal Audit is broadly in line with 2011/12, with all targets being achieved or exceeded with one exception. Considering the impact of Tri-Borough working on delivery in 2012/13 this is a good achievement. Focus will be given to maintaining or improving these performance standards in 2013/14.

2.9.2. The target of delivering 95% of the audit plan by 31 March 2012 was exceeded by one percentage point and this is the fourth year in a row in which this target has been achieved. It should be noted that 148 audit days were deferred into the 2013/14 audit plan compared to 88 in the previous year. Days carried forward mainly relate to IT audits (60 days) and work on duplicate payments and continuous assurance (46 days) that were delayed due to project delays or reasonable management requests to defer.

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

2.10.1. Internal Audit has comprehensive quality control and assurance processes in place and we can confirm that we comply with the existing CIPFA standards and are working towards full compliance with the new CIPFA Public Sector Internal Audit Standards. Our assurance is drawn from:

- a) Quality reviews carried out by both the Hammersmith and Fulham Internal Audit section and Deloitte;
- b) Annual review of Internal Audit introduced as part of CIPFA guidance on the Annual Governance Statement. This reports that the Internal Audit service is fully compliant with the CIPFA standards on Internal Audit; and
- c) A review in February against the new enhanced PSIA Standards.

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

2.11.1. The Council's new external auditors were appointed in October 2012 and do not intend to rely on the work on internal audit at this stage. We have been in liaison with External Audit and will continue to offer information and support where requested.

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

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

- With the reduction in size of the contract with Deloitte since 2011, there is a continued need to maximise the assurance provided and seek opportunities to add value. This may involve sharing assurance with partners, placing more reliance on other assurance providers and an increase in the reliance on self-assessment;
- Joint working with Westminster and RBKC has led to increased coordination of the 2013/14 planning process across the three boroughs. This approach aims to increase the level of assurance received by each Council as well as better coordinating audit work across the three boroughs;
- An integrated Bi-Borough Internal Audit function for LBHF and RBKC will be in operation from 1 July 2013 hosted by LB Kensington and Chelsea; and
- As more transformation projects and changes to service delivery are being undertaken, there is likely to be increased requirement for Internal Audit

involvement in transformation projects and new initiatives at an early stage to provide both assurance and support but with the minimum of disruption.

## APPENDIX A - Assurance Levels 01/04/2012 – 31/03/2013

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

In 2012/13 out standard assurance opinions changed from Nil, Limited, Substantial and Full to Nil, Limited, Satisfactory and Substantial in order to be consistent with tri-borough audit colleagues.

		Audit Opinion				
Department	Audit	None	Limited	Satisfactory	Substantial	Issued
<b>FINALISED</b>						
Corporate Services	NNDR		←			11/09/2012
Corporate Services	Financial Accounting System Ledger			↔		12/09/2012
Corporate Services	ICT Programme Management					26/03/2013
Corporate Services	Cash and Bank			↔		26/11/2011
Corporate Services	Lynx Tokens			↔		04/02/2013
Corporate Services	HFBP Invoice Production and Billing			↔		18/03/2013
Corporate Services (IT)	iCasework Application					20/08/2012
Corporate Services (IT)	Cedar Unix Operating System					06/11/2012
Contracts	Recently Tendered Contracts					20/02/2013
Contracts	Cost Reduction Contract Management					07/12/2012
Contracts	Resurfacing and Road Marking Contract Management					29/11/2012
Adult Social Care	Safeguarding Adults					13/03/2013
Adult Social Care	Personal Budgets – Income Recovery					03/04/2013
Adult Social Care	West London Alliance Home Support Contract Management					29/01/2013
Children's Services	Avonmore School			↔		16/10/2012
Children's Services	Brackenbury Primary School			→		16/10/2012
Children's Services	Cambridge School		←			11/12/2012
Children's Services	Greenside School		←			11/12/2012
Children's Services	Lady Margaret School			↔		27/09/2012
Children's Services	New Kings Primary School			↔		16/10/2012



		Audit Opinion				
Department	Audit	None	Limited	Satisfactory	Substantial	Issued
Children's Services	Pope John School			↔		16/10/2012
Children's Services	St Marys RC Primary School			→		16/10/2012
Children's Services	St Stephens CE Primary School			↔		16/10/2012
Children's Services	Wormholt Park Primary School			→		16/10/2012
Environment, Residents & Leisure Services	CCTV					13/12/2012
Housing and Regeneration	S106 Economic Development and Regeneration Expenditure					14/01/2013
Housing and Regeneration	Housing Capital Management Programme					06/03/2013
Housing and Regeneration	Housing Rents - Income Collection					15/03/2013
Housing and Regeneration	Accommodation Services Gas Safety					08/06/2012
Housing and Regeneration	Housing Voids Management Performance Reporting					24/01/2013
Transport & Technical Services	Highways Maintenance Contracts - Footways					26/02/2013
Transport & Technical Services	Total Facilities Management					26/02/2013
Transport & Technical Services	Parking Software Contract Management					22/02/2013
Transport & Technical Services	Parking Enforcement			→		04/04/2013
Transport & Technical Services	CAMSYS					17/10/2013
<b>DRAFT</b>						
Corporate/ Cross Departmental	Corporate Services - Departmental Management of Projects					25/03/2013
Corporate/ Cross Departmental	Children's Services - Departmental Management of Portfolio, Programmes and Projects					04/04/2013
Corporate/ Cross Departmental	Housing and Regeneration - Departmental Management of Projects					13/03/2013
Adult Social care	Quality Assurance					31/01/2013
Adult Social care	TCES Prepaid System					21/03/2013

		Audit Opinion				
Department	Audit	None	Limited	Satisfactory	Substantial	Issued
Adult Social Care	West London Housing Related Support Framework Agreement					22/3/2013
Corporate services	Council Tax			↔		31/01/2013
Corporate services	Partnership and Corporate Governance			↔		22/03/2013
Environment, Residents & Leisure Services	Commercial Waste Management			↔		27/03/2013
Housing and Regeneration	Edward Woods Regeneration Project					07/08/2012
Housing and Regeneration	Regeneration Governance					27/03/2013
Housing and Regeneration	Leaseholder Service Charges					19/03/2013
Transport & Technical Services	EC Harris Common Contract Issues					23/10/2012
Transport & Technical Services	Public Health and Safety Risk Management					18/10/2012
Children's Services	All Saints School			↔		06/03/2013
Children's Services	Bridge Academy			↔		23/10/2012
Children's Services	Fulham Primary School		↔			28/09/2012
Children's Services	Hurlingham and Chelsea School			↔		13/09/2012
Children's Services	Kenmont School					06/03/2013
Children's Services	Woodlane School			↔		01/03/2013
Children's Services	Central Financial Management of Schools					29/10/2012
<b>NOT YET ISSUED</b>						
Corporate/ Cross Departmental	Risk Management – Adult Social Care Departmental Review					-
IT	PCI DSS Compliance					-
IT	Information Management and Security					
IT	Starters Movers Leavers (SML) Post Implementation					
IT	IT Governance					
<b>Total</b>		0	11	43	2	

<b>Total Reports (including those not yet issued)</b>	61
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In addition to the work detailed above, the table below provides a summary of the assurances assigned to each audit undertaken by the RBKC or WCC internal audit teams that relate to LBHF functions.

		Audit Opinion				
Department	Audit	None	Limited	Satisfactory	Substantial	Issued
<b>FINALISED</b>						
Adult Social Care	Client Affairs			→		Oct 2012
Children's Services	Safeguarding Children					Jan 2013
Children's Services	Fostering Service/ Payments to carers					Mar 2013
Transport and Technical Services	Residents Parking Permits					Nov 2012
Transport and Technical Services	Off Street Parking					Nov 2012
<b>DRAFT</b>						
Children's Services	Departmental Governance			TBC		Feb 2013
Corporate Services	Managed Services- Procurement Process Review. (New Review)			TBC		Jan 2013
Transport and Technical Services	Parking Pay and Display		↔			Oct 2012
<b>NOT YET ISSUED</b>						
Corporate Services	Treasury Management					
Corporate Services	Managed Services- Business Case Review.					
<b>Total</b>		0	2	4	0	

## Assurance Levels

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

<b>Substantial Assurance</b>	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.
<b>Satisfactory Assurance</b>	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.
<b>Limited Assurance</b>	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.
<b>No Assurance</b>	Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

## Direction of travel

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

## APPENDIX B - Internal Audit Performance – 2012/13

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

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

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

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

Department	Audit	Issued
<b>Final</b>		
Corporate/ Cross Departmental	Council Bank Details	27/03/2013
Corporate/ Cross Departmental	Risk Management BS31100 Gap Analysis	28/03/2013
Corporate/ Cross Departmental	Extended Contracts – Summary Report	13/11/2013
Corporate Services	NFI Assessment of Controls	08/03/2013
Corporate Services	GLA Grants	18/03/2013
Corporate Services (IT)	Starters Movers Leavers (SML) – Project Board Attendance Summary Report.	28/03/2013
Children’s Services	Schools Financial Value Standard (SFVS)	15/3/2013
Children’s Services	Leasing in Schools – Thematic Report	15/3/2013
Housing and Regeneration	Accommodation Services Follow up	21/05/2012
Housing and Regeneration	Filing at Fulham North Housing Area Office	19/03/2013
Housing and Regeneration	Housing Repairs ITT Financial Controls Risk Control Advice	25/10/2012
Housing and Regeneration	Financial Controls of the Housing ITT	25/10/2012

## APPENDIX D - Follow up Audits

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

Department	Audit	Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
Corporate Services	Application of Quality Act	4	4	-	-	-
Corporate Services	Debtors	10	10	-	-	-
Corporate Services	Creditors	1	1	-	-	-
Corporate Services	Direct Payments	3	3	-	-	-
Corporate Services	Personal Service Companies	7	7	-	-	-
Corporate Services (IT)	Cedar Application	8	5	3	-	-
Environment Leisure and Resident's Services (IT)	Spydus Library Management System	4	1	-	-	3
Total		37	31	3	-	3
%		100%	84%	8%	0%	8%

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


Priority 1 Recommendations	Implemented	Partly Implemented	Not implemented	No longer applicable
7	6	-	1	-
%	86%	-	14%	-

A follow up visit was also undertaken by the WCC Internal Audit on their audit of Fairer Contributions for Non-Residential Social Care Services which is now a tri borough service. Of the nine recommendations raised, two were implemented, six were partially implemented, one was not implemented and one was no longer applicable. All fundamental (priority 1) recommendations had been implemented.



<p><b>Statement of Responsibility</b></p>	<p>We take responsibility for this report which is prepared on the basis of the limitations set out below.</p> <p>The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system. The assurance level awarded in our internal audit report is not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.</p> <p><b>Deloitte &amp; Touche Public Sector Internal Audit Limited</b>  <b>London</b>  <b>May 2013</b></p> <p>In this document references to Deloitte are references to Deloitte &amp; Touche Public Sector Internal Audit Limited.</p> <p>Registered office: Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom. Registered in England and Wales No 4585162.</p> <p>Deloitte &amp; Touche Public Sector Internal Audit Limited is a subsidiary of Deloitte LLP, the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see <a href="http://www.deloitte.co.uk/about">www.deloitte.co.uk/about</a> for a detailed description of the legal structure of DTTL and its member firms.</p> <p>Member of Deloitte Touche Tohmatsu Limited</p>
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# Agenda Item 12

	<b>London Borough of Hammersmith &amp; Fulham</b>  <b>AUDIT PENSIONS AND STANDARDS COMMITTEE</b>  <b>(27th June 2013)</b>
<b>TITLE OF REPORT</b> Combined Risk Management Highlight report	
<b>Report of the Executive Director of Finance and Corporate Governance</b>	
<b>Open Report</b>	
<b>For Review &amp; Comment</b>	
<b>Key Decision:No</b>	
<b>Wards Affected: None</b>	
<b>Accountable Executive Director:</b> Jane West, Executive Director of Finance and Corporate Governance	
<b>Report Author:</b> Michael Sloniowski, BiBorough Risk Manager	<b>Contact Details:</b> 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 (**Appendix 1**)

## 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 was included as a service, along with Internal Audit and Counter Fraud, in the Corporate Services Programme. A Strategy to manage TriBorough risks has been developed collaboratively with Westminster City Council and the Royal Borough of Kensington and Chelsea. This is presented in a separate report to the Committee for their consideration. This brings together TriBorough Strategic Risk Management through a Joint Strategy Statement and Policy.

5.1.2. Following a period of consultation with the Royal Borough of Kensington and Chelsea the current H&F Risk Manager has been appointed as Bi-borough Risk Manager. The reporting line of the BiBorough Risk Manager will be to the recently appointed BiBorough Director of Audit. The cost of the BiBorough Risk Manager 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 have 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

#### **Tri-borough Facilities Management (TFM) project**

- 5.3.1. The Tri-borough Facilities Management (TFM) project was approved by Hammersmith & Fulham and Westminster cabinets on Monday 13 May. This follows approval from the Royal Borough of Kensington and Chelsea cabinet on 2 May.
- 5.3.2. Amey, one of the UK's leading public services providers, is the preferred supplier to manage the facilities management services on behalf of the three Tri-borough councils.
- 5.3.3. The TFM contract will run for ten years (with an option to extend for a further three years) and includes building security, maintenance and repairs as well as catering, landscaping, cleaning and reception services.
- 5.3.4. Transfer of Undertakings and Protection of Employment (TUPE) regulations will apply for facilities management staff across the three councils. Amey is expected to meet with staff between June and September, with TFM due to go live from October this year.
- 5.3.5. No services will be closed as a result of TFM. The greatest changes will be behind the scenes and these implementation risks will need to be carefully managed.
- 5.3.6. To ensure that Amey perform well and manage risk effectively a small Tri-borough client side team will be set up to manage the TFM contract. An appointment has been made for the Head of the Client Side Team, subject to references. The Client Side Team will be made up of roughly 22 staff and will be hosted by the Royal Borough Kensington and Chelsea. The team will be led by a new head of Tri-borough Facilities Management, reporting into Michael Clark, Lead Director TFM.

#### **TriBorough Managed Services**

- 5.3.7. Tri-Borough Managed Services (sometimes known as Programme Athena) is the programme of work to develop a fully outsourced managed services solution for a number of corporate services. This includes Finance & Procurement, HR, Property and Asset Data Management, Business Intelligence and E-Sourcing.

- 5.3.8. In January 2013 the Tri-borough Managed Services Programme reached a significant milestone by awarding a framework agreement to British Telecom (BT) to provide Finance and HR services. This decision follows an intensive joint procurement phase with a selected panel from across the three Tri-borough councils.
- 5.3.9. The Managed Services Programme Management Office has produced a (draft) top level plan, known as the Blueprint, and a (draft) Microsoft project plan. The Finance and HR Project Managers (Michael Blythin and Francis Solomon-Knox) have been asked to provide detailed tasks that will support it. This will be followed by a workshop that will start to identify the various dependencies. The June meeting of the Managed Services Board will then approve the full baseline plan.

## **ICT Programme**

### **Pace of Change**

- 5.3.10. As organisational changes are implemented, there is an expectation that ICT will respond and provide the enablers to the new service offerings but this is not always a straightforward exercise, as the requirements themselves can change quickly over time leading to the need to redesign ICT solutions.

### **Interdependencies**

- 5.3.11. A further area that is impacting on the complexity of delivering the new tri-borough service enablers, is the growing number of interdependencies between major change programmes such as Managed Services, Total FM, CLCH community services integration and the tri-borough ICT strategy implementation. These interdependencies take the form of multiple demands on the same skilled resource, the need to align ICT solutions and approaches to delivery, communication between the programmes and to business stakeholders, including third parties and the cumulative impact of multiple programmes impacting on the same service areas within similar timeframes. This can give rise to serious complexity which needs to be navigated. Awareness, effective governance, active resource management and escalation is required to ensure all such interdependencies are captured and managed by each programme.

### **Accountability and service engagement**

- 5.3.12. ICT Programme governance has been established with clear accountability and senior leadership. The programme has

changed the Chief Information Officer accountability, with Howell Huws now in place as the lead CIO for ASC, and Jackie Hudson providing oversight as the tri-borough lead advisor for ICT. Customer feedback demanding a single point of contact for strategic development is now being met. The ICT response is to now establish a strategic relationship manager for ASC on a secondment basis. ASC will have a say in that appointment.

## **Public Health Integration**

5.3.13. From Monday 1 April the responsibility for Public Health in local areas transferred from Primary Care Trusts (PCTs) to local authorities. The Tri-borough Public Health Service is hosted at Westminster City Hall with public health staff transferred there this March. Risks, includes those associated with promoting healthy living and enabling people in our local area to live healthy lives, are required to be considered by every council team when starting a new project, revising a policy or commissioning a service;

- How does this work improve the health and wellbeing of our residents/visitors?
- How does this work reduce health inequalities within the local area?

5.3.14. Health and Wellbeing Boards are also being established. These boards are new local bodies that bring people together and commission services jointly in a way which reflects the wider factors of health such as housing, air pollution and employment. Each borough will have its own Health and Wellbeing Strategy which sets out how services will be commissioned and the priorities which are central to improving health in the local area. These strategies will focus on tackling the tough issues that require partners to work together and will complement the role that Council services will play in putting health at the heart of everything undertaken.

## **Global Financial uncertainty and economic instability**

5.3.15. A high level of financial uncertainty and economic instability, nationally and attached to the Eurozone remains a key risk for the Council.

5.3.16. There is more positive news from the previous quarter Strategic risk update and the outlook on economic growth in the UK this year that is now expected to be greater than 1%, up from the Bank's previous estimate of 0.9%.

- 5.3.17. Sir Mervyn King added: "This hasn't been a typical recession and it won't be a typical recovery. Nevertheless, a recovery is in sight." Inflation has been above the 2% target since December 2009, and currently stands at 2.8%. The stubbornness of inflation to remain above target is one of the reasons why the Bank has not expanded its bond purchasing scheme, or quantitative easing. Doing so could push inflation higher. But while the Bank said the outlook was slightly rosier than it was three months ago, the underlining picture remained subdued. "The economy is likely to see a modest and sustained recovery over the next three years," the Bank said, though it added that the recovery would "remain weak by historical standards".
- 5.3.18. Weak demand from the eurozone also prompted the Bank to note that the "main risks to the recovery continue to emanate from abroad".
- 5.3.19. But as austerity replaces indulgence across Europe, an emerging risk and realisation of mis-selling scandals has become apparent. The most recent scandal came out in April, when it was announced that the UK energy supplier SSE was being fined £10.5m (€12.3m) for "failing to prevent sharp-selling practices by its selling agents". The regulator for the energy industry, Ofgem, said that its findings "show SSE failed its customers, mis-sold to them and undermined trust in the energy supply industry".
- 5.3.20. More recently the allegations of collusion in the Oil industry and including BP and Shell face claims they have been fixing prices for more than a decade. It follows a raid on the offices of BP, Royal Dutch Shell, and Norway's Statoil by European anti-trust regulators.

#### 5.4. H&F - OPERATIONAL PERSPECTIVE

##### **Key Risk Indicators**

- 5.4.1. 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

- 5.4.2. The Corporate Safety Unit and BiBorough Risk Manager have jointly developed a formal risk register to manage Health and Safety risk. The document is now being reviewed periodically by the Corporate Safety Unit with input from the BiBorough Risk Manager. This now forms an independent and new assurance on Health & Safety for the council and is the model is also being adopted as good practice by the Royal Borough of Kensington and Chelsea.

## Information Management

- 5.4.3. 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.
- 5.4.4. The Information Management incident experience is attached as **Appendix 2**.

## Procurement

- 5.4.5. 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 Division, Internal Audit, Town Hall, Hammersmith
4.	TriBorough Programme report updates	Michael Sloniowski 2587	TriBnet
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  
Information Management incident experience*





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	<b>Managing budgets</b> Sub-risks <ul style="list-style-type: none"> <li>• <b>NNDR</b> localisation of Business Rates – taking on financial risk of non-collection of NNDR plus the associated loss of government grant</li> <li>• Underlying performance of the economy is still poor.</li> <li>• Impact of a sluggish national <b>economic recovery</b> and cascade effect on social budgets * link to revenue forecast</li> <li>• <b>Pressure on demand led services</b> may occur mid year resulting in unanticipated additional costs</li> <li>• <b>HMRC VAT claims</b> regarding partnering activities and the partial exemption benefit</li> <li>• <b>Grant application</b> is incorrectly calculated</li> <li>• <b>Unplanned growth</b></li> <li>• Failure to achieve <b>VFM</b></li> </ul>	<ul style="list-style-type: none"> <li>• Requirement to deliver planned savings</li> <li>• Pressure on the authority to manage overspends</li> <li>• Departments have to manage cost pressures</li> <li>• Loss of financial benefit to the council</li> </ul>	<ul style="list-style-type: none"> <li>• High risk &amp; volatile budget areas identified by H &amp; F Finance</li> <li>• E-Learning package for Finance Managers now live</li> <li>• Collaborative Planning system with supported training for budget holders</li> <li>• Medium Term Financial Strategy and Business Planning Processes</li> <li>• MTFS Officer &amp; Member Challenge</li> <li>• Leader's monthly monitoring reports</li> <li>• Financial Strategy Board (FSB) periodically evaluates the effectiveness of the financial management arrangements</li> </ul>	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 Regeneration Expenditure 2012 2013	3	4	12	Medium 	Jane West lead – All Executive Directors	Review May 2013

			<ul style="list-style-type: none"> <li>• <b>Accruals &amp; reconciliations</b></li> <li>• <b>Planned savings</b> not implemented</li> <li>• <b>Creditworthiness</b> of some contractors may be downgraded as a result of the economic downturn</li> <li>• <b>Contractors may go bust and cost may be incurred putting in new arrangements for service delivery</b></li> <li>• <b>Insufficient budgetary provision</b> and/or budgetary under/overspend *</li> <li>• <b>Incomplete/inaccurate accounting records</b></li> <li>• <b>Overestimation</b> of potential revenue streams</li> </ul>	<ul style="list-style-type: none"> <li>• additional spend on dealing with contract failure</li> </ul>	<ul style="list-style-type: none"> <li>• Partnership activity now includes a VAT trace and has been raised at FSB</li> <li>• Grant Claims &amp; returns record is tracked at FSB</li> <li>• Monthly corporate revenue &amp; capital monitoring to cabinet</li> <li>• Reports to the Leader identify where spend levels exceed a tolerable level during the year</li> <li>• Credit check of contractors is being undertaken through the BiBorough Procurement Strategy Board (RBKC &amp; H&amp;F)</li> <li>• Disposal of Assets</li> <li>• Sponsorship and advertising opportunities risk &amp; reward exercise</li> </ul>	<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"> <li>• The Public or section of the public may not receive the service that they need or to the quality they expect</li> <li>• Reputation of the service may be affected</li> <li>• Services are delivered in an unplanned way</li> <li>• Services start to do their own thing - Maverick decisions</li> </ul>	<ul style="list-style-type: none"> <li>• TriBorough Business Plans have been issued for 2013</li> <li>• Implementation of Lean Thinking principles putting the voice of the customer at the heart of service design</li> <li>• Performance monitoring and feedback through local media</li> <li>• Customer experience and</li> </ul>	<p>Cabinet Members</p> <p>Scrutiny Cttee review performance</p> <p>Ofsted</p> <p>Care Quality Commission</p>	3	3	9	Low	All Executive Directors	Review May 2013




				<ul style="list-style-type: none"> <li>Inconsistencies in service delivery start to emerge</li> <li>Lack of transparency</li> <li>Duplication of effort</li> <li>Communication of objectives and values is lost</li> <li>Target and Objective setting is diminished reducing the effectiveness of the performance management regime for officers</li> </ul>	satisfaction surveys								
3. Page 114	Strategic	Sovereign	<b>Market Testing</b> ( refer to Bi Borough Procurement Board RBKC & H&F )  <b>Sub-risks</b> <ul style="list-style-type: none"> <li>Tri Borough or Bi Borough <b>procurement risk appetite</b> may vary</li> <li><b>Procurement procedures</b> may become unclear across Tri or Bi Borough services</li> </ul>	<ul style="list-style-type: none"> <li>Increase in threat of legal challenge on contract awards</li> <li>Officers time away from other projects</li> <li>Timescale of project is tight</li> <li>Insufficient numbers of Officers designated to the project</li> <li>Benefits are not realised</li> <li>Data Quality ( Accuracy, timeliness of information ) results in variation to original contract spec.</li> <li>Uncertainty about the most appropriate procurement route, lengthen process due to reporting to 3 Member bodies</li> </ul>	<ul style="list-style-type: none"> <li>Transforming Procurement work with Agilisys procurement processes to make them slicker and more efficient</li> <li>Transforming Procurement Programme with Agilisys undertakes to improve the knowledge base and skills throughout H&amp;F</li> <li>Consultation with other boroughs</li> <li>Project managing the process</li> <li>Separation or joining of projects to maximise benefit potential</li> <li>Realistic timetables agreed and reviewed at BiBorough</li> </ul>	BiBorough Procurement Board (RBKC & H&F)  Transformation Board  HFBB  Audit review conducted for Use of Contractors  Internal Audit Substantial Assurance reports 2011/12 Market Testing H & F News, BTS, Legal Services Full Assurance report 2011/12 Market Testing Out of Hours	4	3	12	Medium 	All Executive Directors	Review  May 2013	


					Procurement Board (RBKC & H&F) <ul style="list-style-type: none"> <li>• Market Testing progress report to HFBB</li> <li>• Programme &amp; Project Management – Risk Logs being maintained, periodic risk reviews</li> <li>• Revenue estimated from the contract to be included as a risk in the MTFS</li> </ul>	Service							
4.	Change	TriBorough	<b>Managing Programmes, Portfolios and Projects</b>  <b>Sub-risks</b> <ul style="list-style-type: none"> <li>• <b>Projects do not consider enough time</b> to mobilise in the event services are awarded to the private sector</li> <li>• Project implementation is delayed due to <b>protracted discussions regarding pensions transfers</b></li> <li>• <b>The risk of challenge to contract awards may increase</b> during the harsher economic climate</li> <li>• Large scale high risk high return <b>projects are not led by a qualified or experienced project manager.</b></li> </ul>	<ul style="list-style-type: none"> <li>• Customers needs and expectations are not fully met when projects are delivered</li> <li>• Benefits of investment in creating toolkit not realised</li> <li>• Threat of overspend on projects</li> <li>• Benefits are not fully realised</li> <li>• Delays in mobilisation of services through revised contracts</li> </ul>	<ul style="list-style-type: none"> <li>• New Innovation and Managing Change Team brings together programme management skills from H&amp;F and RBKC.</li> <li>• Programme and Project management is supported by a recommended decision-making and governance process.</li> <li>• Projects and programmes are managed through the context of the Transformational portfolios.</li> <li>• A centralised project register is also contributing this to goal by giving visibility of projects</li> </ul>	The Royal Borough of Kensington & Chelsea Internal Audit  Departmental Project Management arrangements Audit 2012 2013  Bi Borough Procurement Board  Transformation Board  Internal Audit review of specific contracts HFBB,	3	3	9	Low 	Jane West lead – All Executive Directors  Martin Nottage (Tri Borough Innovation and Change Management Division)	Review  May 2013	

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




			from the NHS to local government may not go well	pressures from new responsibilities	service should be hosted at Westminster as agreed by the Leaders of the three councils								
6	Operational	Sovereign	<b>Business Resilience</b>  <b>Sub-risks IT resilience</b> <ul style="list-style-type: none"> <li>• <b>Systems not joined up and connected in the event of a H &amp; F or Tri-Bi Borough event</b></li> <li>• <b>Strategic Information technology framework not implemented effectively</b></li> <li>• <b>Lack of top tier response plans</b></li> <li>• <b>ISP version</b> update to the infrastructure of the internet will have to move over to a new system, IPv6 previous versions not being compatible</li> <li>• <b>Electronic information storage capacity</b></li> <li>• <b>Mobile Communications technology provider service failure</b></li> <li>• <b>Openscape as a form of remote communications and working</b></li> </ul>	<b>If an event occurs</b> <ul style="list-style-type: none"> <li>• Customers face delays in service provision</li> <li>• Non compliance with statutory duties - indirectly</li> <li>• Threat to life - indirectly</li> <li>• Time to recover power and IT Services could be between 6 &amp; 8 weeks</li> <li>• Loss of information</li> <li>• Loss of productivity</li> <li>• Increased cost of resurrecting services ( only partially insurable)</li> <li>• Wasted resources &amp; staff duplication in recovery phase</li> <li>• Cost of additional data storage capacity</li> </ul>	<ul style="list-style-type: none"> <li>• Corporate Incident Management Procedures incorporate Business Continuity</li> <li>• Training has been delivered to local service plan leaders</li> <li>• A corporate service resilience group has been formed and meet periodically</li> <li>• Directors of Resources have been appointed as Departmental contact leads</li> <li>• Local Service Plans have been compiled, reviewed and refreshed and quality checked by Emergency Services</li> <li>• H &amp; F Bridge Partnership have submitted a Local Service Recovery, a major incident process has been established by HFBB as part of Data recovery is insured under the councils corporate insurance package (</li> </ul>	HFBB  The Royal Borough of Kensington & Chelsea Internal Audit  H&F Audit Pensions and Standards Committee  The Royal Borough of Kensington & Chelsea Audit Committee  Service Resilience Group  ELRS DMT  Substantial Assurance report 2011/12 Emergency Planning  H&F Substantial Assurance Business Continuity Audit report 2011 2012	4	3	12	Medium 	Lyn Carpenter ( Corporate Business Continuity ) ELRS Bi Borough with the Royal Borough of Kensington and Chelsea  Jane West ( Insurance & H F Bridge Partnership contract monitoring )  Jackie Hudson Tri Borough Information and Communications Technology Lead Advisor	Review May 2013	

					<ul style="list-style-type: none"> <li>• but limited )</li> <li>• the Service Desk Manual</li> <li>• A threat assessment has been compiled</li> <li>• Some ITC service has been moved to East London</li> <li>• The Business Continuity (BC) project now involves provision of IT BC for approximately 30 First Order applications as identified by H&amp;F. The data is replicated from the primary data centre at East London to the secondary site at HTH. Additionally, there is local network switch resilience within HTH; resilience for the infrastructure elements such as profiles, home folders and printing; plus annual tests of parts of the BC solution.</li> </ul>	<p>Data storage &amp; back up audit Audit report 2009/10 ( Substantial assurance )</p>						
			<p><b>Contractor Liquidity</b></p>	<ul style="list-style-type: none"> <li>• Delays/ interruption to the service as a replacement is found</li> <li>• Cost and time of re-procuring the service</li> <li>• Protection of contributions to the</li> </ul>	<ul style="list-style-type: none"> <li>• Creditsafe Financial checks</li> <li>• Corporate Finance credit checking</li> <li>• Contractor Business Continuity Planning</li> <li>• Pension fund performance bond</li> </ul>	<p>Bi Borough Procurement Board</p> <p>Audit Pensions and Standards Committee</p> <p>Cabinet Office</p>						

			<b>Terrorist attack/Civil disturbance</b>	<p>H&amp;F Pension fund as more outsourcing is undertaken</p> <ul style="list-style-type: none"> <li>• Service interruption</li> <li>• Property loss or damage</li> <li>• Injury or harm</li> </ul>	<ul style="list-style-type: none"> <li>• Terrorism insurance cover</li> <li>• Tri Borough councils are working together to prevent terrorism offering free interactive workshops to raise awareness of the Prevent Strategy</li> <li>• Prevent aims to stop people from becoming terrorists or supporting terrorism by focusing on supporting and protecting those who might be vulnerable to radicalisation.</li> </ul> <p><b>NOTE</b> Please refer to BCP Risk Assessment for highlighted risks and controls</p>	COBRA								
7.	Operational	Sovereign	<b>Managing statutory duty</b>  <b>Sub-risks</b> <b>Non-compliance with laws and regulations</b>  <b>Breach of duty of care</b>  <b>Breach in standard and delivery of care – caring and care homes</b>	<ul style="list-style-type: none"> <li>• Non compliance may result in prosecution or a Corporate Manslaughter charge</li> <li>• Financial compensation may be claimed</li> <li>• Injury or death to a</li> </ul>	<ul style="list-style-type: none"> <li>• Nigel Pallace is lead Sponsor on HFBB for Health &amp; Safety</li> <li>• Pro-active Health, Safety and Welfare culture across the council</li> <li>• TriBorough - The TotalFM contractor will manage a</li> </ul>	H&F Health & Safety Internal Audit planned in 2012/13  Accommodation Gas Safety Audit 2012/13 Substantial	4	3	12	Medium 	Nigel Pallace  Jane West (Equalities)	Review  May 2013		




			<p><b>assurances</b></p> <p><b>Corporate Parenting</b></p> <p><b>Equalities (public sector equality duty or 'PSED') and Human Rights</b> (a budget challenge could be in whole terms or of a single line)</p>	<p>Directors and Management Teams may not have been apprised of significant controls weaknesses that appear in the service area.</p> <ul style="list-style-type: none"> <li>• Harm to reputation, potential harm or injury to individual</li> <li>• 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.</li> </ul>	<p>communicated</p> <ul style="list-style-type: none"> <li>• Promotion of the Occupational Health Service and Workplace Options Employee Assistance Scheme</li> <li>• Housing and Regeneration have rolled out personal safety training to over 130 staff through the Suzy Lamplugh Trust Training</li> <li>• FSB reviewed and approved a process to harmonise the Management Assurance process at Director and Divisional level with that of RBKC.</li> <li>• All child protection cases have remained allocated to a social worker despite of the high demand.</li> <li>• A detailed action plan has been implemented in response to the increased numbers of children with child protection plans, to safely manage the</li> </ul>	<p>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&amp;F Application of the Equality Act 2010</p> <p>Officer Working Group</p>						
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					<p>demand and reduce activity in line with that of our statistical neighbours.</p> <ul style="list-style-type: none"> <li>• The number of qualified social workers delivering a child protection service has increased by two over the past year.</li> <li>• EIA's or Equality Statement (where applicable) must accompany all Cabinet, Full Council and Key Decision reports, KPI's</li> <li>• EIA's and Equality Statements address Human Rights where applicable</li> <li>• 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.</li> </ul>							
8.	Operational	Sovereign	<p>Successful partnerships &amp; Major Contracts</p> <p><b>Sub-risks</b></p> <ul style="list-style-type: none"> <li>• Partnering activity with other boroughs and the</li> </ul>	<ul style="list-style-type: none"> <li>• Joint objectives are not met</li> </ul>	<ul style="list-style-type: none"> <li>• Governance arrangements are in</li> </ul>	H & F Bridge Partnership	4	3	12	Medium 	Derek Myers	Review May 2013

			<p>NHS may blur the lines of responsibility, accountability, governance or liability in the event of service failure</p> <ul style="list-style-type: none"> <li>Local Housing Company</li> <li>Differing procurement processes Financial Regulations and Contract Standing Orders across TriBorough services</li> </ul>	<ul style="list-style-type: none"> <li>Community expectations are not met</li> <li>A business plan may not be concluded</li> <li>Decisions may be made which contradict or challenge the Contract Standing Orders or Financial Regulations of H&amp;F</li> </ul>	<p>place</p> <ul style="list-style-type: none"> <li>Performance monitoring reports reported to Select Cttee's</li> <li>The Cabinet Member will be closely involved in business plan discussions</li> <li>Financial creditworthiness checks at BiBorough Procurement Board (RBKC &amp; H&amp;F)</li> </ul>	<p>Assurance process</p> <p>Internal Audit Substantial Assurance report 2011/12 Partnership Governance</p> <p>BiBorough Procurement Board (RBKC &amp; H&amp;F)</p> <p>HFBB, Audit Pensions and Standards Committee</p>							
Page 123	Operational	Sovereign	<p><b>Maintaining reputation and service standards</b></p> <p><b>Sub-risks</b></p> <ul style="list-style-type: none"> <li><b>Multiplicity of external forces and initiatives</b></li> <li><b>Breach of Officer or Member code of conduct</b></li> </ul>	<ul style="list-style-type: none"> <li>Threat to the status of the council</li> <li>Failure to deliver plans &amp; savings.</li> <li>Ability to effectively lead and resource the transformation agenda is diminished</li> <li>Service delivery deteriorates</li> <li>Harm to the council's reputation</li> <li>Potential adverse media reporting</li> </ul>	<ul style="list-style-type: none"> <li>The Annual Residents Survey</li> <li>A review of the corporate governance arrangements has been conducted by Internal Audit</li> <li>Annual Complaints review report April 2010 to March 2011 produced to Committee</li> <li>Combined Finance &amp; Service Planning processes</li> <li>New Standards procedures are in place</li> <li>Standards issues</li> </ul>	<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 May 2013	


			<ul style="list-style-type: none"> <li>• <b>Information Management and Governance</b></li> <li>• <b>Inappropriate Data released</b></li> <li>• <b>Poor data quality</b> internally or from third parties, breaches of information protocols, information erroneously sent to third parties.</li> <li>• Auto forwarding of information ( <b>Information control and threat of leakage</b> )</li> <li>• <b>Local information interconnectivity and data storage ( hosting )</b></li> </ul>	<ul style="list-style-type: none"> <li>• Potential fines or action from the Information Commissioner</li> <li>• Quality and integrity of data held in support of Performance Management &amp; Financial systems leads to under or over estimation</li> <li>• Data management 'without boundaries' could be more sensitive to local, national or geographical service interruption, theft, loss or duplication</li> </ul>	<p>now covered under the Audit Pensions and Standards Committee</p> <ul style="list-style-type: none"> <li>• Information governance forms part of the TriBorough ICT Programme</li> <li>• New Information Management Security Protocols published on the Intranet</li> <li>• Regular reporting on Security Incidents by the Information Management Team</li> <li>• Performance statistics are scrutinised by Select Committees, HFBB &amp; DMT's</li> <li>• Corvu Performance Management System is able to pick up anomalies</li> <li>• Data Quality E-Learning module has been released</li> <li>• From Wednesday 1st August 2012, the Council is introducing a new contractor ( industry specialists) for the collection and destruction of confidential waste from all Council offices in the H&amp;F.</li> <li>• Webmail has now been banned across</li> </ul>	<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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					H&F								
10.	Operational	Sovereign (TriBorough) (from April 2013)	<b>Managing fraud ( Internal &amp; External)</b>  <b>Sub-risks</b> <b>Misappropriation of assets</b> <b>Appointee ship/custodian or guardian</b>  <b>Contracting</b> Gifts & Benefits Manipulation of performance data, collusion, billing, non-compliance with Financial and or Contract Standing Orders  <b>Misrepresentation of Personal or Commercial Circumstances</b>  <b>NNDR</b>  <b>Payroll</b>  <b>Cheque</b>  <b>Grant award</b>  <b>Treasury</b>  <b>Housing Tenancy or Benefit Fraud</b>	<ul style="list-style-type: none"> <li>• Loss of reputation</li> <li>• Financial loss</li> <li>• Loss of asset</li> <li>• Loss of revenue</li> <li>• Adverse regulatory /audit report</li> </ul>	<ul style="list-style-type: none"> <li>• New Egress system introduced to protect confidential e-mails going outside of Tri-borough</li> <li>• 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.</li> <li>• Corporate Anti Fraud Service has been established</li> <li>• CAFS team now use a risk assessment to assist in targeting and workload prioritisation</li> <li>• New model being piloted to collate information from fraud cases and disseminate the recommendations through risk &amp; assurance registers</li> <li>• Literature and training has been delivered to all levels of the authority</li> <li>• Information and</li> </ul>	HFBB receive quarterly summary information on anti-fraud activity  Audit Pensions and Standards Committee receive quarterly reports on Fraud	4	3	12	Medium	  <b>TriBorough</b> Nicholas Holgate RBKC Town Clerk and Executive Director of Finance and Business Lead, Internal Audit  <b>H&amp;F</b> Jane West lead – All Executive Directors  <b>WCC</b> Barbara Moorhouse	Review  May 2013	


					<p>guidance has been published on the corporate intranet</p> <ul style="list-style-type: none"> <li>• Level of fraud is being tracked through FSB</li> <li>• Close working relationship is established with the Police</li> <li>• Bribery Act Policy and Risk Register</li> <li>• Money laundering policies recently reviewed and amended.</li> </ul>						
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OPPORTUNITY RISKS ( Where the is in excess of £3Million Benefit to H&F )

Page 126	<b>Change</b>	<b>TriBorough</b>	<p><b>Merging of education services</b> (with Westminster Council and the Royal Borough of Kensington and Chelsea)</p>	<p>Savings due to removal of duplication across the councils</p> <ul style="list-style-type: none"> <li>• IT opportunities such as access and sharing of files and connecting to networks when at other sites.</li> <li>• HR workshops regarding specific topics such as Sick Leave, Pay etc. are currently being planned and more information will be available soon.</li> </ul>	<ul style="list-style-type: none"> <li>• Service Reviews, Looked after Children, Leaving Care</li> <li>• TriBorough Managers Induction</li> <li>• Tri Borough Mandate approved for Childrens Services at Cabinet 05-12-11</li> <li>• Combined Senior Management Team</li> <li>• A single education commissioning function responsible for raising standards</li> <li>• A single commissioning function responsible for arranging services for early years, children, young people, social care, health, disability and</li> </ul>	<p>Cabinet</p> <p>Transformation Board</p> <p>Education &amp; Childrens Services Select Committee</p> <p>External Audit (review 2012)</p> <p>Ofsted</p> <p>The Royal Borough of Kensington &amp; Chelsea Internal Audit</p> <p>TriBorough Childrens Services Portfolio Board</p>	2	4	8	Low	Andrew Christie	Review May 2013
												

					workforce development. <ul style="list-style-type: none"> <li>• Three Borough-based delivery units with responsibility for protecting children, supporting families and delivering early help in the most efficient manner possible.</li> </ul>	TriBorough Headteachers Executive Board  Local Safeguarding Childrens Board  BiBorough Procurement Strategy Board (RBKC & H&F)							
3. Page 127	Change	Sovereign	Regeneration of King Street and Civic Offices  Sub-risks  GLA do not approve the proposals	<ul style="list-style-type: none"> <li>• The Town Hall extension has come to the end of its life and needs to either be demolished or refurbished. An estimated cost of around £18m in temporarily accommodating staff through a relocation to facilitate repairs</li> <li>• New office accommodation at no cost is being provided in exchange for land</li> <li>• A new modern building is also expected to save around £150,000 in energy costs</li> <li>• Jobs will be created in King Street</li> <li>• A new community-</li> </ul>	<ul style="list-style-type: none"> <li>• The Leader of the Council has announced revised proposals regarding the height of buildings in the residential blocks.</li> <li>• King Street Development will be reviewing the scheme over the coming months and a further consultation with residents' and amenity groups will follow later in the year.</li> <li>• Hammersmith &amp; Fulham Council has agreed to work with the GLA on a further independent rigorous assessment on viability</li> <li>• Exhibition of 3 bid schemes 2007</li> <li>• Statement of</li> </ul>	Cabinet  Planning Applications Committee  Mayor of London  Greater London Authority  Port of London Authority  English Heritage	3	4	12	Medium  	Nigel Pallace	Review  May 2013	

				<p>sized supermarket and a range of new restaurants and other retailers, alongside a council 'One Stop Shop', will draw more people down King Street and encourage more investment in the area</p> <ul style="list-style-type: none"> <li>• Successful redevelopment would enable the council to terminate contracts for various costly leased buildings around the borough savings around £2 million a year.</li> </ul>	<p>Community Involvement – Two public consultation exercises</p> <ul style="list-style-type: none"> <li>• Private meetings with residents</li> <li>• Stakeholder Forums</li> <li>• Flyer to 15,000 homes</li> <li>• Pre application meetings with GLA and local amenity groups</li> <li>• 1800 letters sent to individual properties in the wider area.</li> <li>• Consultation with statutory groups; GLA, HAFAD, Port of London Authority, LFEPA, Metropolitan Police, English Heritage &amp; Archaeology, Natural England,CAA, BAA Airports, Thames Water, Environment Agency, Tf</li> <li>• Residents Groups &amp; Landowners; Thomas Pocklington Trust, Tesco, Quakers, Amenity Groups, Brackenbury Residents Assoc. The Georgian Group, HAMRA, the Hammersmith Soc. H &amp; F Historic Buildings Group, Ravenscourt Action Group, Ashcurch</li> </ul>							
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					<p>Residents Assoc. Old Chiswick Protection Soc. Digby Mansions 39-58a Residents Assoc. For further detail please refer to Planning Applications Committee Agenda 30-11-11</p> <p>Submitted by the Planning Applicant;</p> <ul style="list-style-type: none"> <li>• Environmental Statement, Energy Statement, Flood Risk Assessment,</li> <li>• Air Quality Assessment, Environmental Noise Assessment, Lighting Strategy</li> <li>• Phase 1 Habitat Survey &amp; ecological database search</li> <li>• Telecommunications assessment</li> </ul>							
4.	Change	Sovereign	Earls Court regeneration	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Proposed guarantees for</li> </ul>	<ul style="list-style-type: none"> <li>• Earls Court Regeneration Team supported by high quality advisory team comprising Jones Lang LaSalle, SNR Denton and PWC.</li> <li>• All major decision reports reviewed by Tim Kerr QC in relation to Judicial Review challenge risk.</li> <li>• Workshops in</li> </ul>	<p>Project Group chaired by Executive Director</p> <p>HFBB</p> <p>Cabinet</p> <p>Housing, Health And Adult Social Care Select Committee</p> <p>Planning</p>	3	4	12	Medium 	Mel Barrett	Review May 2013

				<p>tenants and leaseholders include;</p> <ul style="list-style-type: none"> <li>- Brand new replacement homes, one move only within the local area.</li> <li>- Tenants remain secure Council tenants and continue to pay Council rents – there is no stock transfer and therefore no requirement for a ballot.</li> <li>- Phased approach allows communities to be moved together.</li> </ul> <p>Comprehensive regeneration offers opportunity to secure 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</p>	<p>August 2012 to cover procurement, risk, finance, housing redevelopment, planning, legal and communications.</p> <ul style="list-style-type: none"> <li>• Comprehensive report submitted to and approved by Cabinet 3rd September 2012.</li> <li>• 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 refundable under any circumstances</li> </ul>	<p>Applications Committee</p> <p>The Royal Borough Major Planning Development Committee</p> <p>The Royal Borough Planning Applications Committee</p>						
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				new schools, leisure and health facilities, new open and play space and a significant increase in job opportunities.									
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Note 1. All key risks have been extracted from( but not limited to) a number of sources for analysis by the 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



**Statistical summary of incidents**

**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	4	3	7
ASC	1	1	2	1	2	3	3	2	5	1	2	3
T&TS	0	2	2	0	1	1	1	2	3	0	1	1
FCS	7	1	8	4	0	4	6	1	7	1	0	1
HRD	0	0	0	5	2	7	1	0	1	1	1	2
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	2	2
Unknown	0	0	0	0	0	0	0	0	0	0	0	0
<b>Yearly Total</b>	<b>18</b>	<b>16</b>	<b>34</b>	<b>15</b>	<b>8</b>	<b>23</b>	<b>20</b>	<b>17</b>	<b>37</b>	<b>7</b>	<b>9</b>	<b>16</b>

**Note:**

- The figures above indicate the number of incidents logged in each year by type and department.
- Incidents are only counted once, therefore if an incident was a ‘Cross Department’ incident it will only be counted in this row and will not also appear against the individual department’s totals.
- **Cross Department** = This includes incidents which occurred across all departments (e.g. a malware attack on the H&F network) or where an incident occurred across more than one department (e.g. incident occurred in CSD and CHS).
- **Loss** = This includes incidents which occurred as a result of a loss or a theft
- **Incident** = This includes all incidents which have not occurred as a result of a loss or theft. This would include for example confidentiality breaches, personal data leaks, Information Security Policy breaches, Government Connect breaches.

### Incidents Monitored in 2013

Department	Closed	Contained	Live	Total
CHS	3	4	8	15
ASC	1	3	3	7
T&TS	2	0	0	2
FCS	1	4	1	6
HRD	1	2	0	3
HFBP	0	0	1	1
ELRS	0	1	0	1
Cross Dept	0	1	1	2
<b>Total (to date)</b>	<b>8</b>	<b>15</b>	<b>14</b>	<b>37</b>

	<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT PENSIONS AND STANDARDS COMMITTEE</b></p> <p><b>(27th June 2013)</b></p>
<p><b>TriBorough Risk Management Strategy Statement and BiBorough Risk Management Service Provision</b></p>	
<p><b>Report of the Executive Director of Finance and Corporate Governance</b></p>	
<p><b>Open Report</b></p>	
<p><b>For Review &amp; Comment</b></p>	
<p><b>Key Decision: No</b></p>	
<p><b>Wards Affected: None</b></p>	
<p><b>Accountable Executive Director:</b> Jane West, Executive Director of Finance and Corporate Governance, Nicholas Holgate, Town Clerk and Executive Director of Finance</p>	
<p><b>Report Author:</b> Michael Sloniowski, BiBorough Risk Manager</p>	<p><b>Contact Details:</b>          Tel: 020 8753 2587          E-mail:          michael.sloniowski@lbhf.gov.uk</p>

## 1. EXECUTIVE SUMMARY

- 1.1. This report presents to the Committee the TriBorough Risk Management Strategy Statement and Policy Document for 2013 – 2016 (**Appendix 1**) and outlines the future joint service provision of a BiBorough Risk Management service for the Royal Borough of Kensington and Chelsea and Hammersmith and Fulham Council.

## 2. RECOMMENDATIONS

- 2.1. The committee consider and approve the approach outlined in the Strategy Statement and that effective risk management, undertaken on a collaborative basis, will improve strategic, operational and programme management through shared processes.
- 2.2. The committee are recommended to note the introduction of a BiBorough Risk Management service within a shared Audit service. This will be hosted by the Royal Borough of Kensington and Chelsea and will be under the leadership of the newly appointed Director of Audit, Moyra McGarvey.

The anticipated date for the implementation of the new Internal Audit structure including Risk Management is 1 July 2013.

### **3. REASONS FOR DECISION**

- 3.1. This report updates Members on the development of a TriBorough Risk management Strategy Statement and Policy document and acknowledging the development of a BiBorough Risk Management service.

### **4. INTRODUCTION AND BACKGROUND**

- 4.1. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with control and the management of risk.
- 4.2. 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.
- 4.3. 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.

### **5. PROPOSAL AND ISSUES**

#### **5.1. BiBOROUGH RISK MANAGEMENT DELIVERY**

#### **5.2. Purpose**

- 5.3. The purpose of the BiBorough Risk Management function will be to provide a central and shared risk function for The Royal Borough of Kensington and Chelsea and Hammersmith and Fulham Council to enable the effective management of TriBorough, BiBorough and Sovereign risks through;

5.3.1. Establishing a consistent approach and remove ambiguity across risk management processes

5.3.2. Providing a single point of contact

5.3.3. Developing a supportive culture across TriBorough for risk management. Culture is understood here to mean 'the way things are done'

#### **5.4. Strategy and Policy Statement**

- 5.5. H&F Risk Management was included as a service, along with Internal Audit and Counter Fraud, in the Corporate Services Programme. A

Strategy to manage TriBorough risks was developed collaboratively with input from Officers across Hammersmith & Fulham Council, the Royal Borough of Kensington and Chelsea and Westminster City Council.

- 5.6. Each council had in place a policy, strategy, framework and approach for the management of risk that were distinct from each other. The policy and strategy has been harmonised and a Joint Strategy Statement has prepared. Supporting methodology and 'light touch' risk management guidance is being drafted which, together with a e-learning based training package for staff will help bring together a package that assists services across the three councils.
  - 5.6.1. The risk management process covered in the Strategy Statement includes;
  - 5.6.2. **Establishing Context and Appetite:** This includes an understanding of the current cultural conditions in each council and the TriBorough services and how they operate on an internal, external and risk management context.
  - 5.6.3. **Identifying Risks:** This includes documenting risks of each council, so sovereignty is maintained, and where there are common risks recognise them as such.
  - 5.6.4. **Analyzing/Quantifying Risks:** This includes the calibration and, if possible, creating a unified approach to quantification.
  - 5.6.5. **Integrating Risks:** This includes the aggregation of all risks in single reports where practicable, reflecting correlations and portfolio effects, and the formulation of the results in terms of impact on each of the councils' objectives.
  - 5.6.6. **Assessing/Prioritising Risks:** This includes the determination of the contribution of each risk to the aggregate risk profile, and appropriate prioritisation for example in a Tri or Bi Borough Risk Register.
  - 5.6.7. **Treating/Exploiting Risks:** This includes the development of strategies for controlling and exploiting the various risks across TriBorough and Bi Borough Services.
  - 5.6.8. **Monitoring and Reviewing:** This includes the continual measurement and monitoring of the risk environment and the performance of the risk management strategy.
- 5.7. Following a period of consultation with The Royal Borough of Kensington and Chelsea and Hammersmith & Fulham Council it has been agreed that the current H&F Risk Manager will become the Bi-Borough Risk Manager. Currently the reporting line of the Risk Manager is to H&F Chief Internal

Auditor, this will transfer to the newly appointed Bi-Borough Director of Audit. The cost of the post will be shared equally between the two Councils. Westminster City Council wished to maintain their own sovereign approach however the BiBorough Risk Manager welcomes the opportunity to continue to work with them in the future.

## **6. OPTIONS AND ANALYSIS OF OPTIONS**

- 6.1. *Not applicable as the report is a representation of the strategy to manage business risks and opportunities to H&F council which has been discussed and agreed at Corporate Service Programme Board.*

## **7. CONSULTATION**

- 7.1. *Not applicable.*

## **8. EQUALITY IMPLICATIONS**

- 8.1. *Not applicable.*

## **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 will continue to be 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, BiBorough Risk Manager. 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**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext of holder of file/copy</b>	<b>Department/ Location</b>
1.	Association of Local Authority Risk Managers & Institute of Risk Management, 2002, A Risk Management Standard	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
2.	The Orange Book, Management of Risk Principles & Concepts – HM Treasury	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
3.	Departmental Risk Registers, Tri borough Portfolio risk logs	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
4.	CIPFA Finance Advisory Network The Annual Governance Statement	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
5.	BS 31100 Code of Practice for risk management	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
5.	Target Operating Model – Risk Management, Corporate Services Programme	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*

*TriBorough Risk Management Strategy Statement and Policy 2013 -2016*





THE ROYAL BOROUGH OF  
KENSINGTON  
AND CHELSEA



City of Westminster

London Borough of Hammersmith and Fulham | The Royal Borough of Kensington and Chelsea | Westminster City Council

APPENDIX 1

# RISK MANAGEMENT

## TriBorough Strategy Statement

### 2013-2016



## TRI BOROUGH

### A STRATEGY STATEMENT FOR MANAGING OPPORTUNITY AND RISK

#### 1. INTRODUCTION

It is recognised by London Borough of Hammersmith, Westminster City Council and the Royal Borough of Kensington and Chelsea, that risk management is an integral part of good governance. Services are undergoing substantial changes which will continue into 2015 resulting in a variety of business models being used across the three Councils.

This Risk Management Strategy Statement sets out the intended approach to risk management to be used for tri-borough, bi-borough and sovereign services to respond to risk and opportunities in the delivery of both strategic and operational objectives.

The **aim** of each Council is to ensure that:

- risk management becomes a natural component of its management and change processes;
- risks are identified, understood and managed to an acceptable level; and
- opportunities are seized.

This Strategy Statement supports the TriBorough Risk Management Policy (Appendix A) and its commitment to:

- raise awareness of the benefits of effective risk management;
- adopt and embed a risk aware culture
- Establish and maintain a consistent and integrated framework that anticipates and meets the changing needs of the Councils over time and in doing so ensures that risk management arrangements are in accordance with established best practice.

#### 2. DEFINING RISK

A **risk** is a potential action or inaction that may result in a financial loss to the Council or impact on delivery of desired outcomes. Any risk identified must be assessed to quantify the threat. The three Councils take a common approach to this, assessing risks for **likelihood** – how likely is it that the risk will become a real issue and **impact** – how serious the potential damage to the organisation might be.

## **WHAT IS TRIBOROUGH RISK MANAGEMENT?**

Across the TriBorough we consider risk management to be a focus on the identification and evaluation of potential or existing risks and opportunities, with a view to accepting, treating or exploiting these through the various decision-making mechanisms available. The key aim is to ensure that corporate objectives are achievable.

Effective risk management is an important part of decision making, business planning, managing change and service delivery. We capture and report risks to inform these management processes.

The main purpose of TriBorough risk management is to support TriBorough Services in the achievement of their objectives including value for money, protecting people and maximising the use of all its assets.

### **3. SCOPE**

The strategy statement is applicable to each Council irrespective of whether a Tri, Bi or sovereign service. Whilst the focus will be ensuring a common approach to risk management for TriBorough services, the three councils support the principles of this strategy statement regardless of configuration.

### **4. GOVERNANCE**

Each Council will remain accountable for their own risks, controls and actions. This includes for decisions made at a local or strategic level. Executive Directors and Directors will jointly champion and take overall responsibility for embedding risk management throughout their areas of responsibility.

### **5. OBJECTIVES**

The risk management strategy statement is aimed at providing a basis for the development of harmonised risk management arrangements across all three Councils both in terms of services and projects/programmes, to reduce any duplication, to increase simplicity and to encourage the delivery of a beneficial and comprehensive risk management system. Reports to support strategic policy decisions, operational requirements and project initiation documents will continue to include a risk assessment for decision making.

Through the Strategy Statement we will:

- Identify and record TriBorough Strategic, Change and Operational risks;
- Move to a harmonised system of risk identification and control;
- Assess these risks for likelihood and impact;
- Identify mitigating controls; and
- Allocate responsibility for the mitigating controls.

Throughout we will maintain and periodically review a register of TriBorough business risks linking them to strategic business objectives within Tri-borough services and assign ownership of each risk.

#### **6. Our strategic objectives are to:**

Over the next three years the three boroughs will assess the benefits of bringing together risk management through;

#### **Common systems and processes and a single methodology**

- We will make risk management simpler for TriBorough Services by agreeing single definitions and standardised guidance for managers that can be used across all three councils. Access to information will be made easier and one central place for risk management information will be made available for use across the three boroughs. This will improve how we interact with the services to give them what they need in communications that are meaningful and add value.

#### **Mitigating Risks and Seizing Opportunities**

- We will work together to make sure Tri-borough risks are considered across authorities rather than just in isolation and ensuring appropriate mitigation is in place for all identified risks.

#### **Improving organisational Risk Management capability**

- We will help Services through the development of Web based toolkits that are relevant and up to date for services to help themselves. An effective training programme can be developed to benefit managers in TriBorough services who have to make decisions on service delivery. We will work with our TriBorough partners to improving information sharing across the three boroughs on risk and in doing so minimising bureaucracy through standardisation of risk recording and reporting.

#### **Strengthening Governance**

- These changes will support Executive Management by demonstrating robust accountability for risk and supporting Members through effective scrutiny of risk. Reporting using a common framework for TriBorough risks to inform the Auditors will be available by choice to retain the Sovereign position of the three councils.

### **Enabling Better Decisions**

- Effective risk management across the businesses will help Members and Officers to identify options or decisions in policy through risk assessment and communicate a wider understanding of department's risks and issues affecting them.

### **Single point of contact**

- Single or agreed point/s of contact across the TriBorough services will be used to limit the requests for information and in doing so also provide a more efficient way of working across the three councils.

## **7. COMMUNICATION AND REPORTING**

Each Council will remain accountable and responsible for reporting and responding to their Executive Management, Members and Audit Committee's on risk management.

Tri and bi-borough risks will be shared amongst the community of risk management officers, audit departments, Executive Directors and Members as appropriate.

## **8. PARAMETERS FOR CONSISTENCY AND CONTROL**

### **Risk identification and assessment**

The TriBorough risk register is a consolidated hierarchical document of risks "owned" by the Joint Management Team and the Westminster Strategic Executive Board. These risks are identified from Directorate Service Plans, Programmes, Operational and specialist areas across the three councils with exceptions reported in Quarterly Monitoring Statements. The Audit Committee of each borough will receive periodic reports on the status of risks.

### **Common framework and risk registers**

The requirement to maintain Sovereign risk & assurance registers will remain an independent decision for each council to take. TriBorough services will manage one set of registers that combines

yet is still capable of identifying each Sovereign Boroughs unique risks.

Risks will continue to be recorded consistently and explicitly using a single methodology developed by the three councils to allow review and development of effective responses.

### **Reviewing and Escalating**

A full refresh and review of TriBorough risks will be conducted at least annually as part of each Council's own Governance and Risk Management reporting requirements. Where risks require escalation then they will be communicated through the appropriate levels of management hierarchy in the respective councils.

**End**

## Tri-Borough Risk Management Policy Statement 2013 - 2016

Hammersmith and Fulham, The Royal Borough of Kensington & Chelsea and Westminster City Council have a broad range of aims and objectives to deliver through a diverse set of service streams. Achievement of these aims and objectives can be impacted and influenced by a wide range of external and internal risks and opportunities.

The three Councils acknowledge that effective risk management will improve strategic, operational and programme management through helping to maximise opportunities whilst minimising losses. This will allow for the most economic, efficient and effective use of available resources in delivering the Councils aims and objectives; both joint and sovereign.


It is therefore important that the Councils, through both Members and Officers, have mechanisms to identify and manage these risks and opportunities to enable the delivery of ongoing aims, objectives and ambitions of the Councils.

### It is the policy of the three Councils to:

- **Raise awareness** of the benefits of effective risk management at all levels within the Councils;
- **Adopt and embed a risk aware culture** within the organisations throughout strategic, operational and programme management decision making;
- **Establish a consistent and integrated framework** within which opportunities and risks can be considered, explored, and controlled across all three Councils;
- **Maintain a risk management framework** that anticipates and meets the changing needs of the Councils over time;
- Ensure that risk management arrangements are **in accordance with established best practice**.

This risk management policy statement is supported by the Tri-borough Risk Management Strategy Statement and Risk Management Guidance documents.

# Agenda Item 14

	<b>London Borough of Hammersmith &amp; Fulham</b>  <b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b>  <b>27 June 2013</b>
<b>External Audit recommendations updates &amp; Annual Governance Statement Action Plan</b>	
<b>Open Report</b>	
<b>For Information</b>	
<b>Key Decision: No</b>	
<b>Wards Affected: None</b>	
<b>Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance</b>	
<b>Report Author: Geoff Drake – Chief Internal Auditor</b>	<b>Contact Details:</b> Tel: 020 753 2529 E-mail: <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a>

## 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 implemented. As these actions are considered closed, we will not be reporting these actions 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 3 AGS entries (Theft of Materials, Housing Repairs and Maintenance and Local Taxation) have been reported as implemented and will not be reported at future meetings. One action remains for the Health and Safety entry (point 7) and we will continue to report progress until this is implemented.
- 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**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
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><b>R1</b> - 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&amp;F Direct</p>	<p>See AGS entry for 'Local Taxation' in Appendix B for detailed action plan and progress update. That entry has now been cleared.</p>
	<p><b>R2</b> Strengthen arrangements concerning the capitalisation of expenditure as follows:</p> <ul style="list-style-type: none"> <li>• Establish controls to ensure all expenditure capitalised meets the definition of IAS16 Property, Plant &amp; Equipment.</li> <li>• Expand instructions to valuers to ensure the valuation of Council Dwellings takes into account capital schemes to be completed during the year.</li> </ul>	<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 now undertake a periodic capitalisation review, challenging capital spend with services.</p>

Report	Recommendation/Areas of Improvement	Initial response and timescale	Responsible Officer	Update to Audit, Pensions and Standards Committee
	<p><b>R3</b> - 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>	Bi-Borough Director of Finance	<p>A review of debtors and Bad Debt Provisions was undertaken as part of the Period 9 closedown exercise in February 2013. Debt confirmed as irrecoverable was written off. Bad Debt Provisions were adjusted where appropriate.</p>
	<p><b>R4</b> 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>Closed</i></p>	Bi-Borough Director of Finance	<p>WCC have decided not to participate in a TriBorough risk management service but have agreed to the TriBorough Strategy Statement and Policy. A BiBorough Risk Management service has been approved by the Corporate Services Programme Board. This will be hosted by the Royal Borough of Kensington and Chelsea. The Risk Manager of h&amp;f council has been appointed as BiBorough Risk Manager. Reports have been prepared to take the TriBorough Strategy Statement to the Management Boards of the Royal Borough of Kensington and Chelsea and Hammersmith &amp; Fulham Business Board in May and their respective Audit Committee's in June. The Internal Audit services or H&amp;F and for K&amp;C are being integrated into a single service from 1 July 2013. It is considered that these actions adequately address the recommendation.</p>

**2011/12 Annual Governance Statement Action Plan**

Entry	Responsible Officer	Action Plan	Progress To date
<p><b>Health and Safety</b> There is some evidence that health &amp; 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"> <li>1. Corporate Safety Team Action plan 2012 2104 to be developed and agreed by H&amp;F Business Board</li> <li>2. Departmental 'Statements of Intent' to be developed and agreed</li> <li>3. Quarterly Health and Safety update report to be provided to H&amp;F Business Board.</li> <li>4. Corporate Safety Team business plan to be developed to set out the team's objectives to identify the core risks across the organisation</li> <li>5. Rolling programme of audits of Departmental Health &amp; Safety management Arrangements to be put in place.</li> <li>6. A Health &amp; Safety Risk Management Profile is being drafted for organisation that is envisaged will feed into the Corporate Risk Register</li> <li>7. A further audit of Health and Safety and Risk Management and Assurance</li> </ol>	<ol style="list-style-type: none"> <li>1. Complete. Action plan developed and agreed</li> <li>2. Complete <ul style="list-style-type: none"> <li>• Children's Services – H&amp;S Statement of intent for tri-borough agreed</li> <li>• Adult Social Care – H&amp;S Statement of intent for tri-borough agreed</li> <li>• ELRS and TTS – H&amp;S bi-borough statement of intent agreed</li> <li>• FCS - H&amp;S policy and plan in place</li> <li>• HRD – H&amp;S Divisional plans in Place</li> </ul> </li> <li>3. Quarterly report provided to H&amp;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.</li> <li>4. Complete. Business plan has been in place since April 2012 based on core known risks identified through audit process. Action plan is currently under review as part of annual planning cycle. The organisational risk profile will inform process.</li> <li>5. Complete. Rolling programme of Audits now in place.</li> <li>6. Complete. A Health &amp; Safety Risk Management Profile is Organisational risk register complete and feeds into the</li> </ol>

Entry	Responsible Officer	Action Plan	Progress To date
			<p>corporate risk register.</p> <p>7. Internal Audit of Health and Safety Risk Management and Assurance has been completed and responsible officers and action dates are being finalised to report to a future meeting of the Committee.</p>

Entry	Responsible Officer	Action Plan	Progress To date
<p><b>Theft of Materials</b> 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 &amp; Director of Property Service and Asset Management</p>	<ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>4. Communication will be increase with TRAs and resident Groups to increase the awareness of the issues and damage caused by Metal thefts.</li> <li>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</li> <li>6. All incidents of metal theft from Council premises' will be promptly reported to the BMRA.</li> </ol>	<ol style="list-style-type: none"> <li>1. A Stock condition and validation has now been completed.</li> <li>2. This is currently the process and is continuing</li> <li>3. Discussions have taken place with colleagues in insurance regarding insurance arrangements for metal theft.</li> <li>4. This is underway, with regular updates in 'Your Home' magazine planned.</li> <li>5. This is underway</li> <li>6. This will happen as it occurs.</li> </ol>




Entry	Responsible Officer	Action Plan	Progress To date
<p><b>Housing Repairs and Maintenance</b> 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"> <li>1. Review definition of 'What is an RR repair' and train all involved with order raising.</li> <li>2. Review potential RR to PR conversions at weekly Operational Meetings.</li> <li>3. High Value Repair Panel to meet weekly to review jobs exceeding the PR financial limit.</li> <li>4. Introduce a 'Commitment Accounting' regime for budget monitoring in 12/13</li> <li>5. Establish regular monthly finance meetings with Repairs contractors</li> <li>6. External Audit review to be carried out</li> </ol>	<ol style="list-style-type: none"> <li>1. Definition clarified and joint training with Partner contractors carried out in 11/12 and training delivered.</li> <li>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.</li> <li>3. HVRP is proving to be effective work is continuing in this area.</li> <li>4. Commitment accounting introduced and is proving beneficial ongoing 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.</li> <li>5. Monthly meetings established. Further in-house operational forecasting meeting established to meet in the first week of each month.</li> <li>6. Ernst &amp; Young appointed and audit completed on Kier. Findings are subject to on-going negotiation with Kier.</li> </ol>

Entry	Responsible Officer	Action Plan	Progress To date
<p><b>Local taxation</b> 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&amp;F Direct</p>	<p>Phase 1 – implementation by 1 November 2012</p> <ol style="list-style-type: none"> <li>1. Review access rights to the Academy system</li> <li>2. Second review / certification of reconciliations</li> <li>3. Review of top 250 outstanding debtors every month, and an action plan produced</li> <li>4. Review of all suppressed accounts</li> </ol> <p>Phase 2 – implementation by 31 December 2012</p> <ol style="list-style-type: none"> <li>1. Completion of Inspections and quality of inspections monitored regularly</li> <li>2. Definition of level of evidence required to support granting of relief (where a physical inspection is not possible)</li> <li>3. All retrospective reliefs reviewed and approved by a senior officer</li> </ol> <p>Phase 3– implementation by 1 March 2012</p> <ol style="list-style-type: none"> <li>1. Evidenced check of NNDR bills prior to main billing</li> </ol> <p>Phase 4– implementation by 1 April 2013</p> <ol style="list-style-type: none"> <li>1. Develop comprehensive procedure manual</li> <li>2. Review amendments to accounts by staff to ensure procedures are being complied with</li> <li>3. Refunds authorised in line with scheme of delegation and Monthly reconciliation to ensure all refunds have a corresponding authorised form</li> <li>4. All withdrawn summonses independently reviewed/authorised</li> <li>5. Monthly reconciliation to ensure all write-offs have a corresponding authorised form</li> </ol>	<p><b>Phase 1</b> Actions 1-4 all implemented.</p> <ol style="list-style-type: none"> <li>1. A review of rights has been completed.</li> <li>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.</li> <li>3. List of top 250 debtors being reviewed by Database Manager on monthly basis. Actions planned on any late payments – in place.</li> <li>4. List of suppressed accounts produced and reviewed by database manager on monthly basis in place.</li> </ol> <p><b>Phase 2</b> Actions 5-7 implemented as resources allow.</p> <ol style="list-style-type: none"> <li>5. Reports being actioned.</li> <li>6. Agreed approach with Internal Audit</li> <li>7. Random Spot checks of 25 of each officer being done.</li> </ol> <p><b>Phase 3</b> The existing process for checking NNDR bills will be enhanced to include evidencing by the officer undertaking the checks &amp; subsequent review &amp; evidencing by the Head of Revs &amp; Bens</p> <p><b>Phase 4</b> Actions 1 to 5 all implemented as resources allow. Reorganisation completed in December (ahead of schedule) NNDR Manager post under recruitment. We were, however, unable to recruit to the new Localised NNDR/Database Manager post (who would undertake many of the new checks and manual update). We have agreed new arrangements with RBKC NNDR staff for these checks. A new proposal to combine NNDR and some Ctax matters (under a new Taxation manager post) is being implemented.</p>



# Agenda Item 15

	<b>London Borough of Hammersmith &amp; Fulham</b>  <b>AUDIT PENSIONS AND STANDARDS COMMITTEE</b>  <b>(27th June 2013)</b>
<b>Internal Audit Charter and Strategy Statement 2013 2014</b>	
<b>Report of the Executive Director of Finance and Corporate Governance</b>	
<b>Open Report</b>	
<b>For Review &amp; Comment</b>	
<b>Key Decision: No</b>	
<b>Wards Affected: None</b>	
<b>Accountable Executive Director:</b> Jane West, Executive Director of Finance and Corporate Governance, Nicholas Holgate, Town Clerk and Executive Director of Finance	
<b>Report Author:</b> Michael Sloniowski, BiBorough Risk Manager	<b>Contact Details:</b> Tel: 020 8753 2587 E-mail: michael.sloniowski@lbhf.gov.uk

## 1. EXECUTIVE SUMMARY

1.1. This report presents to the Committee the Council's Internal Audit Charter and Strategy Statement for 2013 – 2014 at **Appendix 1**. The Charter is a document which explains the processes and procedures required to be in place to enable the Internal Audit Service to carry out its functions effectively and professionally.

1.2. The statement has been produced following the Annual Review of Internal Audit and a fundamental review of the service against the Public Sector Internal Audit Standards, which came into effect on the 1<sup>st</sup> April 2013.

## 2. RECOMMENDATIONS

2.1. The committee are asked to note the Public Sector Internal Audit Standards (PSIA) came into effect on the 1<sup>st</sup> April 2013 and that these are now applicable.

- 2.2. The committee are asked to note the 2012 2013 review of Internal Audit was conducted against the PSIA Standards and concluded that the Internal Audit service was required to amend the h&f Audit Charter as outlined in the report.
- 2.3. The committee consider and note the 2013–2014 Internal Audit Charter and Strategy Statement.
- 2.4. The committee are recommended to keep the Charter and Statement under annual review to ensure it reflects the current and future demands of an Internal Audit Service and thereby the assurance provided of the system of internal control.

### **3. REASONS FOR DECISION**

- 3.1. This report updates Members on the purpose of the Internal Audit Service and the Internal Audit framework together with the requirement to meet new standards from 1<sup>st</sup> April 2013.
- 3.2. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. This report informs Members on the statutory requirement in England for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control. The review of the professional standards of the Internal Audit service contributes to the overall evidence in support of the Annual Governance Statement that accompanies the Statement of Accounts.
- 3.3. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

### **4. INTRODUCTION AND BACKGROUND**

- 4.1. The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control that includes a review of the Internal Audit service.

#### **4.2. Public Sector Internal Audit Standards**

- 4.3. The relevant Internal Audit Standards setters have adopted a common set of Public Service Internal Audit Standards (PSIAS) from 1<sup>st</sup> April 2013. The PSIAS encompass the mandatory elements of the Chartered Institute of Internal Auditors (CIIA) and International Professional Practices Framework (IPPF).

## **5. PROPOSAL AND ISSUES**

5.1. The objectives of the PSAIS are to;

- Define the nature of internal auditing within the UK public sector
- Set basic principles for carrying out internal audit in the UK public sector
- Establish a framework for providing internal audit services, which adds value and leads to improved organisational processes and operations and
- Establish the basis for the evaluation of internal audit performance and to drive improvement planning.

Issues

5.2. The PSIAS apply to all internal audit service providers, whether in-house, shared services or outsourced. In common with the CIIA professional practices the PSIAS comprise Attribute and Performance Standards. The Attribute Standards address the characteristics of the parties performing the internal audit activities. The Performance Standards describe the nature of internal audit activities and provide quality criteria against which the performance of the service is evaluated.

5.3. While the Attribute and Performance Standards apply to all aspects of the internal audit service, the Implementation Standards apply to specific types of engagements and are classified into;

- Internal Audit Assurance activities
- Internal Audit Consulting activities

5.4. It has been necessary, therefore, to review the Internal Audit Charter to;

- Comply with the wider and more comprehensive Private Sector led approach which the Standards set
- Consider the wider implications of cross borough Internal Audit service work as part of the TriBorough enterprise.

## **6. OPTIONS AND ANALYSIS OF OPTIONS**

6.1. *Not applicable.*

## **7. CONSULTATION**

The H&F Chief Internal Auditor, Risk Management Consultant, H&F Business Board and the Internal Audit Services of The Royal Borough of Kensington and Chelsea and Westminster City Councils.

## 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. *It is the responsibility of the Internal Audit Service to keep under review the system by which risk is managed as part of the Public Sector Internal Audit Standards in order that a reasonable system of internal control is maintained.*

11.2. Implications verified/completed by: Michael Sloniowski, BiBorough Risk Manager. 020 8753 2587

## 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.	Public Sector Internal Audit Standards	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
2.	Public Sector Internal Audit Standards – Application Note	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*

*Internal Audit Charter 2012 - 2013*



**This Charter sets out the purpose, authority and responsibility of the Council's Internal Audit function, in accordance with the UK Public Sector Internal Audit Standards.**

**The Charter will be reviewed annually and presented to the H&F Business Board and to Audit, Pensions and Standard Committee for final approval.**

### **Definition**

Internal Audit is defined by the Public Sector Internal Audit Standards (Relevant Internal Audit Standard Setters, 2012) as “an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.”

### **Purpose**

In a local authority internal audit provides independent and objective assurance to the organisation, its Members, the Hammersmith & Fulham Business Board, the BiBorough Joint Management Team (JMT) and in particular to the Chief Financial Officer to help discharge responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council's financial affairs.

In addition, the Accounts and Audit Regulations (2011) specifically require the provision of an internal audit service. In line with regulations, Internal Audit provides independent assurance on the adequacy of the Council's governance, risk management and internal control systems.

### **Scope**

### **Authority**

The Internal Audit function has unrestricted access to all Council records and information, both manual and computerised, cash, stores and other Council property or assets it considers necessary to fulfil its responsibilities. Audit may enter Council property and has unrestricted access to all locations and officers where necessary on demand and without prior notice. Right of access to other bodies funded by the Council should be set out in the conditions of funding.

The Internal Audit function will consider all requests from the external auditors for access to any information, files or working papers obtained or prepared during audit work that has been finalised, which External Audit would need to discharge their responsibilities.

## **Responsibility**

### **The Audit, Pensions and Standards Committee**

The highest level of governing body is the Audit, Pensions and Standards Committee and is charged with the responsibility to direct and/or oversee the activities and management of the Council.

The Audit, Pensions and Standards Committee will advise the Executive on:

- the strategic processes for risk, control and governance and the Statement of Internal Control;
- the accounting policies and the annual accounts of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management responses to issues identified by audit activity, including the external auditor's annual letter
- the Chief Internal Auditor's annual assurance report and the annual report of the External Auditors.
- assurances relating to the corporate governance requirements for the organisation;
- (where appropriate) proposals for tendering for either Internal or External
- Audit services or for purchase of non-audit services from contractors who provide audit services.

### **BiBorough Director of Internal Audit**

The Council's Head of Internal Audit (The BiBorough Director of Internal Audit) is required to provide an annual opinion to the Council and to the Chief Financial Officer, through the Audit, Pensions and Standards Committee, on the adequacy and the effectiveness of the internal control system for the whole Council.

### **Objectives**

In order to achieve this, the Internal Audit function has the following objectives:

- To provide a quality, independent and objective audit service that effectively meets the Council's needs, adds value, improves operations and helps protect public resources
- To provide assurance to management that the Council's operations are being conducted in accordance with external regulations, legislation, internal policies and procedures.
- To provide a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, internal control and governance processes

- To provide assurance that significant risks to the Council's objectives are being managed. This is achieved by annually assessing the adequacy and effectiveness of the risk management process.
- To provide advice and support to management to enable an effective control environment to be maintained
- To promote an anti-fraud, anti-bribery and anti-corruption culture within the Council to aid the prevention and detection of fraud
- To investigate allegations of fraud, bribery and corruption

Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas identified by the organisation as being of greatest risk and significance and rely on management to provide full access to accounting records and transactions for the purposes of audit work and to ensure the authenticity of these documents.

Where appropriate, Internal Audit may undertake audit or consulting work for the benefit of the Council in organisations wholly owned by the Council, such as Joint Venture Companies. Internal Audit may also provide assurance to the Council on third party operations (such as contractors and partners) where this has been provided for as part of the contract.

## **Reporting**

The UK Public Sector Internal Audit Standards require the Head of Internal Audit to report at the top of the organisation and this is done in the following ways:

- The Internal Audit Strategy and Charter and any amendments to them are reported to the Hammersmith and Fulham Business Board (HFBB) who act as the Corporate Management Team and the Audit, Pensions and Standards Committee (APSC).
- The annual Internal Audit Plan is compiled by the Head of Internal Audit taking account of the Council's risk framework and after input from members of HFBB. It is then presented to HFBB and APSC at least annually for noting and comment.
- The internal audit budget is reported to Cabinet and Full Council for approval annually as part of the overall Council budget.
- The adequacy, or otherwise, of the level of internal audit resources (as determined by the Head of Internal Audit) and the independence of internal audit will be reported annually to the APSC. The approach to providing resource is set out in the Internal Audit Strategy.
- Performance against the Internal Audit Plan and any significant risk exposures and control issues arising from audit work are reported to HFBB and APSC on a quarterly basis.
- Any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the APSC.

- Results from internal audit's Quality Assurance and Improvement Programme will be reported to both HFBB and the APSC.
- Any instances of non-conformance with the Public Sector Internal Audit Standards must be reported to HFBB and the APSC and will be included in the annual Head of Internal Audit report. If there is significant non-conformance this may be included in the Council's Annual Governance Statement.

### **Independence**

The Head of Internal Audit (the BiBorough Director of Audit) has free and unfettered access to the following:

- Chief Financial Officer
- Chief Executive
- Chair of the Audit, Pensions and Standards Committee (APSC)
- Monitoring Officer
- Any other member of the Hammersmith & Fulham Business Board

The independence of the Head of Internal Audit is further safeguarded by ensuring that the annual appraisal is not inappropriately influenced by those subject to audit. This is achieved by ensuring that both the Chief Executive and the Chair of the APSC contribute to, and/or review the appraisal of the Head of Internal Audit.

All Council and contractor staff in the BiBorough Internal Audit service are required to make an annual declaration of interest to ensure that auditors' objectivity is not impaired and that any potential conflicts of interest are appropriately managed.

Internal Audit may also provide consultancy services, such as providing advice on implementing new systems and controls. However, any significant consulting activity not already included in the audit plan and which might affect the level of assurance work undertaken will be reported to the APSC. To maintain independence, any audit staff involved in significant consulting activity will not be involved in the audit of that area for at least 12 months.

Internal Audit must remain independent of the activities that it audits to enable auditors to make impartial and effective professional judgements and recommendations. Internal auditors have no operational responsibilities towards the systems and functions audited.

Internal Audit is involved in the determination of its priorities in consultation with those charged with governance. The Director of Internal Audit has the freedom to report without fear or favour to all officers and members, and particularly to those charged with governance.

Accountability for the response to the advice and recommendations of Internal Audit lies with management. Managers must either accept and implement the advice and recommendations, or formally reject them accepting responsibility and accountability for doing so.

### **Counter Fraud, Corruption and Irregularity**

Managing the risk of fraud and corruption is the responsibility of management. Internal audit procedures alone cannot guarantee that fraud or corruption will be prevented or detected. Auditors will, however, be alert in their work to risks and exposures that could allow fraud, corruption or other irregularity.

The Council has a Corporate Anti-Fraud Service as part of the BiBorough Internal Audit Service and a protocol for close working relations with Internal Audit. The policies and procedures of the Corporate Fraud Service are detailed in the Council's Anti-Fraud and Corruption Strategy and risks identified in the Counter Fraud and Bribery Risk Assessments.

### **The role of the Contracted-Out Service**

The Contractor shall provide the Services in accordance with the provisions of the Contract.

In relation to the performance of the Services, the Contractor or its Operatives carrying out such Services:

- in a good, safe, skilful and efficient manner
- in accordance with all relevant provisions of the Contract Documents and Specification.
- in accordance with all applicable statutes, statutory instruments, rules, regulations and byelaws.
- in a manner which meets all applicable financial standards specified by the Council.
- in a manner which shall promote and enhance the image and reputation of the Council.
- in accordance with all applicable standards set by the British Standards Institute and equivalent EC Standards and all applicable professional and financial authorities
- in accordance with Good Industry Practice.

### **The Relationship of Head of Internal Audit (the BiBorough Director of Audit) and the Contractor**

The Authorised Council Officer responsible for the management of the contract shall be the Executive Director of Finance delegated to the BiBorough Director of Audit.

## **Relationship between the Council and the Contractor**

The Contract governs the relationship between the Council and the Contractor in respect of the provision of the Services by the Contractor to the Council and to any Other Councils.

The Contractor is responsible and accountable to the Director of Audit and their nominees for the provision of the audit service that they are contracted to provide. The Director of Audit is responsible and accountable to the Section 151 Officer, the Business Board as the Council's Executive and to the Audit, Pensions and Standards Committee for the Audit Service including the service provided by the Contractor.

## **Due Professional Care**

The Internal Audit function is bound by the following standards:

- The Chartered Institute of Internal Auditor's International Code of Ethics
- Seven Principles of Public Life (Nolan Principles)
- UK Public Sector Internal Audit Standards.
- All Council Policies and Procedures
- All relevant legislation

Internal Audit is subject to a Quality Assurance and Improvement Programme that covers all aspects of internal audit activity. This consists of an annual self-assessment of the service and its compliance with the UK Public Sector Internal Audit Standards, ongoing performance monitoring and an external assessment at least once every five years by a suitably qualified, independent assessor.

A programme of Continuous Professional Development (CPD) is maintained for all staff working on audit engagements to ensure that auditors maintain and enhance their knowledge, skills and audit competencies. Both the Director of Audit and the Audit Manager are required to hold a professional qualification (CCAB or CMIIA) and be suitably experienced.

## **Audit Strategy**

### **Scope**

Strategic planning, audit planning, documenting, evaluating, testing and reporting are phases within audit process.

### **Process**

1. The internal audit process can be seen on the following diagram:



2. **Strategy**

This Strategy sets out how the Council’s Internal Audit service will be developed and delivered in accordance with the Internal Audit Charter.

The Strategy will be reviewed annually and presented to the Audit, Pensions and Standards Committee and to Hammersmith & Fulham Business Board for approval.

### **Internal Audit Objectives**

Internal Audit will provide independent and objective assurance to the organisation, its Members, Hammersmith & Fulham Business Board and in particular to the Chief Financial Officer in support of discharging their responsibilities under S151 of the Local Government Act 1972, relating to the proper administration of the Council’s financial affairs.

It is the Council’s intention to provide a best practice, cost efficient internal audit service.

### **Internal Audit’s Remit**

The internal audit service is an assurance function that primarily provides an independent and objective opinion on the degree to which the internal control

environment supports and promotes the achievement of the council's objectives.

Under the direction of a suitably qualified and experienced Head of Internal Audit (the Director for Audit, Fraud, Risk and Insurance), Internal Audit will:

- Provide management and Members with an independent, objective assurance and consulting activity designed to add value and improve the Council's operations.
- Assist the Audit, Pensions and Standards Committee to reinforce the importance of effective corporate governance and ensure internal control improvements are delivered;
- Drive organisational change to improve processes and service performance;
- Work with other internal stakeholders and customers to review and recommend improvements to internal control and governance arrangements in accordance with regulatory and statutory requirements;
- Work closely with other assurance providers to share information and provide a value for money assurance service and;
- Participate in local and national bodies and working groups to influence agendas and developments within the profession.

Internal Audit will ensure that it does not deliver the design, installation and operation of controls so as to compromise its independence and objectivity. Internal Audit will however offer advice on the design of new internal controls in accordance with best practice.

### **Service Delivery**

The Service will be delivered by a mixture of in-house staff and the Council's internal audit partner (currently Deloitte) under the direction of the Council's Head of Internal Audit.

The Internal Audit Service is moving to a Bi-borough Service from 1 July 2013 hosted by the Royal Borough of Kensington and Chelsea. The audit service is currently working with the Royal Borough of Kensington and Chelsea and Westminster City Council, to deliver audit reviews across the services which are either tri or bi borough. Sovereign audits will continue on services which remain unchanged.

### **Internal Audit Planning**

Audit planning will be undertaken on an annual basis and audit coverage will be based on the following:

- Discussions with Hammersmith and Fulham Business Board and management.
- Discussions with Tri and Bi borough Executive Directors.
- The Tri, Bi and Sovereign risk registers



- Outputs from other assurance providers
- Requirements as agreed in the joint working protocol with External Audit

Management views and suggestions are taken into account when producing the audit plan and the Head of Internal Audit will ensure feedback from or attendance at Departmental Management Team meetings will take place as part of the annual planning process

The Internal Audit Plan 2013-14 was based on the following:

- **Risk Based Systems Audit:** Audits of systems, processes or tasks where the internal controls are identified, evaluated and confirmed through risk assessment process. The internal controls depending on the risk assessment are tested to confirm that they operating correctly. The selection of work in this category is driven by Departments' own risk processes and will increasingly include work in areas where the Council services are delivered in partnership with other organisations.

Internal Audit planning is already significantly based on the Tri, Bi and Sovereign risk registers. The move to a bi-borough shared risk resource will continue to have a significant role in risk management with audit planning being focused by risk and the results of audit work feeding back into the risk management process to form a 'virtuous circle'.

- **Key Financial Systems:** Audits of the Council's key financial systems where External Audit require annual assurance as part of their external audit work programme.
- **Probity Audit (schools & other establishments):** Audit of a discrete unit. Compliance with legislation, regulation, policies, procedures or best practice are confirmed. For schools this includes assessment against the Schools Financial Value Standard.
- **Computer Audit:** The review of ICT infrastructure and associated systems, software and hardware.
- **Contract Audit:** Audits of the procedures and processes for the letting and monitoring of contracts, including reviews of completed and current contracts.
- **Fraud and Ad Hoc Work:** The Corporate Anti Fraud Service, within the Internal Audit function, will continue to investigate any fraud and irregularity arising during the year. Internal audit may undertake additional work due to changes or issues arising in-year.

## Follow-up

Internal Audit will evaluate the Council's progress in implementing audit recommendations against set targets for implementation. Progress will be reported to the Audit, Pensions and Standards Committee on a regular basis.


Where progress is unsatisfactory or management fail to provide a satisfactory response to follow up requests, Internal Audit will implement the escalation procedure as agreed with management.

## Reporting

Internal audit reports the findings of its work in detail to local management at the conclusion of each piece of audit work and in summary to departmental and corporate management on a quarterly basis. Summary reports are also provided to the Audit, Pensions and Standards Committee four times per year. This includes the Head of Internal Audit's annual report which contributes to the assurances underpinning the Annual Governance Statement of the Council.

## Reviewed and Agreed

Date	Reviewed by	Position	Authorised by	Position
May 2013	Michael Sloniowski	BiBorough Risk Manager	Geoff Drake	Chief Internal Auditor
March 2012	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor
March 2011	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor
March 2010	John Kanes	Internal Audit Manager	Geoff Drake	Chief Internal Auditor

	<b>London Borough of Hammersmith &amp; Fulham</b>  <b>(AUDIT, PENSIONS AND STANDARDS COMMITTEE)</b>  <b>(27 June 2013)</b>
<b>Internal Audit Quarterly report for the period 1 January to 31 March 2013</b>	
<b>Open Report</b>	
<b>For Information</b>	
<b>Key Decision: No</b>	
<b>Wards Affected: None</b>	
<b>Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance</b>	
<b>Report Author: Geoff Drake – Chief Internal Auditor</b>	<b>Contact Details:</b> Tel: 020 753 2529 E-mail: <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a>

## 1. EXECUTIVE SUMMARY

- 1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 January to 31 March 2013 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 January to 31 March 2013 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, documents 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 has been made available to all members separately.

#### **5. PROPOSAL AND ISSUES**

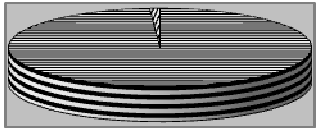
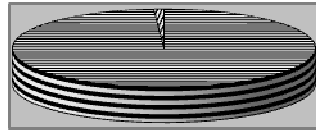
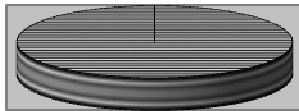
##### **5.1. Internal Audit Coverage**

- 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 12 audit reports were finalised in the fourth quarter of 2012/2013 (see Appendix A) from 1 January – 31 March. In addition 7 management letters were issued.
- 5.1.3. Three audit reports issued in this period received limited assurance:
  - 5.1.3.1. The Housing Voids Performance Management audit made 6 recommendations of which 5 have been reported as implemented. The remaining P2 recommendation is due to be implemented by 31 July 2013;
  - 5.1.3.2. The ICT Programme Management audit made 11 recommendations of which all have been reported as implemented;
  - 5.1.3.3. The Housing Capital Programme Management audit made 7 recommendations of which 5 have been reported as implemented. The remaining 2 (1 P1 and 1 P3) are due to be implemented by September and October 2013.
- 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 is

currently 1 report outstanding that was due to be signed off on or before 31 March 2013. This report, Kenmont Primary School, is included in Appendix B for information.

- 5.1.6. 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 a consistent position. We continue to work with departments and HFBP to reduce the numbers of outstanding issues.
- 5.1.7. The breakdown of the 2 outstanding recommendations between departments are as follows:
- Corporate Services – 1
  - Children’s Services (Non Schools) – 1
- 5.1.8. None of the recommendations listed are over six months past the target date for implementation as at the date of the Committee meeting. Internal Audit are continuing to focus on clearing the longest outstanding recommendations and to that end will be arranging meetings with the relevant departmental managers responsible for all recommendations overdue by more than 3 months as and when this occurs.

5.1.9. 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 2009/10 have been implemented)

<p>Percentage of 2010/11 year audit recommendations past their implementation date that have been implemented.</p>	<p>99.6%</p>	<p>272 recommendations implemented out of a total of 273</p> <p><b>1 recommendation outstanding</b></p>	 <div data-bbox="1345 517 1522 656" style="border: 1px solid black; padding: 2px;"> <input checked="" type="checkbox"/> Implemented  <input type="checkbox"/> Not Implemented         </div>
<p>Percentage of 2011/12 year audit recommendations past their implementation date that have been implemented.</p>	<p>99.7%</p>	<p>324 recommendations implemented out of a total of 325</p> <p><b>1 recommendation outstanding</b></p>	 <div data-bbox="1345 999 1522 1137" style="border: 1px solid black; padding: 2px;"> <input checked="" type="checkbox"/> Implemented  <input 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>323 recommendations implemented out of a total of 323</p> <p><b>No recommendations outstanding</b></p>	 <div data-bbox="1345 1464 1522 1603" style="border: 1px solid black; padding: 2px;"> <input checked="" type="checkbox"/> Implemented  <input 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 January to 31 March 2013 are shown below.

### Performance Indicators 2012/13

Ref	Performance Indicator	Target	Pro rata target	At end of March 2013	Variance	Comments
1	% of deliverables completed (2012/13)	95%	95%	96%	<b>Achieved +1%</b>	106 deliverables issued out of a total plan of 111 (accounting for audits carried forward)
2	% of planned audit days delivered (2012/13)	95%	95%	95%	<b>Achieved</b>	839 days delivered out of a total plan of 881 days (accounting for audits carried forward)
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	100%	<b>Achieved</b>	34 out of 34 briefs issued more than ten working days before the start of the audit.
4	% of Draft reports issued within 10 working days of exit meeting	95%	95%	93%	<b>Not achieved (-3%)</b>	57 out of 62 draft reports issued within 10 working days of exit meeting
5	% of Final reports issued within 5 working days of the management responses	95%	95%	100%	<b>Achieved +5%</b>	36 out of 36 final reports issued within 5 working days of agreement of management responses

5.2.2. The delivery target for 2012/13 was achieved and all but one target of the other targets was achieved or exceeded.

## 5.3. Audit Planning

5.3.1. Further to the plan agreed by the Committee, 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 were made to the 2012/13 Internal Audit Plan have been shown in Appendix C.

5.3.2. The new bi-borough Internal Audit service combining the services for Hammersmith and Fulham plus Kensington and Chelsea will formally start from 1 July 2013. The service will be hosted from Kensington and Chelsea and the new Director of Audit is Moyra McGarvey. The service will continue to work closely with the Westminster council internal audit service to provide a co-ordinated and cost-effective service.

**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**

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

**LIST OF APPENDICES:**

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



## APPENDIX A

### Audit reports Issued 1 January to 31 March 2012

We have finalised a total of 16 audit reports for the period to 1 January to 31 March 2013. In addition, we have issued a further 11 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	2012/13	WLA Home Support Contract Management	Sue Redmond	Satisfactory
2	2012/13	Safeguarding Adults	Sue Redmond	Satisfactory
3	2012/13	Lynx Tokens	Jane West	Satisfactory
4	2012/13	Recently Tendered Contracts - Summary Report	Jane West	Satisfactory
5	2012/13	FBPB Invoice Production and Billing	Jane West	Satisfactory
6	2012/13	ICT Programme Management	Jane West	Limited
7	2012/13	Housing Voids Performance Management	Mel Barrett	Limited
8	2012/13	S106 Economic Development and Regeneration	Mel Barrett	Satisfactory
9	2012/13	Housing Capital Management Programme	Mel Barrett	Limited
10	2012/13	Housing Rents Income Collection	Mel Barrett	Satisfactory
11	2012/13	Parking Software Contract management	Nigel Pallace	Satisfactory
12	2012/13	Total Facilities Management Procurement - Stage 1	Nigel Pallace	Substantial

**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
13	2012/13	Personal Budgets Income Recovery - Summary Report	Sue Redmond
14	2012/13	GLA Grants	Jane West
15	2012/13	Council Bank Details	Jane West
16	2012/13	SML Board Attendance - Summary Report	Jane West
17	2012/13	Risk Management BSI Gap Analysis	Jane West
18	2012/13	Highways Maintenance Summary Report	Nigel Pallace
19	2012/13	Parking Enforcement - Summary Report	Nigel Pallace

### Follow ups

No.	Audit Plan	Audit Title	Implemented	Partly Implemented	Not Implemented	Not Applicable
24	2012/13	Personal Service Companies	7	0	0	0
26	2012/13	Cedar Application	5	3	0	0
27	2012/13	Spydus Application	1	0	0	3
25	2012/13	Follow up Priority 1 recommendations	3	0	1	0

**APPENDIX B**

**Internal Audit reports in issue more than two weeks as at 31 March 2013**

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	Kenmont Primary School	Satisfactory	6/3/2013	Head teacher	20/3/2013	Auditee and Executive Director

## Amendments to 2012/13 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Corporate Services	Lynx Tokens	Added	
2	Corporate Services	HFBP Billing	Added	
3	Corporate Services	GLA Grants	Added	
4	Children's Services	Kenmont Primary, All-Saints Primary & Woodlane Primary	Added	Addition of 3 schools to even out three year rolling programme.
5	Environment, Leisure & Residential Services	ELRS Programme management	Added	
6	Transport and Technical Services	TTS Programme management	Added	
7	Environment, Leisure & Residential Services	Commercial Waste Management	Added	Bi-Borough audit transferred from RBKC audit plan.
8	Adult Social Care	TCES Prepaid System	Added	
9	Corporate Services	Council Bank Details	Added	
10	Children's Services	CHS Procurement	Added	
11	Corporate Services	PCI DSS IT audit (part 2)	Added	

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	2010/11	Children's Services	Pre Booked Travel and Accommodation	Satisfactory	The booking policies which are in draft form should be finalised and made available to staff responsible for requesting transport bookings. This may be achieved by publishing them on the Council's intranet.	2	31/3/2013	Travel Procurement Manager	Implementation date amended from 30/9/11 to 30/4/12 (IAM - 10/2/12) IA - Advised on 12/9/2012 that a further reorganisation is underway and therefore the booking policies will need to be reviewed once this has been completed and the new approach decided. Implementation date revised from 30/4/2012 to 31/3/2013
Page 185 2	2011/12	Corporate Services	Information Sharing - Partnerships	N/A	An Information Sharing Agreement (ISA) should be developed for each Partnership that the Council has entered into and should as a minimum meet all of the requirements tested as part of this audit. All business areas should also complete a Privacy Impact Assessment (PIA) when compiling a business case for entering into a partnership/contract. Since the audit work was undertaken a template ISA and a Privacy Impact Assessment have been developed.	1	28/2/2013	Information Manager & Contract / Partnership Managers	IA 9/5/2013 - Tri Borough working has impacted on Privacy Impact Assessments as each borough works to different procedures. Meeting held on 22 April 2013 to discuss next steps. Statistical analysis on PIA take-up in WCC to date to be undertaken. Information Manager to draft an options paper on the various PIA approaches that can be undertaken across tri-borough in order to satisfy sovereign compliance objectives and shared working which will include the risks and costs for each option. Final options paper to be taken to the tri-borough Corporate Services Programme Board for a decision. 28/2/2012 due to privacy impact project. Implementation of this project was delayed as team delayed by extenuating circumstances and issues over the summer which delayed project work. Hoping to obtain the necessary approval by February 2013 and then seek further permission to implement from H&F Business Board