London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Agenda

Thursday 13 February 2014
7.00 pm
COMMITTEE ROOM 1 - 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

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http://www.lbhf.gov.uk/Directory/Council_and_Democracy

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Date Issued: 05 February 2014

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee
Agenda

13 February 2014

Item		**Pages**
1.	**MINUTES OF THE PREVIOUS MEETING**	1 - 8

(a) To approve as an accurate record and the Chairman to sign the minutes of the meeting of the Audit, Pensions and Standards Committee held on 5 December 2013, and;

(b) To note the outstanding actions.

2. APOLOGIES FOR ABSENCE

3. DECLARATIONS OF INTEREST

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.

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.

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.

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.

4. CAPITA PRESENTATION

Capita, as the fund's Pensions Administrator, will give a presentation to the Committee on their work.

5. PENSION VALUE AND INVESTMENT PERFORMANCE 9 - 29

This report prepared by Deloitte, provides details of the performance and market value of the Council's Pension Fund investments for the quarter ending 31st December 2013.

6.	**PENSION FUND - MANAGER BRIEFINGS**	30 - 55
	The first separate quarterly briefing with fund managers took place on 20th January 2014. Majedie and MFS presented to the meeting and outlined their approach to investing, the reasons for their recent performance and their plans for the future. This report sets out their presentations.	
7.	**PENSION FUND - FUNDING STRATEGY STATEMENT**	56 - 67
	The Local Government Pension Scheme regulations require all local authority pension funds to publish and keep under review a Funding Strategy Statement, which sets out the Fund's plan for achieving full funding. The timing of the review of this report is to coincide with the finalising of the actuarial valuation. The statement has been revised from the existing version to provide more clarity about how different types of employer will be treated in the Fund.	
8.	**CUSTODIAN TENDER EXERCISE**	68 - 70
	This report recommends that the custodian service is re-tendered. In order to maximise value and efficiency from this, it is proposed to do this jointly with Westminster City Council and using the national LGPS framework for custodian services.	
9.	**TREASURY MANAGEMENT STRATEGY 2014-15**	71 - 90
	The report sets out the Council's Treasury Management Strategy for 2014/15. The Committee is asked to comment on the measures proposed.	
10.	**CERTIFICATION OF 2012/13 STATEMENT OF ACCOUNTS AND ANNUAL AUDIT LETTER**	91 - 100
	This report informs Members that the 2012/13 Statement of Accounts have now been formally certified. It also includes the Annual Audit Letter, for information, which summarises findings previously reported to Committee in September 2013.	
11.	**GRANTS REPORT 2012-13**	101 - 110
	The report details the results of work conducted by KPMG to certify grant claims in respect of the 2012/13 financial year.	
12.	**2013/14 AUDIT OPINION PLAN**	111 - 137
	This report details the 2013/14 External Audit Plan as set-out by the Council's auditor, KPMG. The plan (Appendix 1) describes how the auditor will deliver the financial statements audit work and sets out their approach to value for money (VFM) work for 2013/14.	
13.	**ANNUAL GOVERNANCE STATEMENT ACTION PLAN, OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT AND**	138 - 148

FRAUD RESPONSE PLAN

This report summarises:

- Progress on implementing recommendations arising from the Audit Commission 2012/13 Annual Governance Report
- The action plans relating to the control weaknesses identified in the 2012/13 Annual Governance Statement and progress in implementing these action plans.
- Progress on implementing the recommendations in the Fraud Response Plan

14. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT 149 - 213

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

15. INTERNAL AUDIT PLAN 14/15 214 - 245

This report summarises the internal audit approach used to develop the Internal Audit plans for the 2014/15 year as well as providing the audit plans.

16. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 OCTOBER TO 31 DECEMBER 2013 246 - 255

This report summarises internal audit activity in respect of audit reports issued during the period to 31 December 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 paragraph 3 of Schedule 12A of the said Act, and that the public interest in maintaining the exemption currently outweighs the public interest in disclosing the information.

18. EXEMPT MINUTES OF THE PREVIOUS MEETING 256 - 258

London Borough of Hammersmith & Fulham

Audit, Pensions and Standards Committee

Minutes

Thursday 5 December 2013

PRESENT

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

Other Committee Members: Eugenie White

Officers: Jane West, Executive Director of Finance and Corporate Governance, Mel Barrett, Executive Director of Housing and Regeneration, Stephen Kirrage, Director of Property Services and Asset Management, Hitesh Jolapara, Bi-Borough Director of Finance, Jonathan Hunt, Tri-Borough Director of Pensions and Treasury, Nick Austin, Bi-Borough Director of Environmental Health, Geoff Drake, Senior Audit Manager, Michael Sloniowski, Bi-Borough Risk Manager, Andrew Hyatt, Bi-Borough Head of Fraud, Richard Buckley, Bi-Borough Head of Corporate Safety and Residential Operations, Nicola Webb, Tri-Borough Pensions Officer and Owen Rees, Committee Coordinator.

1. MINUTES OF THE PREVIOUS MEETING

In response to a question from the Chairman, Jane West, Executive Director for Corporate Finance and Governance, said that the auditor had rejected the objections to the accounts and would be issuing the certificate shortly.

RESOLVED THAT

The minutes of the meeting of the Committee on 26th September be agreed as a true and correct record.

2. APOLOGIES FOR ABSENCE

There were none.

3. DECLARATIONS OF INTEREST

Councillor Murphy declared a pecuniary interest in item 122, and left the meeting during discussion of that item.

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

4. ACTUARIAL VALUATION

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out the findings of the triannual actuarial valuation of the Pension Fund. He said that the valuation was based on the 31st March 2013, though the actuary made changes where material information emerged after that date. He said that the Committee had had two informal meetings with the actuary during the process.

He outlined the key assumptions used by the actuary, particularly their use of an Economic Discount Rate, rather than a Gilt Based Discount Rate. He explained the factors considered in devising the Economic Discount Rate, as it related to gilts and to equities, the formula used to weigh them, and the increased stability of contribution this offered the Council.

Councillor Ivimy asked how a change to the make-up of the fund might affect the actuary's view of the level of funding. Mr. Hunt said that the actuary had based the discount rate on the asset allocation on page 14, and he would supply the Committee with an answer as to how a change in allocation would affect the weighted averages used in devising the discount rate.

Mr Hunt then set out the membership breakdown of the fund, noting that only 26% of members were still contributing, with the rest either deferred or retirees. In response to a question from Councillor Murphy, Mr. Hunt confirmed that the majority of deferred members no longer worked in local government, or had ceased to pay into their pension.

Mr Hunt set out the changes to the LGPS from 2014, including the introduction of the 50/50 scheme. He then gave the ongoing costs of the scheme to the employers, which would be 14.2% of members' salaries owed as an employer contribution, with the deficit recovery element taking the total to 22.3%. He noted that the Council now expressed the deficit recovery element as a cash scheme. He said that this would lead to a £500,000 annual reduction in contributions by the Council over a 3-year period, and a 22 year recovery period. Mr. Hunt noted that, while the Council held discussions with the actuary, the regulations around pension provision bound the employer to implement her judgement.

Councillor Murphy asked what the impact of retaining contribution levels at their previous rate would be on the recovery period. Mr. Hunt said that the sum involved was small in relation to the fund as a whole, but he would provide an exact answer.

Councillor Iggulden said that the performance of the Fund during the period since the last valuation reflected credit on those managing funds on behalf of the fund, and the Committee's advisers. He said that some acknowledgement of the Committee's thanks should be sent to them as a result.

The Chairman agreed with Councillor Iggulden's suggestion, and said that the strong performance of the fund meant that only an evolutionary change to asset allocation was necessary.

Councillor Cartwright asked about the Government consultation to merge funds. Mr. Hunt said that the Government was consulting on three options, which included a single scheme, a single investment scheme and 5 to 10 schemes.

Eugenie White said that she was concerned at the diminution of the “trustee” role, particularly as the reform could see local government pension schemes becoming primary investors in infrastructure. She noted that larger funds had produced increased benefits in the Netherlands, but that without comparable investment strategies, the comparison might not hold.

The Chairman said that there were infrastructure funds that could be invested in by funds, and that collective vehicles were being established; as such, he did not believe that assets need to be pooled. However, it was the case that fund managers had benefited from fragmentation and been able to charge different and higher fees to different councils.

RESOLVED THAT

The initial results of the 2013 actuarial valuation of the Pension Fund be noted.

5. PENSION VALUE AND INVESTMENT PERFORMANCE

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out the Fund’s performance in the quarter to 30th September 2013. He noted, in light of the fund valuation, that Majedie, MFS, and Ruffer had comfortably outperformed their benchmark over the valuation period, while Barings and Goldman Sachs had marginally outperformed theirs. He added that the Legal and General mandate was linked to the fund’s liabilities, and negative performance may not be entirely disappointing.

Councillor Iggulden asked whether managers with a similar mandate to Goldman Sachs had delivered better performance. Mr Hunt said that he would supply the Committee with comparator data.

Councillor Ivimy asked why the Legal and General mandate was in place. Eugenie White said that the mandate, which had been proposed by P-Solve, was designed to mitigate interest rate risk. She said that rising interest rates might make for stronger performance. The Chairman said that a review of Matching Fund strategy was necessary.

Councillor Ivimy asked about the level of risk in the Majedie portfolio. Mr Hunt said that the risk was not excessive, but that Majedie had held a number of stocks which had performed well, and had been operating under a revised mandate since July 2012 which allowed them to invest in a small proportion of overseas equities.

RESOLVED THAT

The report be noted.

6. PENSION FUND MANAGER BRIEFINGS

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out a proposal to hold four briefings to allow the Committee to meet with its fund managers. He said that officers from the Pensions team would attend, and make a note, which would be submitted to the next meeting of the Committee, together with any presentations received.

RESOLVED THAT

Separate quarterly briefings are set up with fund managers, with a summary of each briefing reported back to the next Committee meeting.

7. TREASURY MID-YEAR REVIEW 2013-14

Jonathan Hunt, Tri-Borough Director of Treasury and Pensions, introduced the report, which set out treasury management activity in the first 6 months of the 2013-14 financial year.

RESOLVED THAT

The report be noted.

8. CORPORATE HEALTH AND SAFETY MANAGEMENT ANNUAL REVIEW

Nick Austin, Bi-Borough Director of Environmental Health, introduced the report, which gave a summary of health and safety activity undertaken by the Council in the previous 12 months. He said that work had been undertaken in conjunction with the Council's Risk Management service, with the aim of ensuring that the Council met its duty of care. He outlined the 3 inspections undertaken by the Health and Safety Executive, and the outcomes of those inspections.

Councillor Cartwright asked how, given the limited resource available, the service took responsibility for such a wide area. Mr. Austin said that the service did not take responsibility as such, with health and safety an everyday management responsibility, with the service providing an audit an expert advice function.

Councillor Dewhirst asked about fire safety education for Council tenants. Stephen Kirrage, Director of Property Service and Asset Management, said that information was included in the quarterly updates to tenants, and that it was part of the new MITIE contract. The contract included a requirement for an annual inspection of all housing stock, which would identify any additional work in a timely fashion.

In response to a question from Councillor Murphy regarding works undertaken to address fire risk by bringing doors up to code, Mr. Kirrage said that the Council was working to a 7 year programme, but that any unsafe doors should be replaced within the next 6-12 months.

The Chairman asked about gas certification, given the previous issues. Mel Barrett, Executive Director of Housing and Regeneration, said that the Council now took a robust approach, led by a dedicated Head of Health and Safety within Housing, He said that a new policy would be established with MITIE, and that the historic gap in the function, caused by the split between retained functions and H & F Homes,. had been closed, with the reincorporation of H & F Homes.

Councillor Murphy asked where responsibility lay for the duty of care in the relationship with Amey. Richard Buckley, Bi-Borough Head of Corporate Safety and Residential Operations, said that the Council retained a duty of care, but that any negligence by Amey would be addressed through the contract, and that liability with the Health and Safety Executive would fall on Amey in those circumstances.

In response to further questions, he confirmed that a plan was in place to manage the Linford Christie Stadium, and that works at Bagleys Lane would be carried out in the current financial year.

RESOLVED THAT

The report be noted.

9. CORPORATE ANTI FRAUD SERVICE REPORT 1 APRIL 2013 TO 30 OF SEPTEMBER 2013

Andrew Hyatt, Bi-Borough Head of Fraud, introduced the report, which set out the first 6 months of activity by the Council's Corporate Anti-Fraud Service (CAFS). He said that, subject to the report being issued, the Government announced that the launch of a single benefit fraud investigation service would go ahead in 2014-15. He said that DCLG had announced plans to offer transitional support for non-benefit fraud investigation but no detail had been announced.

Jane West, Executive Director of Finance and Corporate Governance, said that there was anxiety regarding the possible loss of powers as a result of the change; this would make the investigation of tenancy fraud more difficult.

Mr. Hyatt also outlined plans for a national tenancy fraud amnesty and work undertaken with housing associations to increase investigations of potential frauds.

Councillor Murphy asked about the shortage of homes in the borough used to quantify the value of recovered tenancies. Mr. Hyatt undertook to supply this information for 1, 2 and 3 bedroom properties.

RESOLVED THAT

The report be noted.

10. ANNUAL GOVERNANCE STATEMENT ACTION PLAN, OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT AND FRAUD RESPONSE PLAN

Geoff Drake, Senior Audit Manager, introduced the report, which included the Fraud Response Plan. He said that there were 4 outstanding recommendations on that plan, 3 of which could not be implemented yet due to timing.

Councillor Murphy asked about the discrepancies in the contracts register. Mr. Drake confirmed that the Council had an unknown number of contracts which were not on the register, and an audit in Children's Service had confirmed that such contracts existed. Discussions were ongoing with departments and Corporate Procurement with a view to ensuring the register was complete.

Councillor Ivimy asked whether the identified poor record keeping that may have been to hide fraud. Mr. Drake said that while the poor record keeping was at least part of the cause of the failure to notify the centre, the audit had found no evidence indicating fraud.

The Chairman expressed surprise that contracts were not identifiable from the accounts. Jane West, Executive Director of Finance and Corporate Governance, said that the Council's current IT software did not require a cross reference to authorise payment, and did not offer sufficient management information to identify all contracts being paid out. Hitesh Jolapara, Bi-Borough Director of Finance, said that single payments were sometimes necessary, and said that the Council had made more of these historically, in agreeing care packages for children, for instance. He said that, concomitant to the introduction of managed services, the Council would be undertaking an exercise to ensure its supplier list was complete.

RESOLVED THAT

The report be noted.

11. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT

Michael Sloniowski, Bi-Borough Risk Manager, introduced the report, which set out risk management activity in the period since the last meeting. He said that agreement had been reached on a Tri-Borough approach to risk management, which would create a straightforward process in use across the three boroughs. He said that while the boroughs reached different assessments of risk, they would use the same templates.

RESOLVED THAT

The report be noted.

12. INTERNAL AUDIT QUARTERLY REPORT

Geoff Drake, Senior Audit Manager, introduced the report, which set out the performance of the internal audit service in the previous quarter. He said that 7 audit reports were finalised in the period, along with 1 management letter and 2 follow ups. He said that the audit plan was 37% complete.

Councillor Cartwright expressed concern that the audit report on the Edward Woods Estate had not been formally submitted to the Committee. Mr. Drake said that all the limited assurance Internal Audit reports had been made available to Committee members in the shared online folder that continue to host these reports;

he would review additional options for providing this information toCommittee members going forward.

Councillor Cartwright outlined the case as had been reported to the Council's Cabinet, and said that it represented a huge failure of project management. He said that cultural change was required, along with the introduction of a gateway system similar to that used by the Government. He said that a full post-implementation report should also be required. Mr. Drake said that the internal audit of the project had identified the failure to use the Council's project management toolkit (which had not been introduced at the time of the project's inauguration) and improved benefits management as the 2 audit recommendations.

Mel Barrett, Executive Director of Housing and Regeneration, said that Councillor Cartwright's characterisation of the project was accurate, and said that it had been misconceived and subject to mission creep thereafter, without adequate checks and balances, particularly in ensuring that changes to specification and market conditions were reflected in the business case through an iterative process. He said that members had been poorly advised by officers, within H & F Homes and once those services had been brought back in house.

He said that, while the project was historic in nature, it had already informed a number of decisions made, particularly the decision to enter into a joint venture for housing development, and the skill set the Council sought when recruiting officers who work in this area.

Stephen Kirrage, Director of Property Services and Regeneration, updated the Committee on the position with regards to the completion and handover of the finished homes from the contractor. He said that the project had had a high number of officers involved over its lifetime. He said that lessons had been learnt, particularly in ensuring that all projects had appropriate initiation documents and regular review of commercial viability.

Councillor Ivimy asked how the initial valuation had been arrived at. Mr. Barrett said it appeared from H & F Homes internal documentation that it had been validated by an estate agency, but that there had been no attempt to revisit the valuation as specifications changed.

The Committee agreed that information on limited assurance reports and any other matters of concern should be reported to the Committee.

RESOLVED THAT

The report be noted.

13. EXCLUSION OF THE PUBLIC AND PRESS

RESOLVED THAT

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

14. PENSION FUND INVESTMENT ADVISER APPOINTMENT

RESOLVED THAT

Deloitte Total Reward and Benefits Limited be appointed to be Investment Adviser to the Pension Fund for a period of five years with the option to extend for a further two years.

15. EXEMPT MINUTES OF THE PREVIOUS MEETING

RESOLVED THAT

The exempt minutes of the meeting of the Committee held on 26th September 2013 be agreed as a true and correct record.

Meeting started: 7.03 pm
Meeting ended: 9.47 pm

Chairman ....

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h&f the low tax borough	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** 13th February 2014
PENSION FUND VALUE AND INVESTMENT PERFORMANCE	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification: For Information **Key Decision:** No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Nicola Webb, Tri-Borough Pension Fund Officer	**Contact Details:** Tel: 020 7641 4331 E-mail: nwebb @westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report prepared by Deloitte, provides details of the performance and market value of the Council's Pension Fund investments for the quarter ending 31st December 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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Quarterly Fund Manager reports	Nicola Webb 020 7641 4331	16th Floor, Westminster City Hall

LIST OF APPENDICES:

Appendix 1: Deloitte Quarterly report for quarter ended 31st December 2013

London Borough of Hammersmith & Fulham Pension Fund

Investment Performance Report to 31 December 2013

Executive Summary

Deloitte Total Reward and Benefits Limited
January 2014

Contents

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Appendices

Appendix 1 – Fund and Manager Benchmarks

Appendix 2 – Manager Ratings

Appendix 3 – Risk Warnings

1 Market Background

Three and twelve months to 31 December 2013

The fourth quarter of 2013 saw positive returns on UK equities, with the FTSE All Share Index returning 5.5% as economic indicators and the outlook for UK growth continued to improve. Smaller companies slightly outperformed the biggest stocks in the market, with the FTSE 100 and the FTSE Small Cap indices posting returns of 5.1% and 6.0% respectively over the 3 month period.

All sectors posted gains over the quarter, with Telecommunications leading the pack (10.4%) whilst the returns in the Utilities and Basic Materials sectors were more muted (0.1% and 0.3% respectively).

Similar to last quarter, global equity markets outperformed the UK over the fourth quarter when measured in local currency terms, but underperformed the UK in sterling terms. This was due to the appreciation of sterling against major global currencies, which once again meant that currency hedging was beneficial to UK investors as the FTSE All World Index returned 8.1% in local currency terms but just 5.0% in sterling terms. The US was the top performing region (10.4% local, 7.9% sterling) whilst the emerging markets lagged (3.2% local, -0.7% sterling).

Despite the Bank of England reiterating that it is unlikely to raise interest rates in the near future, UK nominal gilt yields continued to tick up over the quarter as the US Federal Reserve announced it would begin tapering its asset purchasing programme in early 2014. UK nominal gilts therefore lost value over the 3 months to 31 December 2013, with the All Stocks Gilt Index and Over 15 Year Gilt Index returning -1.4% and -1.8% respectively.

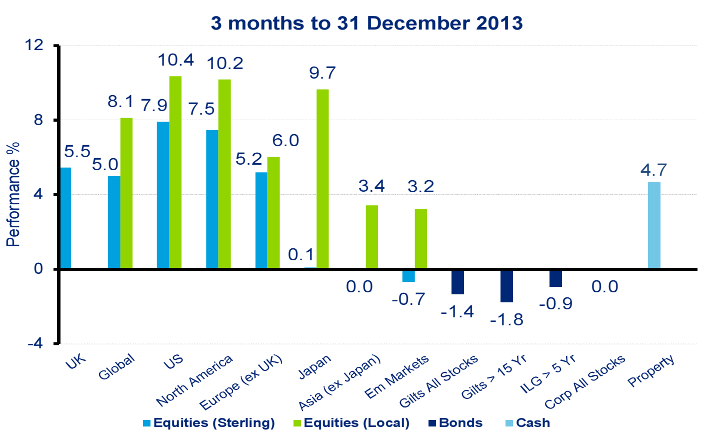
Returns on UK index linked gilts were also negative over the fourth quarter, as real yields increased slightly across all maturities - the Over 5 Year Index-linked Gilts Index returned -0.9%. Corporate bond returns were broadly flat over the same 3 month period as income received offset the effect of slightly increasing corporate bond yields.

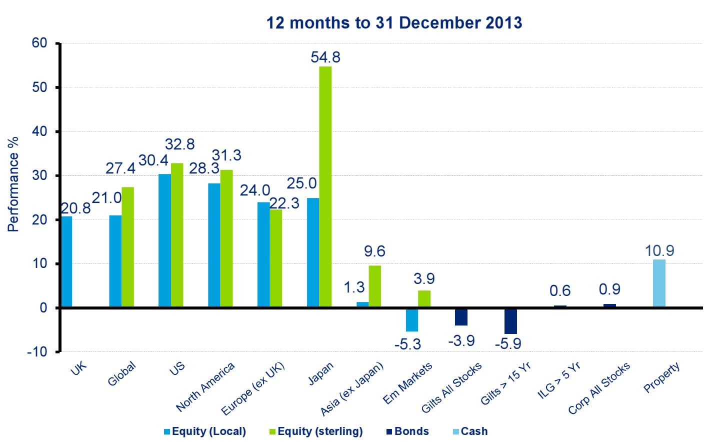
Over the year to 31 December 2013, UK equity markets returned 20.8% as measured by the FTSE All Share Index. Market gains were driven by smaller stocks, as the FTSE Small Cap Index return (32.8%) surpassed that of the FTSE 100 Index (18.7%). As per the fourth quarter, returns in the Telecommunications sector were the strongest (54.6%) whilst the Basic Materials and Utilities sectors lagged behind (-13.2% and 7.0% respectively).

Global equity markets slightly outperformed the UK over 2013 as the FTSE All World Index returning 27.4% in local currency terms and 21.0% for unhedged sterling investors. Currency hedging was beneficial in most regions, as sterling appreciated against most major world currencies (especially the Japanese yen), but not in Europe, as sterling depreciated against the euro and Swiss franc. Emerging market equities lagged developed markets over the year, as the former returned just 9.6% in local terms and -5.3% in sterling terms, whilst developed market returns were in double digits.

Returns on nominal UK gilts were negative over 2013, as yields increased significantly across all maturities. The All Stocks Gilt Index and Over 15 Year Gilt Index returned -3.9% and -5.9% respectively. Yields on UK index linked gilts also increased across the board over the year, but to a lesser extent, so the Over 5 Year Index-linked Gilts Index returned 0.6% over the period. There were small gains to be had in the corporate bond market over the 12 months to 31 December 2013 - the iBoxx All Stocks Non Gilt Index returned just 0.9%.

The UK property market continued to rebound, returning 4.7% over the fourth quarter and 10.9% over 2013 as a whole.





2 Total Fund

2.1 Investment Performance to 31 December 2013

Over the quarter, the Total Fund outperformed its benchmark by 3.4%. All the managers except MFS (Overseas Equities) and LGIM (LDI Bonds) outperformed their respective benchmarks over Q4 13, with Majedie (equities), Barings (Dynamic assets), Ruffer (Dynamic assets) and Goldman Sachs (Bonds) outperforming their benchmarks by 0.7%, 0.9%, 0.5% and 0.3% over the quarter.

Over the one year and three years to 31 December 2013 Majedie, Barings and Ruffer outperformed, helping performance at the Total Fund level. Over the three years period to 31 December 2013 the Fund has outperformed its benchmark by 0.3%.

The table below summarises the investment performance to 31 December 2013 by manager.

	Last Quarter (%)			Last Year (%)			Last 3 Years (% p.a.)			Since inception[4] (% p.a.)		
	Fund		B'mark	Fund		B'mark	Fund		B'mark	Fund		B'mark
	Gross	Net[1]		Gross	Net[1]		Gross	Net[1]		Gross	Net[1]	
Majedie	6.7	6.6	6.0	31.3	30.9	23.2	16.1	15.7	11.6	12.3	11.9	9.5
MFS	4.3	4.2	5.1	20.3	19.9	21.4	9.7	9.3	8.6	10.5	10.1	9.3
Barings	2.0	1.9	1.1	8.0	7.5	4.5	5.0	4.5	4.8	8.0	7.5	5.2
Ruffer	1.6	1.4	1.1	12.4	11.6	4.5	5.9	5.1	4.8	12.4	11.6	5.2
Goldman Sachs	1.4	1.3	0.6	4.4	4.0	2.5	3.1	2.7	2.8	3.2	2.8	2.2
LGIM	-1.9	-1.8	-1.6	1.9	1.7	1.0	9.8	9.6	16.1	4.1	3.9	4.5
Invesco	0.4	0.2	-	7.3	6.4	-	13.2	12.3	-	14.6	-	-
Unicapital	0.2	-0.1	-	6.9	5.9	-	9.7	8.7	-	8.0	-	-
Total Assets[3]	**3.2**	**3.1**	**2.7**	**15.8**	**15.4**	**11.8**	**9.5**	**9.1**	**9.5**	**4.9**	**4.5**	**-**
Fund Benchmark[2]			**-0.2**			**3.3**			**9.2**			**3.1**

Figures are quoted net and gross of fees. Source: Northern Trust (Custodian). Numbers have not been independently verified.

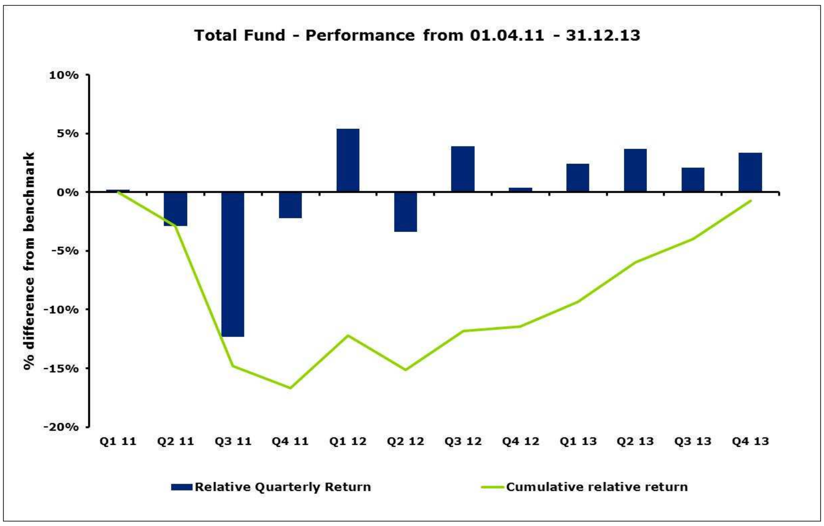
(1) Estimated by Deloitte, details of the Manager fees are given in an appendix

(2) Fund Benchmark is the Liability Benchmark + 2.2% p.a. as per the Statement of Investment Principles.

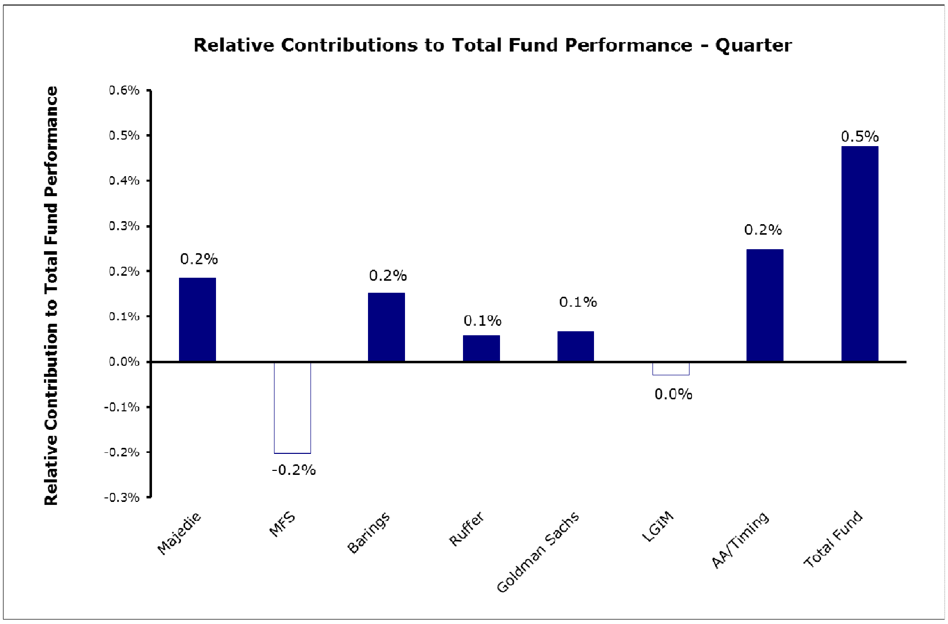
(3) The Total Assets benchmark is the weighted average performance of the target asset allocation.

(4) Since inception dates are: Majedie 31/08/05, MFS 31/08/05, Barings 31/07/08, Ruffer 31/07/08, Goldman Sachs 31/03/03, LGIM 30/06/99, Invesco 30/09/09, Unicapital 30/09/09 and Total fund 31/12/99.

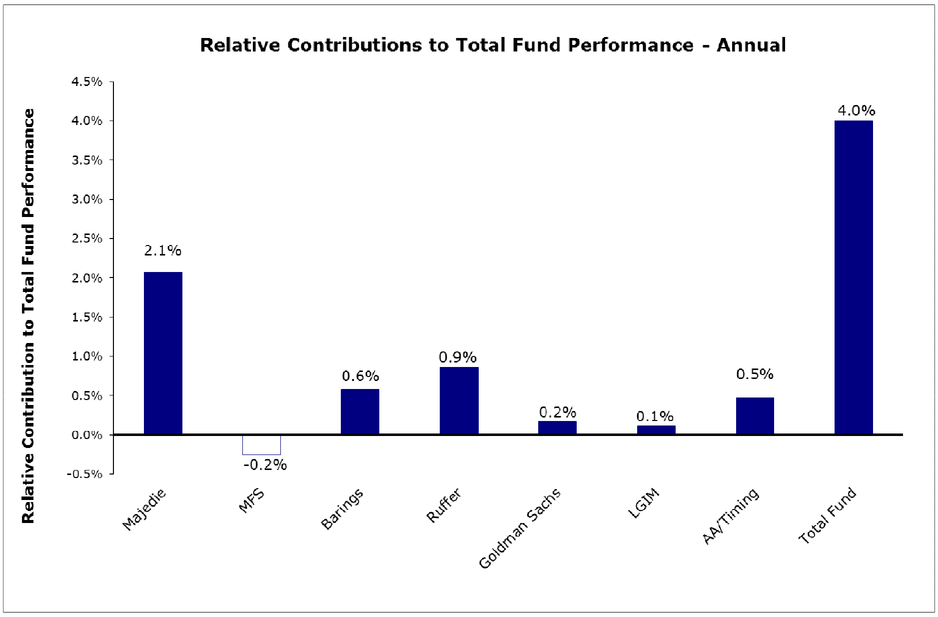
The chart below compares the performance of the Fund relative to the Fund's Benchmark over the three years to the end of 2014. This highlights that over the past 3 years the cumulative performance has been slightly behind the Benchmark.



2.2 Attribution of Performance to 31 December 2013



The Fund outperformed the composite benchmark by 0.5% over the fourth quarter of 2013, partly due to good relative performance from Majedie and Barings, and partly from AA/Timing (i.e.being overweight equities).



Over the last year the Fund outperformed the composite benchmark by 4.0%, with all managers except MFS contributing to the outperformance. Majedie was the strongest positive performer over 2013, contributing over half the outperformance with only about one-quarter of the total Fund assets.

2.3 Asset Allocation as at 31 December 2013

The table below shows the assets held by manager and asset class as at 31 December 2013.

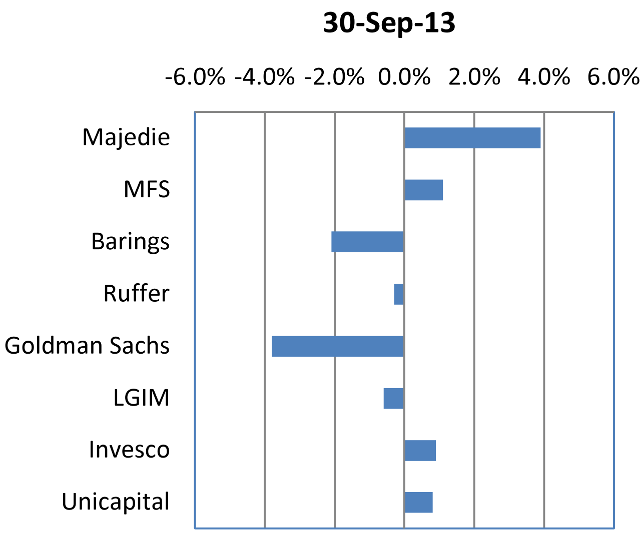
Manager	Asset Class	Actual Asset Allocation					
		30 Sept 2013 (£m)	31 Dec 2013 (£m)	30 Sept 2013 (%)	31 Dec 2013 (%)	Benchmark Allocation (%)	Control Range (%)
Majedie	UK Equity (Active)	194.7	202.6	26.4	26.8	22.5	n/a
MFS	Overseas Equity (Passive)	174.1	181.5	23.6	24.0	22.5	n/a
	Total UK Equity	**368.8**	**384.1**	**50.0**	**50.9**	**45.0**	n/a
Barings	Dynamic Assets	123.4	125.9	16.7	16.7	18.8	n/a
Ruffer	Dynamic Assets	80.7	82.0	10.9	10.9	11.2	n/a
	Total Dynamic Asset Allocation	**204.1**	**207.9**	**27.7**	**27.5**	**30.0**	n/a
Goldman Sachs	Matching Asset	63.9	64.8	8.7	8.6	12.5	n/a
LGIM	Matching Asset	87.9	82.3	11.9	11.4	12.5	n/a
	Total Bonds	**151.8**	**151.0**	**20.6**	**20.0**	**25.0**	n/a
Invesco	Private Equity	6.4	6.4	0.9	0.8	0.0	n/a
Unicapital	Private Equity	6.0	5.5	0.8	0.7	0.0	n/a
	Total Private Equity	**12.4**	**11.9**	**1.7**	**1.6**	**0.0**	n/a
	Total	**737.0**	**754.9**	**100.0**	**100.0**	**100.0**	

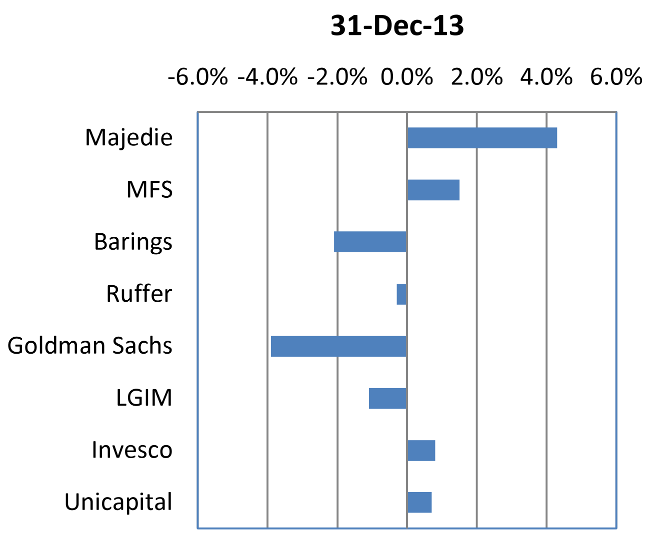
Source: Northern Trust (Custodian) and have not been independently verified

Figures may not sum to total due to rounding

Over the quarter the market value of the assets rose by c. £17.9m as growth assets posted strong returns.

As can be seen below, the Fund remains overweight Majedie and underweight Barings and Goldman Sachs relative to the agreed benchmark allocation.





3 Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

Manager	Mandate	Triggers for Review	Rating
Majedie	UK Equity	Further turnover within the core investment team Re-opening the UK equity products with no clear limits on the value of assets that they would take on	1
MFS	Overseas Equity	Departures of either of the lead portfolio managers Indications of a change to the process or investment philosophy	1
Barings	Dynamic Asset Allocation	Further significant growth in assets Departure of a senior member of the investment team	n/a
Ruffer	Dynamic Asset Allocation	Departure of either of the co-portfolio managers from the business Any significant change in ownership structure	n/a
Goldman Sachs	Bonds	Significant changes to the investment team responsible for the Fund Any significant change in process or philosophy	2
LGIM	Matching Bonds	Departures of senior members of the LDI investment team	1

* The Provisional rating is applied where we have concerns over changes to an investment manager

Majedie

Total AUM increased over the quarter to £9.0bn, largely reflecting the positive performance of equity markets.

Having lost their largest client during the year as a result of a change in the scheme's investment strategy, Majedie was able to "recycle" some of the capacity as well as seeing further inflows into the funds from existing defined contribution clients.

During the second half of the year, the decision was taken to re-open Tortoise, reflecting the increased capacity as a consequence of the move towards the fund having more of a global "flavour". As at the end of the year assets in the fund had increased to around £780m – largely from inflows from existing clients: Majedie will look to reassess the situation when assets reach £900m

After the quarter end Majedie announced that it had been in discussion with Majedie Investments PLC to run the assets of the investment trust. The assets will be invested into a combination of the UK Equity Fund and Tortoise.

As part of this move, Majedie Asset Management has bought back around 10% of its share capital for cancellation from Majedie Investment which will reduce Majedie Investment's holding in the asset management business from 26% to around 18%. Over the next 4 years Majedie has the option to buy back a further 2 ½% per annum which would then reduce Majedie Investment's holding to below 10%.

In January Majedie announced the arrival of Tom Record from Baillie Gifford who will lead on the development of the global long only equity offering. There are no plans that Tom will take on responsibility for any of the existing assets, although he will be expected to contribute towards the debate around the non UK holdings within the existing funds.

Deloitte view – We see the move by Majedie Asset Management to reduce the level of ownership by Majedie Investment as a positive, but have expressed our concerns about the decision to take on the management of Majedie Investment Trust. Majedie has assured us that it will only be managing the investments and will not get involved with the day to day management of the Investment Trust.

We see the appointment of Tom Record who joined from Baillie Gifford's Emerging Markets team as being an interesting and logical development. Following on from the events of a few years ago with the former MFS team, Majedie is keen to manage any launch of a global product (and the associated expectations) carefully.

We continue to rate Majedie positively for their UK equity capabilities

MFS

2013 was a good year for the MFS business, with the organisation growing assets under management to around $412bn, Whereas growth over the last 5 years has averaged ariound 7% per annum, the expectation is that this will slow over the next 5 years to around 3.5% per annum, partly reflecting the fact that 11 of the organisation's equity strategies have closed in some way to new business.

Turnover in personnel was below average over the year at around 1%.

Deloitte View: We rate MFS positively for its global equity capabilities

Barings

There were no changes to the team or process managing the Dynamic Asset Allocation fund over the quarter.

Assets invested in the strategy increased by over £806m over the year, taking total assets to just over £8.5bn. While the product is closed to new investors, Barings is still willing to take in further cashflows from existing clients.

Deloitte view - The Barings DAA product is an interesting product in the "Diversified Growth Fund" (DGF) space where a large component of the return is reliant on the manager successfully implementing asset allocation decisions.

Ruffer

The total AUM as at 31 Decmber 2013 was £16.3bn – up from £14.1bn at the end of 2012. While the absolute return strategy is closed for new business from institutional clients, Ruffer will take in assets from retail clients, albeit growth is being managed carefully on a queue basis. Capacity is reviewed on a regular basis and consideration is being given to whether to re-open the strategy. Ruffer currently employs 183 staff.

Deloitte view – We rate Ruffer positively for its absolute return capabilities, recognising that it is one of the more actively managed strategies within the DGF universe.

Goldman Sachs

There have been no changes to the team or processes applied in the management of the Fund's mandate.

Deloitte view – Although we rate Goldman Sachs for some of its bond capabilities, the organisation would not be an automatic choice on a short list of candidates for a new mandate.

LGIM

LGIM has continued to grow its LDI business with over £215bn of assets as at the end of September 2013 across around 180 clients investing via segregated, bespoke pooled or pooled accounts.

There were no changes to the Solutions Team over the quarter

Deloitte view – We rate LGIM positively for their LDI capabilities.

4 Majedie – UK Equity

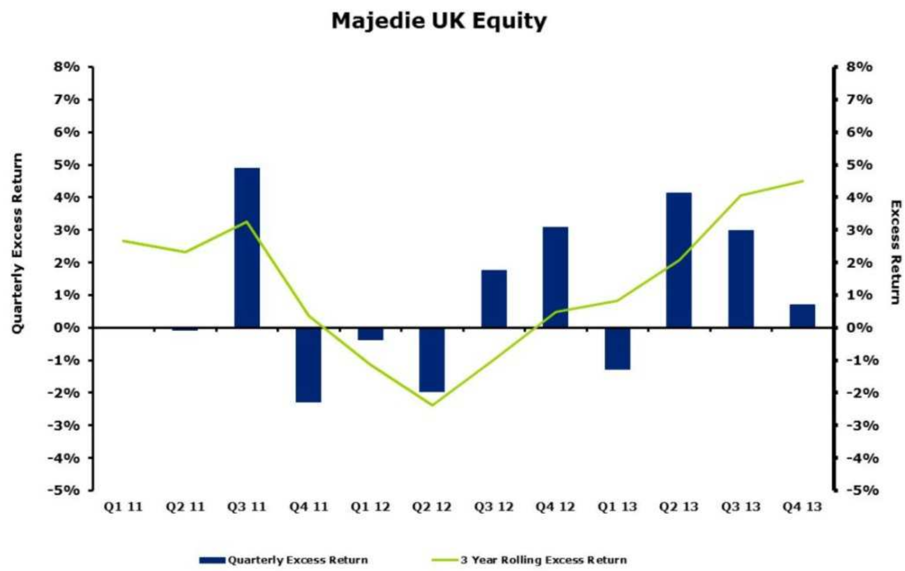
Majedie was appointed to manage an actively managed segregated UK equity portfolio. The manager's remuneration is a combination of a tiered fixed fee, based on the value of assets and a performance related fee of 20% of the outperformance which is payable when the excess return over the FTSE All Share +2% p.a. target benchmark over a rolling three year period. The investment with Majedie comprises a combination of the UK Equity Fund, the UK Focus Fund and a holding in Majedie's long/short equity fund, Tortoise.

4.1 UK equity – Investment Performance to 31 December 2013

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception 31/08/05 (% p.a.)
Majedie – Gross of fees	6.7	31.3	16.1	12.3
Net of fees(1)	6.6	30.9	15.7	11.9
Target	6.0	23.2	11.6	9.5
Relative	0.7	8.1	4.5	2.8

Source: Northern Trust

(1) Estimated by Deloitte



Both the UK Equity Fund and the UK Focus Fund delivered strong retruns over the quarter (+1.1% and +2.4% respectively relative to their benchmarks), adding to the strong performances of previous quarters to give a total outperformance for the 12 months of +9.5% and +16% respectively.

Among the key equity positions that contributed to performance over Q4 13 were some of the non UK holdings Hewlett- Packard, PostNL and Intesa San Paolo, alongside underweightings or zero weights in HSBC, BAT and Glencore Xstrata. Since their introduction, Majedie estimate their stock selection of non UK holdings has added approximately 1.6% pa to performance.

Tortoise also had a good quarter, returning 3.2%, to take the 12 month figure to 18.5%.

Given the recent strength of equities, Majedie is more cautious about the outlook for the asset class and has made portfolios more defensive.

5 MFS – Overseas Equity

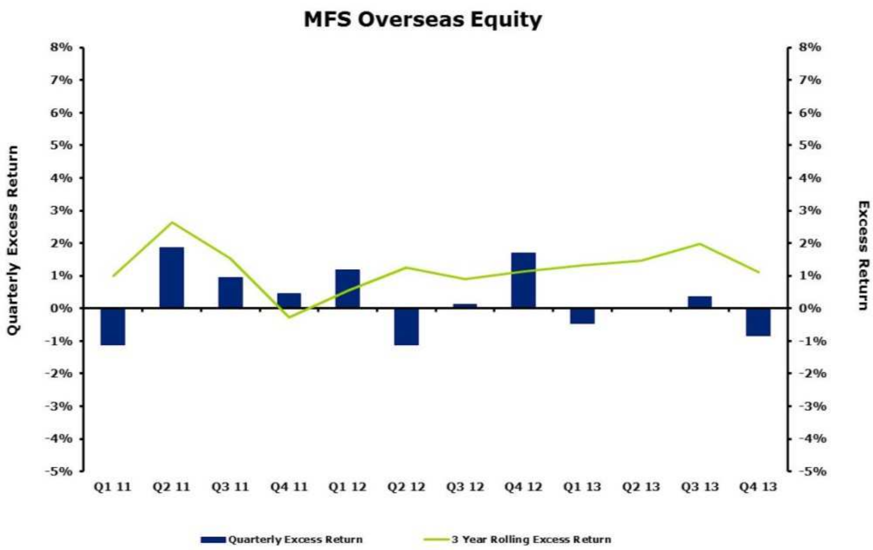
MFS was appointed to manage an overseas equity portfolio with the objective of delivering 2% outperformance on FTSE World (ex UK) Index benchmark over rolling three year period. The manager is remunerated on a tiered fixed fee based on the value of assets.

5.1 Overseas Equity – Investment Performance to 31 December 2013

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since inception 31/08/2005 (% p.a.)
MFS – Gross of fees	4.3	20.3	9.7	10.5
Net of fees[(1)]	4.2	19.9	9.3	10.1
Target	5.1	21.4	8.6	9.3
Relative	-0.8	-1.1	1.1	1.2

Source: Northern Trust

(1) Estimated by Deloitte



The MFS fund has underperformed its benchmark over the quarter and the one year period to 31 December 2013, with stock selection being a clear detractor over the last 6 months. In particular stock selection within the technology, leisure and retailing sectors has detracted.

Overall, the portfolio will have benefited from the decision to be underweight Asian and Emerging Market stocks, althought the underweight in Japan will have detracted to an extent.

6 Barings – Dynamic Asset Allocation

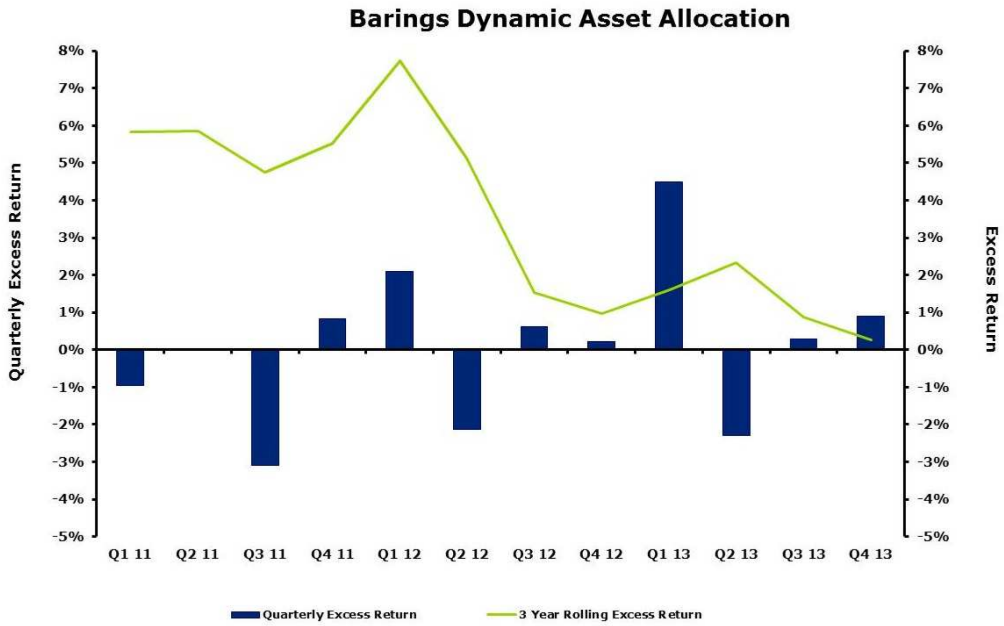
Barings was appointed to manage an absolute return portfolio with the aim to outperform the 3 Month sterling LIBOR benchmark by 4% p.a. The manager's has a fixed fee is based on the value of assets.

6.1 Investment Performance to 31 December 2013

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception 31/07/08 (% p.a.)
Barings – Gross of base fees	2.0	8.0	5.0	8.0
Net of fee[(1)]	1.9	7.5	4.5	7.5
Target	1.1	4.5	4.8	5.2
Relative	0.9	3.5	0.2	2.8

Source: Northern Trust

(1) Estimated by Deloitte



Barings outperformed over the quarter, returning 2.0% against a target return of 1.1%. Over longer time frames of one year, three years and since inception the portfolio has outperformed its target of LIBOR +4%.

Over the quarter the portfolio continued to have a preference for equities over bonds with the largest contribution to performance coming from a bias towards UK equities with the allocation to both the large and small cap equities adding to performance. Overseas developed equities also contributed positively in terms of the US, Europe and Global allocations, whereas disappointing stock selection within the Japanese equity portfolio detracted.

Exposure to US High Yield and Property, which produced flat returns over the quarter, along with the allocation to gold and index linked bonds detracted. During the year Barings reduced the allocation to gold within the portfolio.

7 Ruffer – Absolute Return

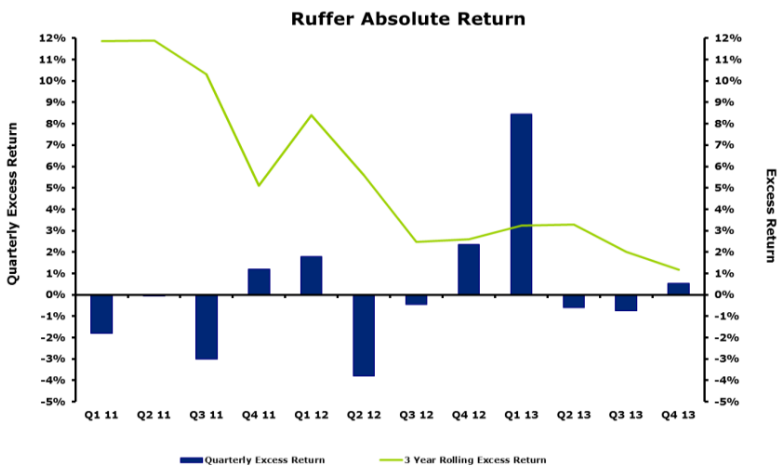
Ruffer was appointed to manage an absolute return mandate with the aim to outperform the 3 month Sterling LIBOR benchmark by 4% p.a. The manager's fixed fee is based on the value of assets.

7.1 Investment Performance to 31 December 2013

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception 31/07/08 (% p.a.)
Ruffer - Gross of fees	1.6	12.4	5.9	12.4
Net of fees[(1)]	1.4	11.6	5.1	11.6
Target	1.1	4.5	4.8	5.2
Relative	0.5	7.8	1.2	7.3

Source: Northern Trust

(1) Estimated by Deloitte



Over the quarter the portfolio outperformed the target by 0.5%. Over the one year and three years to 31 December 2013 Ruffer has outperformed the benchmark and target, beating the latter by 7.8% and 1.2% p.a. respectively.

The factor that contributed most to performance over Q4 13 was the allocation to Japanese equities, in particular Mitsubishi Electric and the life assurance sector. Western equities also contributed positively with strong performances shown from Volkswagen, BP, Microsoft and Lockheed Martin.

Offsetting this, to an extent, the gold, Index-Linked Gilts and options holdings that together comprise the "protective assets" detracted from performance over the quarter. Despite their disappointing contribution, Ruffer has decided to retian the protective assets holdings, casting back to the experiences of the nineties when the bull market ended abruptly as justification for doing so.

8 Goldman Sachs – Absolute Return Bonds

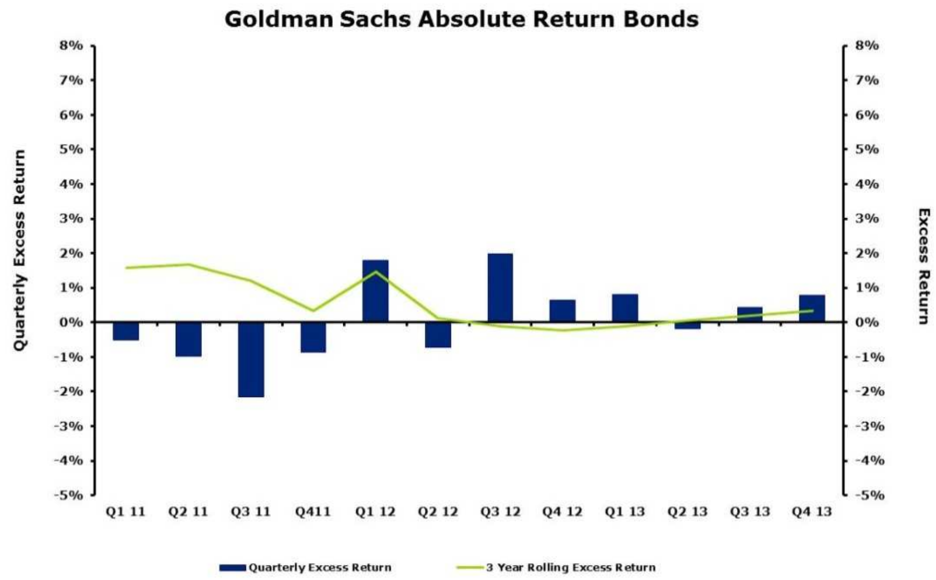
Goldman Sachs was appointed to manage an active bond portfolio with an aim to outperform the 3 Month Sterling LIBOR by 2% over a rolling three year period. The fees are based on the value of assets invested in the fund.

8.1 Investment Performance to 31 December 2013

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception 31/03/03 (% p.a.)
Goldman Sachs – Gross of fees	1.4	4.4	3.1	3.2
Net of fees[(1)]	1.3	4.0	2.7	2.8
Target	0.6	2.5	2.8	2.2
Relative	0.8	1.9	0.3	1.0

Source: Northern Trust

(1) Estimated by Deloitte



The fund outperformed its benchmark and target, beating the target by 0.8% and 1.9% over the quarter and one year respectively. However, over the longer 3 year period, performance is only marginally ahead of target, with the relative outperformance of the last two years being offset by the disappointment of the previous year.]

During the quarter the main contributors to performance were the cross-sector and duration strategies employed, while stock selection within the corporate bond strategy detracted. A combination of further tightening of credit spreads, helped by the continued demand for corporate bonds, added to returns along with the decision to be underweight US and UK duration.

Within the corporate selection strategy, a combination of stock specific factors in October along with the decision to overweight consumer products and REITs hurt performance.

9 LGIM – LDI Bonds

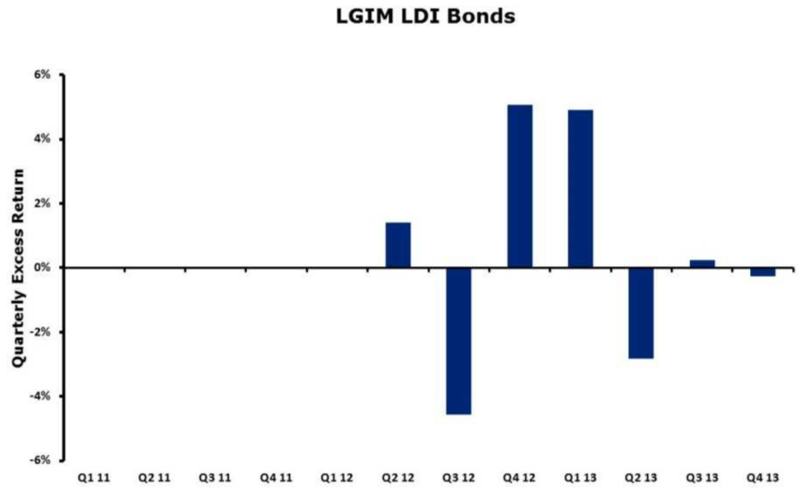
LGIM has a liability matching mandate with the aim of tracking the performance of a leveraged mixture of inflation-linked bonds. Fees are charged on the basis of the value of assets, subject to a minimum fee each year.

9.1 Investment Performance to 31 December 2013

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception 31/03/12 (% p.a.)
LGIM – Gross of fees	-1.9	1.9	-	4.1
Net of fees(1)	-1.8	1.7	-	3.9
Target	-1.6	1.0	-	4.5
Relative	-0.3	0.9	-	-0.4

Source: Northern Trust.

(1) Estimated by Deloitte



In the table and chart above we have only shown the performance since the mandate was changed to the current bespoke LDI structure. While we have been provided with longer run performance figures, we are in discussion with LGIM and Northern Trust about the returns for both the portfolio and the benchmark.

Over the quarter, the portfolio underperformed its benchmark by 0.3%.

It should be borne in mind that the portfolio has not been rebalanced since it was put in place where the intial structure of the mandate was based on cashflows from the 2010 valuation provided to LGIM.

Appendix 1: Fund and Manager Benchmarks

The table in this Appendix details the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 31 December 1999.

Manager	Asset Class	Allocation	Benchmark	Inception Date
Majedie	UK Equity	22.5%	FTSE All-Share Index +2% p.a. over three year rolling periods	31/08/05
MFS	Overseas Equity	22.5%	FTSE World (ex UK) Index +2% p.a. over rolling three year period	31/08/05
Barings	Dynamic Asset Allocation	18.8%	3 Month Sterling LIBOR +4% p.a.	31/07/08
Ruffer	Dynamic Asset Allocation	11.2%	3 Month Sterling LIBOR +4% p.a.	31/07/08
Goldman Sachs	Absolute Return Bonds	12.5%	3 Month Sterling LIBOR +2% p.a.	31/03/03
LGIM	LDI Bonds	12.5%	Track the performance of a leveraged mixture of inflation-linked government bonds	11/01/12
Invesco	Private Equity	0.0%	n/a	30/09/09
Unicapital	Private Equity	0.0%	n/a	30/09/09
	Total	**100.0%**	Liability Benchmark + 2.2%	

The benchmark used to measure the estimated movement in liabilities for the Fund, the "Liability Benchmark" is defined using the following range of index linked gilts, designed to closely match the Fund's liabilities.

45%	Index Linked Treasury Gilt 1.25% 2017
20%	Index Linked Treasury Gilt 1.25% 2027
20%	Index Linked Treasury Gilt 1.25% 2055
10%	Index Linked Treasury Gilt 1.125% 2037
5%	Index Linked Treasury Gilt 0.75% 2047

The investment objective for the Fund is to achieve the Liability Benchmark plus 2.5% per annum.

Appendix 2: Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager's business management;
- The sources of ideas that go to form the portfolio ("alpha generation");
- The process for including the ideas into the portfolio ("alpha harnessing"); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

Appendix 3: Risk Warnings

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

Our advice must not be copied or recited to any other person than you and no other person is entitled to rely on our advice for any purpose. We do not owe or accept any responsibility, liability or duty towards any person other than you.

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Agenda Item 6

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<tr><td colspan="2">h&f
the low tax borough</td><td>London Borough of Hammersmith & Fulham

AUDIT, PENSIONS AND STANDARDS COMMITTEE

13th February 2014</td></tr>
<tr><td colspan="3">PENSION FUND – FUND MANAGER BRIEFINGS</td></tr>
<tr><td colspan="3">Report of the Executive Director of Finance and Corporate Governance</td></tr>
<tr><td colspan="3">Open Report</td></tr>
<tr><td colspan="3">Classification: For Information

Key Decision: No</td></tr>
<tr><td colspan="3">Wards Affected: All</td></tr>
<tr><td colspan="3">Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance</td></tr>
<tr><td colspan="2">Report Author: Nicola Webb, Tri-Borough Pension Fund Officer</td><td>Contact Details:
Tel: 020 7641 4331
E-mail: nwebb @westminster.gov.uk</td></tr>
</table>

1. EXECUTIVE SUMMARY

1.1. The first separate quarterly meeting with fund managers took place on 20th January 2014. Majedie and MFS presented to the meeting and outlined their approach to investing, the reasons for their recent performance and their plans for the future. Further meetings are being booked with the Fund's other fund managers in the next few months.

2. RECOMMENDATIONS

2.1. That the report and appendices are noted.

3. REASONS FOR DECISION

3.1. No actions came out of the meeting.

4. INTRODUCTION AND BACKGROUND

4.1. At the meeting of the Committee on 5th December 2013, it was agreed that separate quarterly meetings be set up with fund managers and that a summary of each meeting is reported back to the formal Committee meetings.

4.2. The first meeting took place on 20th January 2014 and representatives from Majedie Asset Management and MFS International (UK) Limited presented to the meeting attended by four committee members and an officer. The presentation slides they used are attached as Appendices 1 and 2 respectively.

5. PROPOSAL AND ISSUES

5.1. Below is a summary of the key points arising from the presentations by the fund managers at the meeting:

5.2 Majedie Asset Management

- The positive relative performance seen over the last 12 months has been due to investments in cyclical stocks such as airlines, stock selection in peripheral Europe and being underweight to shares with exposure to emerging markets.
- The main detractor from performance was their underestimation of the extent of issues with some major UK retailers.
- Going forward, Majedie have re-positioned the portfolio to be less cyclical and more defensive, as they believe 2014 will be a year for capital preservation and not capital appreciation. The main risk they see to this strategy is that they could miss out on performance if the markets follow a euphoric track this year, however if this happens, it is likely to be a short term phenomenon only.
- Majedie commented that the buy-back of more equity in the firm by the employees is a positive move, aligning their interests with those of clients even more closely.

5.3 MFS International (UK) Limited

- The performance of MFS over the last 12 months has been slightly behind benchmark. MFS stated that the strategy they follow would not be expected to outperform in the market conditions seen in the last 12 months, which have been driven by momentum.
- MFS explained that their process is to select quality companies with above average growth prospects and hold them for the long term – usually 5-10 years. The detractors from performance over the short term were stock selection in technology, where being underweight was a negative and retailing where the Fund's exposure to retailers in the emerging markets was affected by the general performance of the emerging markets.
- MFS plan to continue with their long term approach with low turnover of names of around 15% and adding or trimming according to relative valuations in between. They stated that the overall theme of their portfolio was the emergence of the middle class consumer.

5.4 Future meetings with other fund managers are being booked and the Committee will be informed of the proposed dates as soon as possible. The outcomes from these meetings will be reported to the next meeting of the Committee in May/June 2014.

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. There are no direct financial implications arising from this report.

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location

LIST OF APPENDICES:

Appendix 1: Fund Manager presentation – Majedie Asset Management

Appendix 2: Fund Manager presentation – MFS International (UK) Limited

MAJEDIE
Asset Management

LONDON BOROUGH OF HAMMERSMITH & FULHAM

Simon Hazlitt
Mark Hepburn
20 January 2013

Taking a long term approach to deliver all-weather returns

YOUR PERFORMANCE

	MARKET VALUE (31 DECEMBER 2013)	INCEPTION DATE	BENCHMARK	INVESTMENT TARGET
Hammersmith & Fulham* (UK Equity Fund)	£120,175,384	2 September 2005	FTSE All-Share Index	+2% net of fees over rolling three years
Hammersmith & Fulham* (UK Focus Fund)	£66,657,864	16 April 2008	FTSE All-Share Index	+2% net of fees over rolling three years
Hammersmith & Fulham (Tortoise)	£15,617,340	8 April 2009		Positive absolute returns in all market conditions

PERFORMANCE TO 31 DECEMBER 2013 (%)	3 MONTHS	12 MONTHS	SINCE INCEPTION	SINCE INCEPTION P.A.
Hammersmith & Fulham (UK Equity Fund)*	6.5	30.4	167.2	12.5
Relative	*+1.1*	*+9.6*	*+86.9*	*+5.2*
Hammersmith & Fulham (UK Focus Fund)*	7.9	36.8	115.2	14.4
Relative	*+2.4*	*+16.0*	*+69.2*	*+7.5*
Tortoise Fund	3.2	18.5	71.8	12.1

WHAT REALLY MATTERS TO YOU

Source: Majedie
*Provisional

PERFORMANCE ATTRIBUTION

UK Equity Fund – 6 months to 31 December 2013*

POSITIVE	PORTFOLIO WEIGHT (%)	INDEX WEIGHT (%)	PERFORMANCE IMPACT (%)
Int'l Consolidated Airlines	2.1	0.3	0.6
Intesa Sanpaolo	1.6	0.0	0.5
British American Tobacco	0.0	3.2	0.4
HSBC	2.6	6.4	0.4
Nokia	0.5	0.0	0.4

NEGATIVE	PORTFOLIO WEIGHT (%)	INDEX WEIGHT (%)	PERFORMANCE IMPACT (%)
Prudential	0.0	1.5	-0.2
Marks and Spencer	3.0	0.4	-0.2
Ryanair	0.8	0.0	-0.2
Rio Tinto	0.3	1.9	-0.3
Hewlett-Packard	1.5	0.0	-0.3

UK Focus Fund – 6 months to 31 December 2013*

POSITIVE	PORTFOLIO WEIGHT (%)	INDEX WEIGHT (%)	PERFORMANCE IMPACT (%)
PostNL	2.2	0.0	1.2
HSBC	0.0	6.4	0.8
ITV	2.7	0.3	0.8
Aviva	3.6	0.6	0.6
Kentz	1.4	0.0	0.6

NEGATIVE	PORTFOLIO WEIGHT (%)	INDEX WEIGHT (%)	PERFORMANCE IMPACT (%)
Marks and Spencer	3.9	0.4	-0.2
Man Group	1.8	0.1	-0.2
Rio Tinto	0.7	1.9	-0.2
Wolfson Microelectronics	1.6	0.0	-0.3
Hewlett-Packard	2.7	0.0	-0.4

Tortoise Fund Contribution – 6 months to 31 December 2013

POSITIVE	LONG/ SHORT	PERFORMANCE IMPACT (%)
PostNL	Long	1.9
Nokia	Long	1.7
Royal KPN	Long	1.4
Orange	Long	1.3
Unione di Banche Italiane	Long	1.2

NEGATIVE	LONG/ SHORT	PERFORMANCE IMPACT (%)
Amazon.com	Short	-0.5
J. C. Penney	Long	-0.5
Prudential	Short	-0.5
Aberdeen Asset Management	Short	-0.6
Hargreaves Lansdown	Short	-0.8

Source: Majedie
*Provisional

TRANSACTIONS

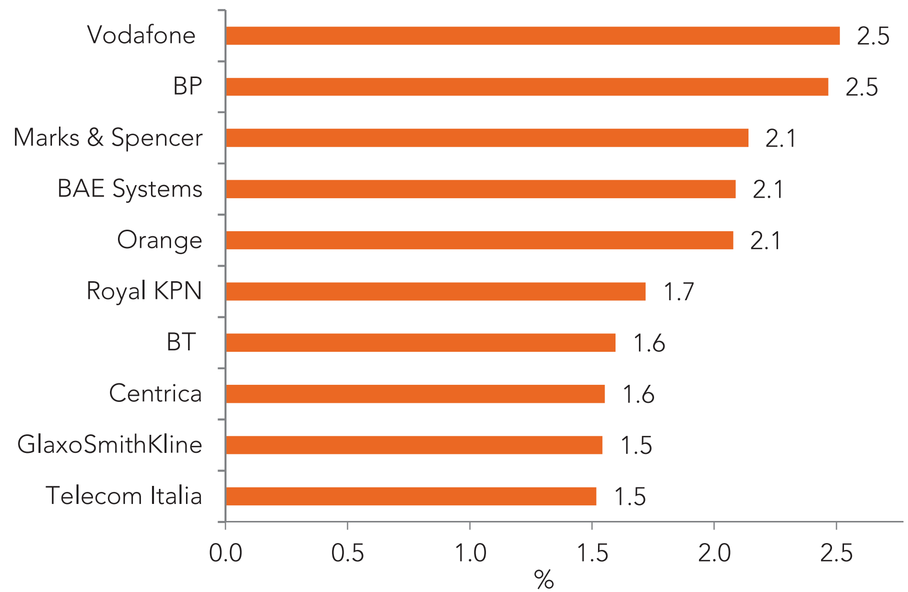
Hammersmith & Fulham (ex Tortoise): 6 months to 31 December 2013

Purchases	Sales
ROYAL DUTCH SHELL	INTERNATIONAL CONSOLIDATED AIRLINES
ASTRAZENECA	ITV
CENTRICA	KINGFISHER
GLAXOSMITHKLINE	ROYAL BANK OF SCOTLAND
TESCO	INTESA SANPAOLO
ROYAL KPN	HEWLETT-PACKARD
MORRISON	BARCLAYS
ENEL	BANK OF AMERICA
RWE AG	TELEFONICA
FINMECCANICA	LLOYDS

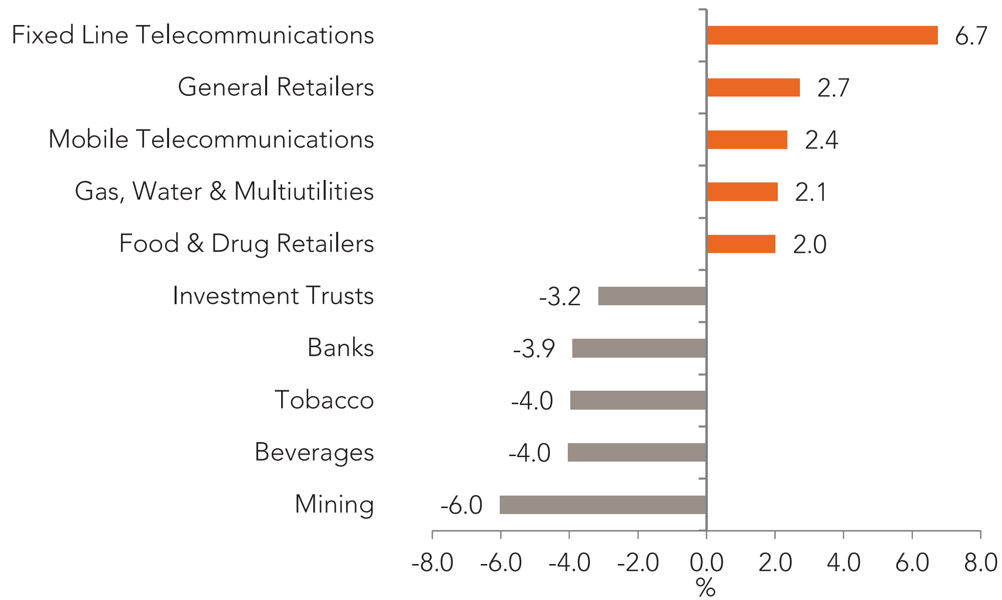
Source: Majedie, as at 31 December 2013

CURRENT POSITIONING – UK EQUITY FUND

Key Stock Positioning (Relative)



Key Sector Positioning (Relative)



Index breakdown

INDEX	FUND%	INDEX %
FTSE 100	63.9	82.5
FTSE 250	10.7	14.7
International	12.2	0.0
Small Cap	3.4	2.8
AIM/Other	4.6	0.0
Fledgling	0.2	0.0
Cash	5.0	0.0

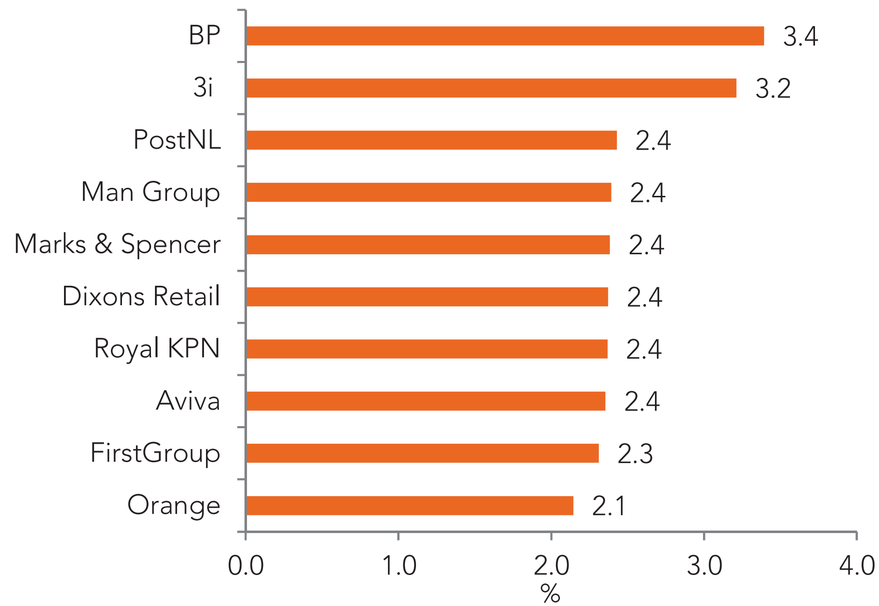
Portfolio Risk

BARRA	%
Active Risk	3.1
Beta	0.9

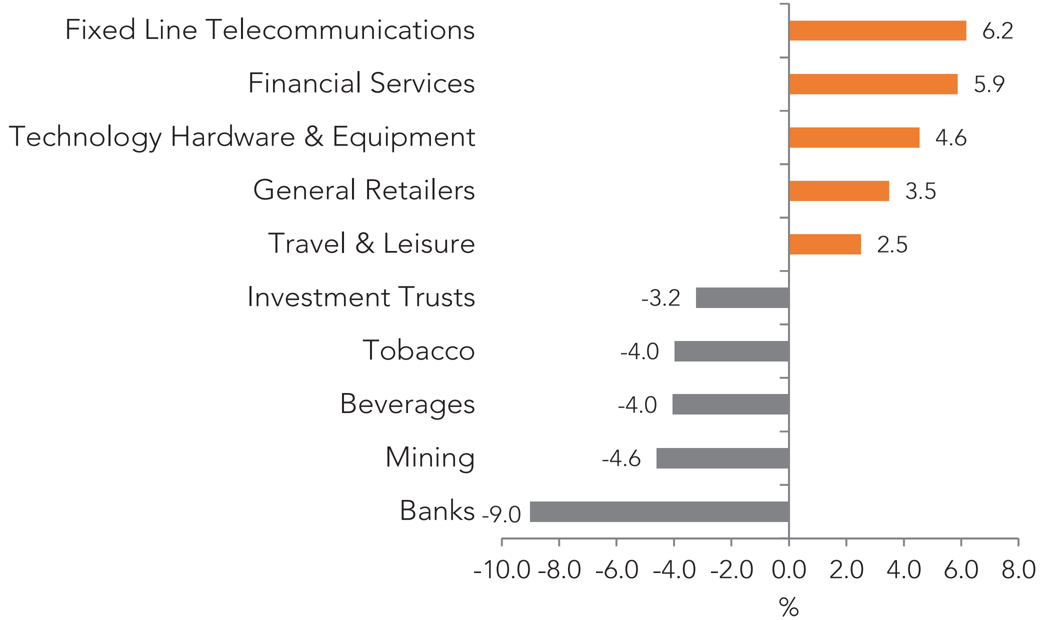
Source: Majedie, as at 31 December 2013

CURRENT POSITIONING – UK FOCUS FUND

Key Stock Positioning (Relative)



Key Sector Positioning (Relative)



Index breakdown

INDEX	FUND%	INDEX %
FTSE 100	56.4	82.5
FTSE 250	21.3	14.7
International	14.3	0.0
Small Cap	3.7	2.8
AIM/Other	0.0	0.0
Cash	4.3	0.0

Source: Majedie, as at 31 December 2013

TORTOISE FUND POSITIONING

Sector	Weighting (%)			Long	Short
	Long	Short	Net		
Telecommunications	14.2	-3.8	10.4	Orange, Telecom Italia, Royal KPN, Vodafone	Inmarsat, Verizon, Crown Castle International
Consumer Services	14.4	-6.0	8.4	Tesco, FirstGroup, Morrisons, Carnival, Mediaset, Air France-KLM, Int'l Consolidated Airlines, Abercrombie & Fitch, Marks and Spencer, Deutsche Lufthansa, Debenhams, Home Retail, Dixons Retail	Jeronimo Martins, SGPS, Crown Resorts Limited, Amazon.com, Next
Utilities	7.7	0.0	7.7	Centrica, Enel, RWE, E.ON	
Health Care	4.5	0.0	4.5	GlaxoSmithKline, AstraZeneca	
Oil & Gas	5.7	-3.0	2.7	Royal Dutch Shell, BP, Gazprom	Petrofac, AMEC
Technology	3.3	-3.9	-0.6	First Solar, Nokia, Hewlett-Packard, ON Semiconductor Corporation	Oracle, International Business Machines Corp, Apple
Basic Materials	0.0	-4.5	-4.5		Croda International, BHP Billiton, Rio Tinto
Financials	3.6	-9.2	-5.6	Mediobanca, Unione di Banche Italiane, Intesa Sanpaolo, Fondiaria, Royal Bank of Scotland	Ashmore, Standard Chartered, HSBC, Aberdeen Asset Management, Prudential, Bank of Nova Scotia
Industrials	4.3	-12.8	-8.5	Finmeccanica, Rentokil Initial, PostNL	Weir, Kone, Accenture, IMI, Aggreko, Intertek, Experian, Fastenal Company, Atlas Copco, Caterpillar
Consumer Goods	1.8	-14.4	-12.6	Nintendo	Imperial Tobacco, British American Tobacco, Marine Harvest, Unilever, LVMH Moet Hennessy Louis Vuitton, SABMiller, Bayerische Motoren Werke, Diageo, Persimmon
	59.6	-57.5	2.1		

Style	Weighting (%)		
	Long	Short	Net
Cyclical	21.4	-44.2	-22.9
Defensive	38.2	-13.3	24.9
	59.6	-57.5	2.1

Region	Weighting (%)		
	Long	Short	Net
Europe ex UK	25.3	-8.8	16.5
Other	3.2	-3.4	-0.2
UK	27.8	-32.7	-4.9
US	3.3	-12.7	-9.4

Source: Majedie, as at 31 December 2013

CORPORATE GOVERNANCE POLICY

Key Majedie Principles

1) Reference the Finance Reporting Council UK Corporate Governance Code 2010
   - Used as a reference, not as a prescription
   - Subscribe to ISS; research is used as a basis for further discussion with individual fund managers
   - Aim to vote on every resolution at all AGMs and EGMs
2) Maintain open dialogue with management
   - Engagement with management crucial for effective, representative governance of public companies; often confidential and outside of the voting season
3) Focus on remuneration structures
   - Need for a simple, transparent incentive framework – clearly communicated and understood by both management and shareholders
   - Meaningful director shareholdings (target a minimum 300% of salary over three years)
4) Allow flexibility for smaller companies
   - Close engagement with management to understand their structure and needs
   - Flexibility permitted on a case by case basis

CORPORATE GOVERNANCE ACTIONS

What we have done over the last six months:

1) Engaged with the Board of Intesa Sanpaolo

- A move by some members of the Board to oust the CEO
- CEO was acting as a force for good, unwinding some murky cross shareholdings
- We emphasised how important we felt his progress was – he was indeed ousted, we have been selling

2) Engaged with FirstGroup

- We felt that it was time for a change of Chairman, specifically to prioritise disposals to benefit a stretched balance sheet. A change has been announced

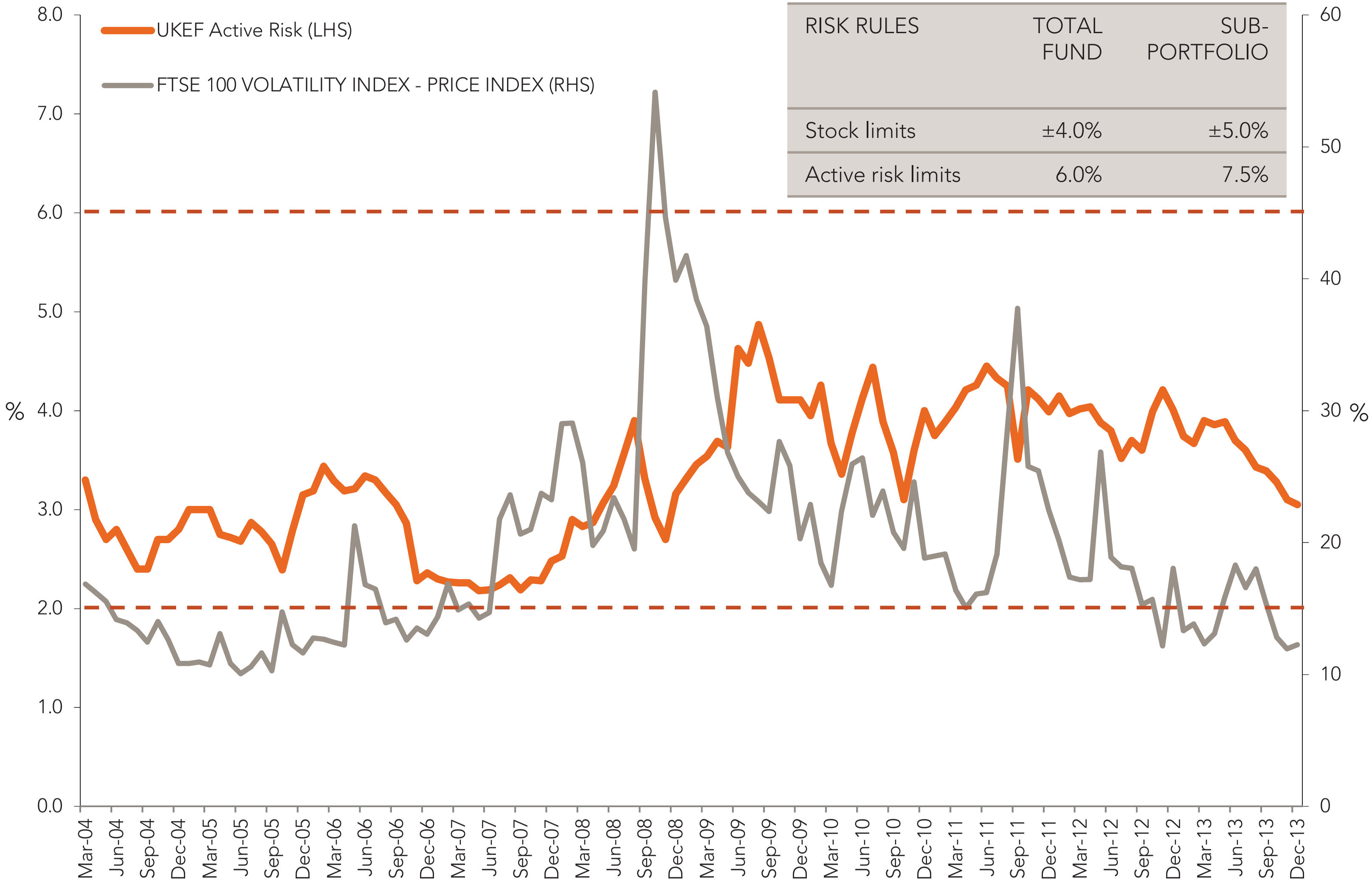
3) Engaged with Telecom Italia

- Voted to support the current Board – important in the context of a recent change of CEO
- We feel that the current Board's policy of asset disposals are in the best interests of shareholders

PORTFOLIO THEMES

THEME	PROPRIETARY IN-HOUSE RESEARCH	MONEY MAKING IDEAS
VALUATION	• Market has rerated, and now needs upgrades • Frothy multiples priced for perfection = red flag • Buy depressed valuations not priced for improvement – more protected if markets wobble	BP, Vodafone, Centrica, BAE Systems
EXPECTATIONS	• Sentiment turned vs early 2013 – bulls abound • Select large cap defensives out of favour • Crowded cyclical trade on peak margins	Tesco, GSK, Royal Dutch Shell, Peripheral Europe
MANAGEMENT LED CHANGE	• Macro masking operational improvement • New management, new strategy? • Corporate activity – M&A/ divestments	PostNL, Hewlett Packard, BP, 3i
STOCKPICKING	• 2014 less about macro, correlations falling • Fundamentals to drive stock performance • Identify specific industry/ regulatory change	M&S, European Telecoms, Mondi, BT
CENTRAL BANKS	• Policy error significant risk on stimulus withdrawal • Taper tantrum mark ii? Rates likely going higher • EM vulnerable to DM tightening	Avoiding EM exposure and bond proxies

ACTIVE RISK EVOLUTION



RISK RULES	TOTAL FUND	SUB-PORTFOLIO
Stock limits	±4.0%	±5.0%
Active risk limits	6.0%	7.5%

Source: Barra, as at 31 December 2013

NOTES

The following notes should be read in conjunction with the attached document

1. Issued by Majedie Asset Management Limited (authorised and regulated by the Financial Conduct Authority). Majedie Asset Management is a trading name of Majedie Asset Management Limited.

2. Past performance is not necessarily a guide to future performance. The value of investments and the income from them can fall as well as rise and is not guaranteed. You may not get back the amount originally invested. Changes in the rates of exchange between currencies may cause the value of investments to diminish or increase. Fluctuation may be particularly marked in the case of a higher volatility fund and the value of an investment may fall suddenly and substantially. Levels and the basis of taxation may change from time to time.

3. Any research in this document has been procured and may have been acted upon by Majedie Asset Management for its own purpose. The results of such research are being made available only incidentally. The views expressed do not constitute investment or any other advice and are subject to change. Information and opinions are derived from sources believed to be reliable at the original date of publication but Majedie Asset Management makes no representation as to their accuracy or completeness.

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MFS

MFS® GLOBAL GROWTH EQUITY EX UK

Presented to

London Borough of Hammersmith & Fulham Pension Fund

20 January 2014

In acting as investment manager, MFS International (U.K.) Limited ("we") have a fiduciary duty to at all times act in the interests of our clients and the underlying pension scheme members.

The information contained within this report has been compiled in accordance with the rules/regulations of the Financial Conduct Authority and/or the investment management agreement.

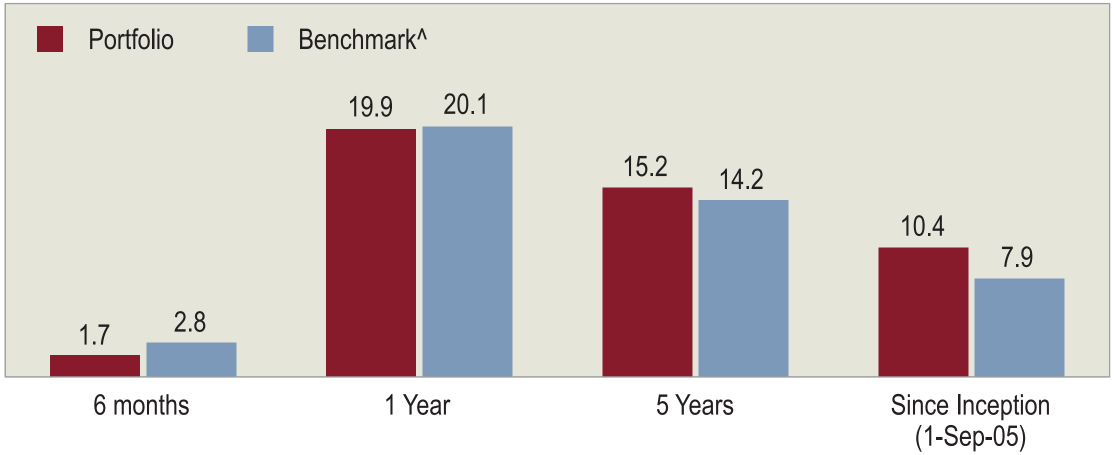
We consider that elements of this report are confidential and/or commercially sensitive under the Freedom of Information Act 2000. Disclosure therefore may only be made after consultation with MFS International (U.K.) Limited.

The information deemed confidential and/or commercially sensitive is indicated by category on the final page of this report.

FOR INSTITUTIONAL USE ONLY

Executive summary

Performance results (%) gross of fees (GBP) as of 30-Nov-13



6 month performance review as of 30-Nov-13

Contributors

- Stock selection in basic materials.
- Currency effect was positive. We do not actively manage currency in this portfolio.

Detractors

- Stock selection in technology and retailing.
- An overweight position in consumer staples.

Asset summary (GBP)

Beginning value as of 31-May-13	176,181,681
Contributions	0
Withdrawals	-487
Change in market value	+3,072,412
Ending value as of 30-Nov-13	179,253,605

Sector weights (%)

As of 30-Nov-13	Portfolio	Benchmark^
Top overweights		
Consumer Staples	16.0	8.4
Industrial Goods & Services	11.3	7.5
Retailing	11.9	10.0
Top underweights		
Autos & Housing	0.7	4.7
Financial Services	10.5	14.5
Utilities & Communications	0.0	3.9

^ MSCI AC World ex UK Growth (net div) linked to previous benchmark.

Source for benchmark performance: SPAR, FactSet Research Systems Inc.

Past performance is no guarantee of future results.
All periods greater than one year are annualised.

MFS Global Growth Equity
Distinguishing characteristics

What makes us different from other global growth managers?

Invest with long-term horizon
- Assess investment opportunities in context of 5-10+ year time horizon

Focus on high quality companies
- Invest in “blue chip” companies with durable and sustainable business models

Benefit from long-term above-average growth across full market cycles
- Invest in companies that can compound above average growth at high returns

Maintain strong valuation discipline
- Utilize patient and contrarian approach

Collaborate closely with MFS integrated global research platform
- Benefit from the MFS global research analysts located around the world

High-quality, conservative approach with long-term investment horizon

Performance drivers – sectors

Relative to MSCI AC World ex UK Growth Index (GBP) – 31 May 2013 to 30 November 2013

		Average relative weighting (%)	Sector selection (%)	+	Stock selection (%)	+	Currency effect (%)	=	Relative contribution (%)
Contributors	Basic Materials	-0.4	0.0		0.3		0.1		0.4
	Autos & Housing	-3.7	0.1		0.1		0.0		0.3
	Utilities & Communications	-3.6	0.0		0.0		0.1		0.1
	Transportation	-0.4	0.0		0.0		0.1		0.1
	Cash	0.8	0.0		0.0		0.1		0.0
	Energy	-1.0	0.0		-0.1		0.1		0.0
Detractors	Technology	-1.4	0.0		-0.5		0.0		-0.5
	Leisure	-1.7	-0.1		-0.4		0.1		-0.4
	Retailing	2.0	0.0		-0.6		0.1		-0.4
	Health Care	0.3	0.0		-0.4		0.1		-0.3
	Special Products & Services	2.4	0.1		-0.3		0.0		-0.2
	Financial Services	-3.4	0.0		-0.1		0.0		-0.1
	Consumer Staples	4.7	-0.4		0.1		0.3		-0.1
	Industrial Goods & Services	5.3	0.1		-0.2		0.1		0.0
Total			**-0.2**		**-2.0**		**1.0**		**-1.2**

Attribution results are generated by the FactSet application utilising a methodology which is widely accepted in the investment industry. Results are based upon daily holdings using a buy and hold methodology to generate individual security returns and do not include expenses. As such, attribution results are essentially estimates and may not aggregate to the total return of the portfolio or of the benchmark which can be found elsewhere in this presentation.

Performance drivers – stocks

Relative to MSCI AC World ex UK Growth Index (GBP) – 31 May 2013 to 30 November 2013

		Average Weighting		Returns		Relative
		Portfolio (%)	Benchmark (%)	Portfolio (%)[1]	Benchmark (%)	contribution (%)
Contributors	Naver Corp	0.6	0.1	75.5	75.5	0.3
	Cognizant Technology	1.1	0.2	34.4	34.4	0.3
	Sonova Holdings Ag	1.4	0.0	19.5	19.5	0.2
	Danaher Corp	2.3	0.3	12.1	12.1	0.2
	Inditex	1.2	0.2	20.0	20.0	0.2
Detractors	Pernod Ricard SA	2.3	0.2	-10.8	-10.8	-0.3
	Groupe Danone SA	2.9	0.3	-8.4	-8.4	-0.3
	BM&F Bovespa Sa	0.9	–	-27.4	–	-0.3
	Accenture Plc	2.3	0.3	-11.5	-11.5	-0.3
	Cia Hering	0.7	0.0	-30.7	-30.7	-0.3

[1] Represents performance for the time period stock was held in portfolio.

Attribution results are generated by the Factset application utilising a methodology which is widely accepted in the investment industry. Results are based upon daily holdings using a buy and hold methodology to generate individual security returns and do not include expenses. As such, attribution results are essentially estimates and may not aggregate to the total return of the portfolio or of the benchmark which can be found elsewhere in this presentation.

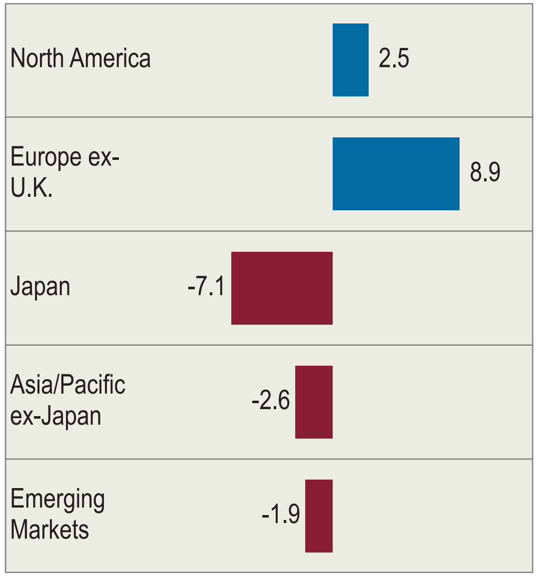
Sector weights

As of 30-Nov-13	Portfolio (%)	MSCI AC World ex UK Growth Index (%)	Underweight/overweight (%)
Consumer Staples	16.0	8.4	7.6
Industrial Goods & Services	11.3	7.5	3.8
Special Products & Services	5.3	3.4	1.9
Retailing	11.9	10.0	1.9
Health Care	13.0	12.3	0.7
Basic Materials	4.6	5.0	-0.4
Transportation	2.4	3.1	-0.7
Energy	3.9	4.8	-0.9
Leisure	6.5	7.6	-1.1
Technology	13.4	15.0	-1.6
Utilities & Communications	0.0	3.9	-3.9
Financial Services	10.5	14.5	-4.0
Autos & Housing	0.7	4.7	-4.0

0.4% cash and other assets are less liabilities.

Region and country weights

Underweight/overweight as of 30-Nov-13 (%)



	Portfolio (%)	MSCI AC World ex UK Growth Index (%)	Underweight/ overweight (%)
North America	**57.9**	**55.4**	**2.5**
United States	57.1	51.5	5.6
Canada	0.8	3.9	-3.1
Europe ex-U.K.	**28.3**	**19.4**	**8.9**
France	11.4	3.7	7.7
Switzerland	8.3	5.2	3.1
Denmark	1.7	0.8	0.9
Germany	4.1	3.3	0.8
Portugal	0.5	0.1	0.4
Italy	0.5	0.6	-0.1
Spain	1.1	1.5	-0.4
Netherlands	0.6	1.4	-0.8
Other [1]	0.0	2.8	-2.8
Japan	**1.3**	**8.4**	**-7.1**
Asia/Pacific ex-Japan	**2.2**	**4.8**	**-2.6**
Hong Kong	1.0	1.1	-0.1
Australia	1.2	3.1	-1.9
Other [1]	0.0	0.6	-0.6
Emerging Markets	**9.9**	**11.8**	**-1.9**
Brazil	3.7	1.3	2.4
Peru	1.0	0.1	0.9
Taiwan	1.9	1.3	0.6
India	1.0	0.7	0.3
Russia	0.7	0.7	0.0
South Korea	1.7	2.0	-0.3
Other [1]	0.0	5.7	-5.7

0.4% cash and other assets are less liabilities. Portfolio does not own securities in the Developed - Middle East/Africa region (0.2%).

[1] Portfolio does not own securities in the following countries: China 2.4%; Sweden 1.5%; South Africa 0.8%; Belgium 0.7%; Mexico 0.6%; Singapore 0.6%; and 18 other countries with weights less than 0.5% totaling 2.7%.

Top 10 portfolio holdings

As of 30-Nov-13	Country	Sector	Portfolio (%)	MSCI AC World ex UK Growth Index (%)
LVMH Moet Hennessy SA	France	Retailing	3.0	0.3
Danone	France	Consumer Staples	2.7	0.3
Google Inc.	United States	Technology	2.6	1.8
Accenture Plc	United States	Special Products & Services	2.6	0.3
Nestle SA	Switzerland	Consumer Staples	2.3	0.9
Pernod Ricard SA	France	Consumer Staples	2.2	0.1
Schlumberger Ltd	United States	Energy	2.2	0.7
Danaher Corp	United States	Industrial Goods & Services	2.0	0.3
Colgate-Palmolive Co	United States	Consumer Staples	2.0	0.4
Procter & Gamble Co	United States	Consumer Staples	1.9	–

Characteristics

As of 30-Nov-13		Portfolio	MSCI All Country World ex UK Growth Index
Fundamentals[1]	IBES long-term earnings per share growth[2]	11.8%	13.5%
	Price/earnings (12 months forward)	17.5x	17.7x
	Return on invested capital (3-year average)	21.6%	20.7%
	Market capitalisation (USD)	45.9 bn	40.2 bn
Portfolio construction	Number of holdings	86	1,355
	1 year turnover[3]	30%	–
Risk/reward (USD)	Barra predicted tracking error[4]	2.8%	–
	Information ratio[5]	0.7	–
	Up market capture[5]	100%	–
	Down market capture[5]	93%	–

No forecasts can be guaranteed.

[1] Weighted median.

[2] Source: Thomson Reuters.

[3] Lesser of purchase or sales/average market value.

[4] MSCI Source: Barra. The Barra information may only be used for your internal use, may not be reproduced or redisseminated in any form and may not be used to create any financial instruments or products or any indices. The Barra information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. Barra, each of its affiliates and each other person involved in or related to compiling, computing or creating any Barra information (collectively, the "Barra Parties") expressly disclaims all warranties (including without limitation, any warranties of originality, accuracy, completeness, timeliness, non-infringement, merchantability and fitness for a particular purpose) with respect to this information. Without limiting any of the foregoing, in no event shall any Barra Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including, without limitation, lost profits) or any other damages.

[5] Since client inception, 1-Sep-05.

Portfolio has produced strong risk-adjusted returns

Structure and additional information

MFS International (UK) Limited provides discretionary portfolio management services and provides distribution support to the MFS Meridian Funds a Luxembourg-based SICAV. These funds are recognised under section 264 of the UK Financial Services & Markets Act 2000. Past performance may not be repeated and is no guarantee of future returns. The value of investments and the income from them may fall as well as rise and an investor may not receive back the original amount invested. The value of funds may also rise and fall due to the impact of changes in currency exchange rates. The portfolio is actively managed, and current holdings may be different.

All reasonable precautions have been taken to ensure the information provided within this report is accurate. Certain information has been provided to MFS by third parties and this information is believed to be reliable and accurate. However, MFS does not guarantee this and accepts no liability.

For Equity securities: The security prices are official closing prices. The primary source of prices is Reuters although other sources may be used for certain types of financial instruments details of which are available on request.

For Fixed Income securities: The security prices are based on a 3:00 pm EST evaluated bid for U.S. securities and a 5 pm GMT London close evaluated bid for non-U.S. securities. Fixed Income security prices are primarily provided by FT Interactive.

Foreign exchange rates are 4:00 pm GMT (unless otherwise requested by the client) and have been obtained from Reuters.

The date and time of each individual transaction is available on request.

Composite: MFS Global Growth Equity Composite in GBP

Benchmark MSCI AC World Index Growth - Net Return

Creation Date: 17-Jan-2006

Inception Date: 1-Dec-2003

Investment Objective: Seeks long-term capital appreciation by investing principally in stocks of companies worldwide that have higher sustainable earnings growth and returns than their industry, improving fundamentals, and whose stock valuations do not fully reflect their long-term growth prospects. Investment discretion over portfolios is vested in a single, dedicated portfolio management team.

Institutional Separate Account Fee Schedule

Asset Breakpoints (GBP)	Fee
For Assets Up To 25 MM	65 bp
For Assets From 25 MM To 50 MM	50 bp
For Assets From 50 MM To 100 MM	45 bp
For Assets Over 100 MM	40 bp

Accounts are eligible for inclusion in the composite if they have assets greater than 1.2 MM GBP (2 MM USD). Accounts are included as of their first full month of performance.

Derivative Exposure Disclosure

Certain MFS portfolios in this composite may utilize derivative instruments to manage risk or to achieve timely and cost effective implementation of the investment strategy. As of 30-Sep-2013, the number of accounts shown below held derivatives with the depicted equivalent exposure as a percent of total net assets:

	Number of Accounts	Exposure
Long Exposure	1	0.85%
Short Exposure	0	0.00%

Period	Composite and Benchmark Return			Composite	Accounts in Composite at	Annualized 3-Year Standard Deviation		Assets in Composite	
	Gross of fees	Net of fees	Benchmark	Dispersion	End of Period	Composite	Benchmark	(GBP million)	% Firm
2013 Q3	2.05	1.89	1.77	0.06	11	11.93	11.35	£2,433.8	1.0
2013 Q2	-0.78	-0.94	-0.90	0.08	10	12.11	11.69	£2,053.1	0.9
2013 Q1	13.98	13.81	14.10	0.19	11	12.88	12.48	£2,167.2	0.9
2012	15.01	14.27	11.57	n/a	11	13.16	13.14	£1,959.3	1.0
2011	-4.61	-5.23	-6.68	n/a	<6	16.81	16.21	£803.3	0.6
2010	16.20	15.46	18.73	n/a	6	n/a	n/a	£739.5	0.5
2009	26.79	25.98	22.45	n/a	6	n/a	n/a	£562.1	0.5
2008	-14.81	-15.37	-20.98	n/a	<6	n/a	n/a	£385.6	0.4
2007	12.65	11.93	14.75	n/a	<6	n/a	n/a	£372.9	0.4
2006	3.99	3.32	2.12	n/a	<6	n/a	n/a	£365.4	0.4
2005	24.11	23.32	23.95	n/a	<6	n/a	n/a	£426.1	0.5
2004	8.85	8.15	3.85	n/a	<6	n/a	n/a	£430.7	0.6
2003**	1.98	1.92	0.73	n/a	<6	n/a	n/a	£463.0	0.6

MFS Investment Management® claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS® standards. MFS has been independently verified for the periods 1-Jan-1988 through 31-Dec-2011.
Verification assesses whether (1) the firm has complied with all the composite construction requirements of the GIPS standards on a firm-wide basis and (2) the firm's policies and procedures are designed to calculate and present performance in compliance with the GIPS® standards. Verification does not ensure the accuracy of any specific composite presentation.

** Indicates partial period.

Total Gross-of-fee returns in GBP (includes both capital appreciation and income), are net of transaction costs, withholding taxes and direct expenses, but before management fees, custody and other indirect expenses. Certain institutional accounts hold Canadian trusts subject to custody and other indirect expenses. Certain accounts may be subject to fair valuation as conditions warrant. Typical separate accounts utilize 4:00 PM (London Time) foreign exchange rates; retail products will use rates deemed most appropriate for daily NAV per share calculations. The possibility exists for performance dispersion between otherwise similarly managed accounts and also with the benchmark.

Net composite returns are prepared by subtracting from the monthly gross returns one-twelfth of the maximum applicable annual institutional separate account fee. Returns based on actual management fees, including non-separate account fees, would be lower for the following periods - 2003: 1.90; 2004: 7.87; 2005: 22.97; 2006: 3.04; 2007: 11.63; 2008: -15.50; 2009: 25.93; 2010: 15.44. Where actual separate account fee data are not available, the highest institutional fee has been assumed.

Total returns of the benchmark are provided for each period depicted, expressed in GBP. Source of Benchmark Performance: FACTSET ®. Benchmark returns are not examined by independent accountants.

MSCI AC World Growth Index - a market capitalization-weighted index that is designed to measure equity market performance for growth securities in the global developed and emerging markets.

Composite Dispersion is measured by the asset-weighted standard deviation of account returns for all accounts in the composite for the full period. For composites containing less than six accounts, dispersion is deemed not meaningful.

Effective 1-Dec-2012, the composite name changed from the MFS Global Growth Stock Composite to the MFS Global Growth Equity Composite. Effective 1-Dec-2012, the former MFS Global Growth Equity Composite is now the MFS Global Growth Equity Legacy Composite.

Prior to 31-Mar-2009 accounts would be eligible for inclusion in the composite if they had assets greater than 5.0 MM USD and as of their second full month of performance.

The MFS Global Growth Equity composite is a US Dollar based composite available globally. The regional composite depicted here was created on 24-Oct-2007 for presentation in the British market. Where appropriate, data has been converted to British Pound and the fees and breakpoints depicted are applicable to clients in this market. Net performance is calculated from the highest fee that would be charged in that market.

For purposes of GIPS® compliance, the firm is defined as MFS Investment Management® which is comprised of Massachusetts Financial Services Company (MFS) and MFS Institutional Advisors, Inc. (MFSI), each of which is a registered investment advisor, MFS Heritage Trust Company, a New Hampshire Trust company, and McLean Budden Limited, a registered investment advisor (MFS® McLean BuddenSM). Total firm assets are calculated at market value and include assets managed by MFS, MFSI, MFS Heritage Trust Company and MFS®McLean BuddenSM as well as assets managed by MFS and MFSI in a sub-advisory capacity on behalf of affiliated investment advisors that may or may not be registered under the United States Investment Advisers Act of 1940, such as MFS International (U.K.), Ltd. (MIL UK) and MFS Investment Management K.K. (MIMKK), as well as assets managed by MFS and MFSI on behalf of unaffiliated investment advisors that may or may not be registered under the United States Investment Advisers Act of 1940. Total firm assets for GIPS® purposes do not include assets of non-discretionary advisory relationships.

In November of 2011 MFS acquired McLean Budden Limited. Total firm assets from 31-Mar-2012 forward include the assets of institutional and pooled McLean Budden Limited products. Assets from 31-Dec-2012 forward include the McLean Budden Limited PPM product assets.

Agenda Item 7

<table>
<tr><td>h&f
the low tax borough</td><td colspan="2">London Borough of Hammersmith & Fulham

AUDIT, PENSIONS AND STANDARDS COMMITTEE

13th February 2014</td></tr>
<tr><td colspan="3">PENSION FUND – FUNDING STRATEGY STATEMENT</td></tr>
<tr><td colspan="3">Report of the Executive Director of Finance and Corporate Governance</td></tr>
<tr><td colspan="3">Open Report</td></tr>
<tr><td colspan="3">Classification: For Decision

Key Decision: No</td></tr>
<tr><td colspan="3">Wards Affected: All</td></tr>
<tr><td colspan="3">Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance</td></tr>
<tr><td colspan="2">Report Author: Nicola Webb, Tri-Borough Pension Fund Officer</td><td>Contact Details:
Tel: 020 7641 4331
E-mail: nwebb @westminster.gov.uk</td></tr>
</table>

1. EXECUTIVE SUMMARY

1.1. The Local Government Pension Scheme regulations require all local authority pension funds to publish and keep under review a Funding Strategy Statement, which sets out the Fund's plan for achieving full funding. The timing of the review of this statement is to coincide with the finalising of the actuarial valuation. The statement has been revised from the existing version to provide more clarity about how different types of employer will be treated in the Fund.

2. RECOMMENDATIONS

2.1. That the Committee approve the draft Funding Strategy Statement set out in Appendix 1 and delegate the finalising of the statement following the close of the consultation to the Tri-Borough Director of Treasury and Pensions.

3. REASONS FOR DECISION

3.1. The Pension Fund is required by the Local Government Pension Scheme (LGPS) regulations to maintain a Funding Strategy Statement. This statement has not been reviewed since 2011 and a review now is timely to coincide with the actuarial valuation.

4. INTRODUCTION AND BACKGROUND

4.1. Regulation 35 of the Local Government Pension Scheme (Administration) regulations requires all local authority pension funds to publish and keep under review a Funding Strategy Statement. The statement is designed to set out in a clear and transparent way the funding objectives of the Fund and the way it plans to meet liabilities.

4.2. The Fund Actuary is required by the LGPS regulations to take the statement into account when undertaking the actuarial valuation of the Fund, therefore it is appropriate to review it every three years in conjunction with the valuation. The regulations also require the Fund to consult those parties it considers appropriate in the preparation of the statement.

4.3 The existing statement was approved by the Committee in February 2011.

5. PROPOSAL AND ISSUES

5.1. Attached at Appendix 1 is the latest draft of an updated Funding Strategy Statement for the Fund. The previous version has been revised to provide more clarity about the approach to achieving full funding. In particular this statement seeks to be clearer about how different types of employers will be treated in the Fund and the process to be followed to ensure liabilities are funded if they cease participation. This has been prepared balancing the need to protect employers in the Fund from the possibility of others' defaulting but also recognising the need to ensure employer contributions remain affordable and at as constant a level as possible.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable.

7. CONSULTATION

7.1. The LGPS Administration regulations require the Fund "to consult such persons it considers appropriate". The Fund Actuary has been consulted on the contents of the draft statement and her comments have been incorporated in the version in Appendix 1. The draft statement is being circulated to all the employers in the Fund and the Fund's investment adviser and lawyer. Any comments received will be considered and incorporated if appropriate.

8. EQUALITY IMPLICATIONS

8.1. Not applicable.

9. LEGAL IMPLICATIONS

9.1. Not applicable.

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. There are no direct financial implications arising from the publication of this statement.

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable.

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location

LIST OF APPENDICES:

Appendix 1: London Borough of Hammersmith and Fulham Pension Fund Draft Funding Strategy Statement

London Borough of Hammersmith and Fulham Pension Fund *DRAFT* Funding Strategy Statement

This is the Funding Strategy Statement of the London Borough of Hammersmith and Fulham Pension Fund, which has been prepared following consultation with the Fund's employers and advisers. It was approved by the Audit, Pensions and Standards Committee on 13th February 2014. The next formal review will take place in conjunction with the next triennial valuation due as at 31st March 2016, but it will be updated in the interim if required.

1. Purpose of the Funding Strategy Statement

1.1 This Funding Strategy Statement is prepared in accordance with regulation 35 of the Local Government Pension Scheme Administration regulations 2008. The purpose is to explain the funding objectives of the Fund in a clear and transparent way and in particular:

- How the costs of the benefits under the Local Government Pension Scheme are met through the Fund;
- The objectives in setting employer contribution rates;
- The prudent long term funding strategy being adopted to meet the Fund's liabilities.

2. Aims and Purpose of the Fund

2.1 The aims of the Fund are to:

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

2.2 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits under the regulations;
- Meet the costs associated in administering the Fund;
- Receive monies in respect of contributions, transfer values and investment income.

3. Responsibilities of key parties

3.1 There are three key parties involved in the funding of the Pension Fund and their relative responsibilities are set out overleaf:

The Administering Authority

3.2 The Administering Authority for the Pension Fund is the London Borough of Hammersmith and Fulham and the main responsibilities are:

- Collect employer and employee contributions from all employers;
- Pay benefits to scheme members;
- Ensure cash is available to meet benefit payments when they fall due;
- Invest the Fund's assets;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain a Funding Strategy Statement and Statement of Investment Principles in consultation with interested parties;
- Monitor all aspects of the Fund's performance.

Individual Employers

3.3 In addition to the Administering Authority, various scheduled and admitted bodies participate in the Fund. The main responsibilities of all these employers including the Administering Authority in its role as an employer, are to:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within statutory timescales;
- Notify the Administering Authority of any new scheme members and any other membership changes promptly;
- Exercise the discretions permitted under the regulations as appropriate;
- Meet the costs of augmentation, early retirement strain costs and any other additional costs in accordance with agreed policies and procedures.

The Fund Actuary

3.4 The Pension Fund's Actuary is Barnett Waddingham LLP. Their main responsibilities are to:

- Prepare valuations, including the setting of employers' contributions rates, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement;
- Agree a timetable for the valuation process with the Administering Authority to provide timely advice and results;
- Prepare advice and calculations in connection with bulk transfer and individual benefit related matters.

4. Funding Target, Solvency and Methods

4.1 The funding target for the Fund is to secure the solvency of the Fund by having sufficient assets in the Fund to meet all liabilities. This is measured via the funding level and with the aim of achieving a funding level of 100% over a reasonable period of time.

4.2 In accordance with the Local Government Pension Scheme regulations, the Fund Actuary carries out a valuation of the Fund every three years to measure the funding level and to set employer contribution rates to achieve the funding target.

4.3 The last actuarial valuation was carried out as at 31st March 2013 and the actuarial method applied for open employers (those still admitting new members) was the Projected Unit Method. This considers separately the benefits in respect of service built up before the valuation date ("past service") and service expected to be completed after the valuation date ("future service"). This approach provides:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100 per cent indicates a surplus of assets over liabilities; while a funding level of less than 100 per cent indicates a deficit; and
- The future service funding rate which is the level of contributions required from the individual employers, which in combination with employee contributions, is expected to support the cost of benefits accruing in future.

4.4 For employers closed to new entrants, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

4.5 The introduction of the revised Local Government Pension Scheme (LGPS 2014) from 1st April 2014 was incorporated into the Fund Actuary's calculations of future service funding rates at the 2013 valuation.

5. Valuation Assumptions

5.1 In undertaking the actuarial valuation calculations, it is necessary to make a number of assumptions about the future. These can be categorised as:

- Financial assumptions which determine the estimates of the amount of benefits and contributions payable and their current or present value; and

- Statistical assumptions which are estimates of the likelihood of benefits and contributions being paid.

Financial Assumptions: Future Price Inflation

5.2 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI").

Financial Assumptions: Future Pay Inflation

5.3 Future levels of pay increases will determine the level of some of the benefits to be paid in future in respect of pre 1 April 2014 service for active members as well as the contributions that will be received by the Fund. At the 2013 valuation it has been assumed that long term pay inflation will be 1.8% above the Consumer Prices Index (CPI), but in recognition of the current economic climate, a short term assumption has been made that pay inflation will be equal to CPI for two years.

Financial Assumptions: Pension Increases

5.4 Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less then RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

Financial Assumptions: Future Investment Returns/Discount Rate

5.5 To determine the value of accrued liabilities and derive future contribution requirements, it is necessary to discount future payments to and from the Fund to present day values.

5.6 The discount rate that is applied reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date.

Financial Assumptions: Value of assets

5.7 For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

5.8 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

6. Deficit Recovery or Surplus Amortisation periods

6.1 Whilst the funding target for the Fund is to have sufficient assets in the Fund to meet all liabilities, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally be either in deficit or surplus.

6.2 Where the actuarial valuation discloses a deficit, the period of time over which the deficit will be funded is set – this is the deficit recovery period. The deficit recovery period varies according to the type of employer, but is never more than the period set for the overall Fund. The table overleaf describes the general approach, but the approach for each employer will be determined by their particular circumstances.

Administering Authority	A period equal to the overall Fund deficit recovery period reflecting the strength of covenant of the Council and its tax raising powers. (Currently 22 years)
Scheduled Bodies and open Community Admission Bodies	A period no longer than the overall Fund deficit recovery period, depending on the strength of the covenant and any guarantees in place.
Closed Admission Bodies	Generally a period no longer than the expected future working lifetime of the active scheme members, but this will depend on the strength of the covenant and any guarantees or bond in place.
Transferee Admission Bodies	A period no longer than the length of their current contract, depending on the strength of the covenant and any guarantees or bond in place.

6.3 If the actuarial valuation shows a significant surplus, the relevant employers' contribution rates will be adjusted to amortise it over a period of time agreed with the Fund Actuary. However, if the surplus is not significant relative to the employer's liabilities or there is any concern about the strength of the covenant of the employer, then it will remain in the Fund.

7. Pooling of employers

7.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

7.2 However, certain groups of individual employers may be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of scheme members is small. The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

7.3 Employers can request to be considered as part of a pool and the decision to permit this will be made by the Administering Authority in conjunction with the Fund Actuary. Once an employer is part of a pool, it can only opt to exit it in exceptional circumstances.

8. Admission of new employers

8.1 The admission of new employers will be in accordance with the regulations and will be determined as below:

Scheduled Bodies	New bodies added to the schedule of the Local Government Pension Scheme regulations by central government will be automatically admitted to the Fund.
Community Admission Bodies	Bodies which have a link to the Administering Authority will only be admitted to the Fund if a bond has been provided or a guarantee from another employer in the Fund has been provided.
Transferee Admission Bodies	Bodies which take on a contract for the Administering Authority or a scheduled body will be admitted to the Fund providing their admission meets the requirements of the regulations and the provision of a bond or guarantee has been agreed.

8.2 The Fund Actuary will assess all new employers to the Fund at the time of admission and set an appropriate employer contribution rate in accordance with the funding strategy. They will also undertake a risk assessment on behalf of the Fund to recommend the appropriate level of bond.

9. Cessation valuations

9.1 On the cessation of an employer's participation in the Scheme, the Fund Actuary will be asked to make a termination assessment, in accordance with the requirements of the Local Government Pension Scheme regulations. If another employer in the Fund is taking over responsibility for the liabilities of the departing employer, they will be transferred to that employer on an on-going basis applying the discount rate applicable to the Fund as a whole.

9.2 If there is no employer in the Fund to take responsibility for the liabilities of a departing employer, then the Fund Actuary will adopt a discount rate based on gilt yields when calculating the termination assessment. This approach ensures that the other employers in the Fund are protected from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

10. Links to the Statement of Investment Principles

10.1 The Funding and investment strategies are inextricably linked. The investment strategy is set after taking investment advice and a prudent assessment of the expected return from the agreed strategy is used to determine the Fund's discount rate, which is a key element in the funding strategy. This process ensures consistency between the funding strategy and the investment strategy.

11. Key Risks and Controls

11.1 The Administering Authority is developing a risk register which is to be reviewed regularly by the London Borough of Hammersmith and Fulham Audit, Pensions and Standards Committee to identify any required actions. Below is a summary of the key risks which could impact the ability of the Fund to achieve the funding target.

Financial Risks

11.2 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

11.3 To mitigate this risk, the Audit, Pensions and Standards Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the investment advisers and officers on investment strategy. The Committee may also seek advice from the Fund Actuary on valuation related matters.

11.4 In addition, from 2014, the Fund Actuary will be providing regular funding updates between valuations to enable the Committee to see whether the funding strategy continues to be on track to meet the funding target.

Demographic Risks

11.5 Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity.

11.6 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

11.7 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements. However, the Administering Authority monitors the incidence of early retirements; and additional contributions towards the costs are collected from employers as appropriate.

Regulatory Risks

11.8 The benefits provided by the Scheme and employee contribution levels are set out in regulations determined by central government. The tax status of the invested assets is also determined by central government. The funding strategy is therefore exposed to the risks of changes in the regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

11.9 The Administering Authority participates in the consultation process of any proposed changes in regulations to attempt to mitigate this risk and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

Governance Risks

11.10 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; or
- An employer ceasing to exist without having fully funded their pension liabilities.

11.11 To mitigate this risk, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

11.12 In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

12. Monitoring

12.1 This Funding Strategy Statement is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process. However it will be updated in the interim if required.

12.2 The Administering Authority monitors the investment performance and funding level of the Fund on a quarterly basis through the Audit, Pensions and Standards Committee and keeps the strength of covenant of the employers under continuous review.

Agenda Item 8

h&f the low tax borough	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **13th February 2014**
PENSION FUND – CUSTODY TENDER EXERCISE	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification: For Decision **Key Decision:** No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Nicola Webb, Tri-Borough Pension Fund Officer	**Contact Details:** Tel: 020 7641 4331 E-mail: nwebb @westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1. The Pension Fund has had the same custodian for many years and the tariffs currently being paid are relatively high. It is therefore recommended that the service is re-tendered. In order to maximise value and efficiency from this, it is proposed to do this jointly with Westminster City Council and using the national LGPS framework for custodian services.

2. RECOMMENDATIONS

2.1. That the plan to tender for a custodian jointly with Westminster City Council using the National LGPS framework for custodian services is approved.

3. REASONS FOR DECISION

3.1. Re-tendering for a custodian should ensure the Fund achieves a more competitive deal and tendering jointly with Westminster will provide economies of scale to further enhance competitiveness. The use of the national LGPS framework will ensure this is done in the most efficient way.

4. INTRODUCTION AND BACKGROUND

4.1. The custodian is responsible for the safekeeping of all the Fund's assets, the settling of trades and collection of income. In addition they provide a performance measurement service for the Fund. The Pension Fund's current custodian is Northern Trust and this arrangement has been in place since 2000.

5. PROPOSAL AND ISSUES

5.1. Although there have been regular price reviews during the period Northern Trust have been custodian to the Fund, benchmarking has shown that the tariffs being paid by Hammersmith and Fulham are relatively high. The current contract is open-ended with a 30 day notice period to terminate. Given that open ended contracts are not best procurement practice, and the fact it is many years since the market was tested, it is timely to consider re-tendering the Fund's custody contract.

5.2 Westminster's custody contract is due to expire and so they also need to re-tender. It is therefore recommended that a bi-borough tender exercise is undertaken to appoint a custodian with the expectation that better prices will be achieved by tendering together, though each Council will have it's own agreement with the winning bidder. Kensington and Chelsea are still in their contract period and have a competitive deal, so they will not be part of the exercise.

5.3 There is a national LGPS framework for custodian services, set up by a group of local authorities led by Norfolk County Council. This arrangement is similar to the framework used to appoint the Fund's investment adviser. It is proposed to use this framework to appoint a custodian because of the time and resource it saves due to the OJEU procurement process already having been completed. The six major custodians are on the framework – Bank of New York Mellon, BNP Paribas, HSBC, JP Morgan, Northern Trust and State Street. A mini competition will be required to appoint a custodian from this list.

5.4 It is proposed that officers undertake the mini competition and report the results of this to the Committee at the next meeting in May/June 2014. Under the terms of reference, the appointment of a custodian is a matter for the Committee.

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. Fees of £107k have been paid to the custodian from the Pension Fund over the past 12 months. Benchmarking has shown that the tariffs paid by the Fund are relatively high and so it is expected that a tender exercise will result in a saving for the Fund.

11. RISK MANAGEMENT

11.1. Not applicable.

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. This procurement will be led by Westminster's procurement team, as agreed with the Hammersmith and Fulham procurement team.

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

LIST OF APPENDICES:

None.

Agenda Item 9

h&f the low tax borough	London Borough of Hammersmith & Fulham AUDIT, PENSIONS AND STANDARDS COMMITTEE 13 FEBRUARY 2014

TREASURY MANAGEMENT STRATEGY REPORT 2014/15	
Report of the Leader of the Council – Councillor Nicholas Botterill	
Open Report	
Classification - For Decision **Key Decision: Yes**	
Wards Affected: All	
Accountable Executive Director: **Jane West, Executive Director of Finance and Corporate Governance**	
Report Author: Halfield Jackman (Tri-Borough Treasury Manager, LBHF)	**Contact Details:** Tel: 0207 641 4354 E-mail: hjackman@westminster.gov.uk

1. EXECUTIVE SUMMARY

1.1 The report sets out the Council's Treasury Management Strategy for 2014/15. The Committee is asked to comment on the measures proposed.

2. RECOMMENDATIONS TO AUDIT, PENSIONS AND STANDARDS COMMITTEE

2.1 That the Committee review the 2014-15 Strategy, and submit any comments to the meeting of full Council on the 26 February 2014, which will approve it.

3. RECOMMENDATIONS TO CABINET AND COUNCIL

3.1 To approve the future borrowing and investment strategies as outlined in this report and authorise the Executive Director of Finance and Corporate Governance to arrange the Council's cashflow, borrowing and investments in 2014/15.

3.2 In relation to the Council's overall borrowing for the financial year note the comments and the Prudential Indicators as set out in this report.

3.3 To pay the HRA investment income on unapplied HRA receipts and other HRA cash balances calculated at the average rate of interest earned on temporary investments with effect from 1 April 2014.

4. BACKGROUND

4.1 Treasury Management is defined by the CIPFA[1] Code of Practice as 'The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.'

4.2 The Council is required to receive and approve, as a minimum, three main reports each year: a Treasury Strategy Report (this report), Mid-year report and an Outturn report. These reports are required to be adequately scrutinised before being recommended to the Council by the Cabinet. This role is undertaken by the Audit, Pensions and Standards Committee and the Overview and Scrutiny Board.

4.3 The Treasury Management Strategy is set out in section 6 of this report, and the remainder of the report cover the following list. These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and CLG Investment Guidance.

- prospects for interest rates;
- the current treasury position;
- the proposed investment strategy;
- the borrowing strategy;
- prudential indicators; and,
- approach to debt rescheduling.

4.4 The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet this service activity. This will involve both the organisation of the cashflow and, where capital plans require, the organisation of appropriate borrowing facilities. The function

[1] Chartered Institute of Public Finance and Accountancy

covers the relevant treasury and prudential indicators, the current and projected debt positions and the annual investment strategy.

4.5 Under regulations set out by the (now called) Department for Communities and Local Government (CLG) in 2003, a Council's investment policy needs to cover so-called "specified investments" and "non-specified investments". A specified investment is defined as an investment which is denominated in sterling, is less than one year, is made with a body or scheme of high credit quality, UK Government or UK local authority and does not involve the acquisition of share capital or loan capital in any body corporate. Non-specified investments are those that do not meet these criteria.

4.6 Section 6 of this report sets out the investment approach, and takes account of the specified and non-specified approach. The Council is likely only to consider non-specified investments where an investment is made for longer than one year.

4.7 The CIPFA recommendations contained in the Code of Practice and Cross-Sectoral Guidance Notes issued as a revised version in 2011 for Treasury Management in the Public Services require that each Local Authority has a Treasury Management Policy Statement that is approved by the Full Council. This is set out in Appendix A of this report.

5. PROSPECTS FOR INTEREST RATES

5.1 There has been a general improvement in the overall condition of the global economy in 2013. The sovereign debt crisis has eased over the course of the year.

5.2 In the UK, the slow economic recovery gained pace in 2013(Q1 +0.3%, Q2 +0.7% and Q3 +0.8%), surpassing all expectations with strong upturns in all three main sectors services, manufacturing and construction. A rebalancing of the economy towards exports has started but as 40% of UK exports go to the Eurozone where growth is likely to remain weak and so will dampen UK growth. However, the Eurozone finally escaped from seven quarters of recession in Q2 of 2013 and growth rose by a modest 0.1% in Q3.

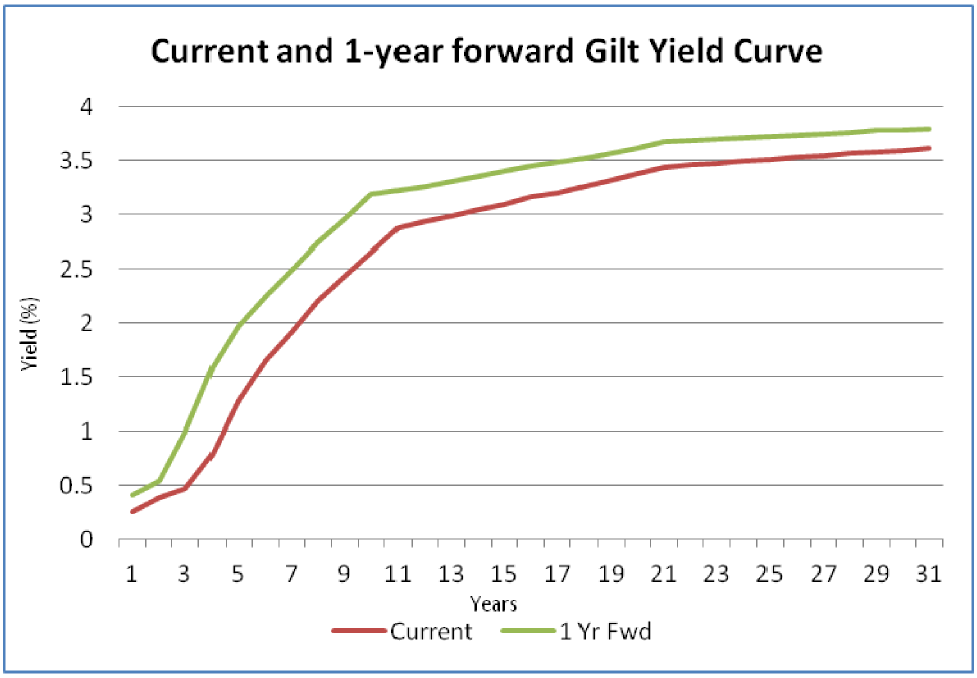
5.3 The United States has managed to return to solid growth in spite of the fiscal cliff induced cuts in federal expenditure and increases in taxation that are due in March 14.

5.4 Economic forecasts remain difficult with so many external influences weighing on the UK. Major volatility in bonds yields is likely to endure as investor fears and confidence ebb and flow between favouring more risky assets for example equities, and safer bonds.

5.5 Gilt yields could be volatile over the next year as financial markets await the long expected start of tapering of assets purchases by the US Federal Reserve. The timing and degree of tapering could have a significant effect on both Treasury and gilt yields.

5.6 The longer trend is that gilt yields and PWLB rates will rise, due to the high volume of gilt issuance in the UK, and of bond issuance in other major western countries. Increasing investor confidence in economic recovery is also likely to compound this effect as a continuation of recovery will encourage investors to switch back from bonds to equities.

5.7 The graph below shows the current UK Gilt Curve together with the one-year forward Gilt curve (i.e. current market expectations for the Gilt rate in 12 months time).



Source: Bloomberg

5.8 The low interest rate has a disproportionate effect on the Council, as the Council has no expectation of borrowing in the near future (so cannot benefit from the low borrowing rates), it is impacted to a greater extent by the cost of carrying debt.

6. CURRENT TREASURY POSITION

6.1 As at the 31st December 2013, the Council had £284 million cash investments. The cash is made up of the Council's usable reserves, capital receipts and unspent government grants. Although the level of cash has increased by £78 million to date this year it is anticipated further increases in cash levels will slow for the remainder of the year to approximately £300 million (Business Rate/Council Tax cycle limited collection during January to March).

6.2 The Council has for a number of years maintained a policy of debt reduction in order to deliver savings to the General Fund through reduced debt service payments. No new borrowing has been undertaken since November 2009 and where borrowings have fallen due for repayment, they have not been replaced. This has been the policy for both the General Fund and HRA. Officers periodically review the possibility of the early redemption of external debt.

6.3 The forecast closing General Fund debt as measured by the Capital Financing Requirement (CFR) for 2014/15 is £66.5m and is subject to a projected surplus in General Fund capital receipts of £9.5m being applied to reducing the CFR. It should be noted that the 2014/15 debt reduction target of £10.8m is based on an assumption of General Fund forecast receipts of £22.7m (net of costs of disposal) being realised. These are summarised in the Capital Programme Report. The actual level, and timing, of sales is subject to certain risks – most notably a dependence on the wider property market, appropriate consultation and planning considerations. The Council continues to review its asset holdings to identify potential further disposals, although having obtained significant capital receipts in the past 3 years the General Fund asset portfolio is being significantly rationalised in the period to 2017/18. The target for forecast sales is ambitious and a risk is identified within the Medium Term Financial Strategy that sales may slip or not be achieved. An additional risk is that significant cost of disposals of assets may be incurred, which can be difficult to predict in some cases.

6.4 The CFR measures an authority's underlying need to borrow for a capital purpose. It is considered by the Chartered Institute of Public Finance Accountancy (CIPFA) as the best measure of Council debt as it reflects both external and internal borrowing. It was introduced by the Government in 2004 and replaced the 'credit ceiling' as the Council's measure of debt.

6.5 The CFR is the difference between capital expenditure incurred and the resources set aside to pay for this expenditure. Put simply it can be thought of as capital expenditure incurred but not yet paid for in-full and serves as a measure of an authority's indebtedness. An important caveat is that the CFR does not necessarily equal the outstanding loans of the authority. A council may be 'cash rich' and pay for a new asset in full without entering into new loans. However unless the council simultaneously sets aside reserves (either through recognising a revenue cost or transferring existing reserves from 'usable' to 'unusable') the CFR will increase. In this example the authority has effectively borrowed internally. The CFR should therefore be thought of as the total of internal and external borrowing.

6.6 There are 5 Prudential Indicators for 2014/15 relating to capital stated in the Capital Programme 2014/15 to 2017/18 report to Budget Council on 26th February 2014, (to meet CIPFA's Prudential Code requirements).

6.7 The Council's borrowing and Capital Financing Requirement (CFR) positions are summarised in the tables below.

Current Portfolio Position

(£ 000)	2012/13 Actual	2013/14 Estimate	2014/15	2015/16	2016/17
Borrowing at 1 April	262,166	262,067	250,511	247,599	231,897
Expected change in borrowing during the year	(99)	(11,556)	(2,912)	(15,703)	(7,074)
Actual Borrowing at 31 March	**262,067**	**250,511**	**247,599**	**231,897**	**224,823**
Total investments at 31 March	(206,168)	(300,000)	(250,000)	(240,000)	(240,000)
Net borrowing/(investment)	**55,899**	**(49,489)**	**(2,401)**	**(8,103)**	**(15,177)**

Borrowing at Year-end: Split between the Housing Revenue Account and General Fund

(£ 000)	2012/13 Actual	2013/14	2014/15	2015/16	2016/17
Housing Revenue Account	217,299	207,717	205,302	192,283	186,417
General Fund	44,768	42,794	42,297	39,614	38,406
Total	**262,067**	**250,511**	**247,599**	**231,897**	**224,823**

CFR: General Fund and HRA.

(£ 000)	2012/13 Actual	2013/14	2014/15	2015/16	2016/17
General Fund	78,382	77,347	66,522	46,272	33,679
HRA	217,299	207,717	205,302	192,282	186,416

Total	295,681	285,064	271,824	238,554	220,095

7. ANNUAL INVESTMENT STRATEGY

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

7.2 This section sets out the Council's annual investment strategy for 2014/15 and any proposed changes from the 2013/14 Treasury Management Strategy, the table below summarises the maximum amounts and tenors of investments that the Council can hold. The table also shows the maximum proposed limits that Officers can work within. In reality, neither the amounts nor tenors of the proposed investments are likely to be at the maximum level proposed.

Institution Type	Minimum Credit Rating Required (S&P / Moodys / Fitch)	Maximum Individual Counterparty Investment limit (£m)	Maximum tenor of deposit / investment	Treasury Management Strategy 2013/14
DMO Deposits	UK Government Rating	Unlimited	6 months	No change
UK Government (Gilts / T-Bills / Repos)	UK Government Rating	Unlimited	Unlimited	No change
Supra–national Banks	AA+ / Aa1 / AA+	£30m	3 years	£10m / 1 year
European Agencies	AA+ / Aa1 / AA+	£10m	1 year	No change
Network Rail	UK Government Rating	Unlimited	Oct 2052	£25m / 1 year
TFL	AA- / Aa3 / AA-	£30m	3 years	New for 14/15 Previously part of LA £25m/ 1 year
GLA	NA	£30m	3 years	New for 14/15 Previously part of LA £25m/ 1 year
UK Local Authorities	NA	£10m per Local Authority, £50m in aggregate	6 months	£25m/ 1year
Commercial Paper issued by UK corporate	A-1 / P-1 / F-1	£15m per name, £75m in aggregate	Six months	£10m per name, £50m in aggregate
Money Market Funds MMF	AAA / Aaa / AAA be AAA by at least two of the main credit agencies	£15m per fund manager, £90m in aggregate	Three day notice	£10m per fund manager, £60m in aggregate / One month
Enhanced Money Funds	AAA / Aaa / AAA by at least one of the main credit agencies	£10m per fund manager, £30m in aggregate	Up to seven day notice	£5m per fund manager, £10m in aggregate / One month

Institution Type	Minimum Credit Rating Required (S&P / Moodys / Fitch)	Maximum Individual Counterparty Investment limit (£m)	Maximum tenor of deposit / investment	Treasury Management Strategy 2013/14
UK Bank	AA- / Aa3 / AA- and above (or UK Government ownership of greater than 25%), subject to minimum ST ratings	£70m	3 years	£35m and 35% Government ownership/ £25m/ 1 year/
UK Bank	A- / A3 / A- and above, subject to minimum ST ratings	£30m	Six months	£25m / Three months
Non-UK Bank[2]	AA- / Aa2 / AA- and above, subject to minimum ST ratings	£30m	1 year	£25m / Six months
Non-UK Bank	A / A2 / A and above, subject to minimum ST ratings	£15m	Six months	£10m / Three months

7.3 The remainder of this section six covers the following in further detail:

- Current investment types
- Changes for the 2014/15 Treasury Management Strategy
  - Greater London Authority counterparty limit
  - Transport for London counterparty limit
  - Network Rail Infrastructure
  - Changes to Money Market Funds and Enhanced Money Fund
  - Floating Rate Notes as a new assets class
- Proposed changes to investment limits and tenors
- Non-specified investments
- Local authority investments
- Creditworthiness criteria
- Country limits.

Current Investment Types[3]

7.4 As per the 13/14 Treasury Management Strategy, it is proposed that for 14/15 the Council can continue to invest in financial institutions, external funds and certain capital market instruments as set out below. All investments would be in Sterling. The investment types listed below are as per the current TMS.

(i) Investment with the Debt Management Office with no financial limit (UK government guaranteed)

(ii) Investment in financial institutions of a minimum credit rating, with the parent company domiciled only in certain jurisdictions;

[2] Any investments in Non-UK Banks is subject to the Leader of the Council approval.
[3] Appendix B provides more detail on the various asset classes.

(iii) Investment in UK Treasury Bills (T-Bills) and Gilts (conventional or indexed-linked) with no financial limit (UK government guaranteed)

(iv) Investments in UK Government repurchase agreements (“Repos” and “Reverse Repos”);

(v) Lending to certain public authorities (Unitary Authorities, Local Authorities, Borough and District Councils, Met Police, Fire and Police Authorities)

(vi) Investment in close to maturity AAA-rated corporate bonds and commercial paper backed by UK Government guarantees;

(vii) Investment in supra-national AAA-rated issuer bonds and commercial paper;

(viii) Investment in AAA-rated Sterling Money Market Funds and longer term funds;

(ix) Investment in commercial paper (CP) of UK domiciled entities with minimum short term credit rating of A1/P-1/F-1.

7.5 In determining whether to place deposits with any institution or fund, the Tri–borough Director for Treasury and Pensions will remain within the limits set out above, but take into account the following when deciding how much to invest within the limit set out above:

(i) the financial position and jurisdiction of the institution;

(ii) the market pricing of credit default swaps for the institution;

(iii) any implicit or explicit Government support for the institution;

(iv) Standard & Poor’s, Moody’s and Fitch’s short and long term credit ratings;

(v) Core Tier 1 capital ratios; and

(vi) other external views as necessary.

Changes for the 2014/15 Treasury Management Strategy

7.6 Officers are proposing various changes to the 14/15 Treasury Strategy, in part to reduce reliance on the Debt Management Office and to provide some flexibility for better investment returns, within the structure of a cautious investment outlook. Officers remain concerned that the DMO may seek to reduce its rates further from 0.25% as at present, if a low interest rate environment continues.[4]

7.7 While building on the Treasury Management Strategy for 13/14, the proposals for 2014/15 make a recommendation for the creation of individual investment limits for the Greater London Authority (GLA) and Transport for London (TfL), change the existing Network Rail Infrastructure counterparty limit, adjustments to the current money market fund limits, the use of floating rate notes (FRNs) as a new asset class and an increase in the maximum tenor and maximum investment limit overall.

Greater London Authority (GLA) counterparty limit

7.8 Due to the nature and significance of this body a £30 million standalone limit with a maximum maturity of three years is proposed and remove the GLA from the local authority

[4] As an example, on 31 December 2013, the DMO offered an overnight deposit rate of 0.0% due to illiquidity in the market.

counterparty group. The GLA is classed as a local authority by legislation, and thus all borrowings by the GLA are secured[5] on a pari passu basis against all its revenues (net expenditure[6] in 2012/13 was £1.8 billion). Lending to the GLA would most likely be through a bi-lateral loan (either directly or via a broker).

Transport for London (TfL) counterparty limit

7.9 Under the 2013/14 TMS, the Council can invest in TfL (mainly via its Commercial Paper programme) for up to £10m and a six-month maximum. For 2014/15, it is proposed for TfL to have their own standalone limit of £30 million for up to three years, in line with the GLA, given the significance of TfL and implied support from the UK Government. TfL is also considered a Local Authority for financial regulation all its borrowing is secured on all its revenues on a pari passu basis. In 2012/13, its revenues were £9.96 billion. Lending to TfL would continue via Commercial Paper (rarely issued for more than six months) and would enable purchase of any near to maturity bonds.

Network Rail Infrastructure

7.10 All borrowing by Network Rail is directly and explicitly guaranteed by the UK government to October 2052. Given this explicit support by the UK Government, and that Network Rail bonds (when available) offer a better rate than Gilts, it is proposed that the 2014/15 limit for Network Rail is made unlimited with the maximum maturity of five years.

Changes to Money Market Funds (MMFs) and Enhanced Money Fund (EMFs):

7.11 Appendix D sets out the difference between MMFs and EMFs in more detail. However, the 2013/14 TMS limit for both MMFs and EMFs was £60m in aggregate with a maximum £10m per fund. As the funds are different it is recommended that the existing limits should be split and treated separately for both types of funds.

7.12 The new limit for MMFs is set with reference to a panel of eight fund managers with a maximum aggregate investment of £90 million in total with a maximum individual limit of £15 million per fund. All MMFs must offer three day access or better.

7.13 EMFs seek to outperform the MMFs by investing in longer dated investments. As such they are not used to provide same day liquidity but should be used to invest cash for a minimum of three months. The proposed limits for EMFs are a maximum aggregate investment of £30m with a maximum individual limit of £10m per fund (subject to fund size). A maximum period of seven days notice will apply.

Floating Rate Notes (FRNs) as a new assets class

7.14 FRNs are debt instruments that pay a floating rate of interest that resets at an agreed interval (3 or 6 monthly) with reference to a published rate such as UK LIBOR. While FRNs would be a new asset class for the Council, the counterparties with whom the Council could place its funds will remain the same as per the current Treasury Management Strategy. Issuers of FRNs include banks, supranational banks and European agencies.

Proposed changes to investment limits and tenors

[5] Section 13, Local Government Act 2003

[6] By legislation, all Local Authorities (including TfL) must prepare a balanced budget, taking into account all its revenues and expenditure.

7.15 The Council's investment counterparty limits have been unchanged over the last two years, despite average council cash balances increasing (due in part to capital receipts). Given the more stable economic environment, together with the strict counterparty criteria used by Officers, it is proposed that limits and tenors of investment are extended for certain investments.

7.16 The 2013/14 MMFs limit (contains both MMFs and EMFs) is £60 million in aggregate and it is proposed that it is raised to £90 million for MMFs with a separate limit for EMFs of £30 million in aggregate.

7.17 The Council places investments / deposits with only four UK banks – Barclays, HSBC, Lloyds and RBS (Nat West). For UK banks with Government ownership (and given the increased relative stability over the last 2-3 years), it is proposed that the minimum percentage of UK Government ownership (to qualify within this strategy for such criteria) is reduced from 35% to 25%. RBS and Lloyds would fall into this category, and this change in minimum ownership criteria allows Lloyds to remain a counterparty of the Council. Given the implied Government support, it is also proposed that the maximum limit for each institution is raised from £35 million to £70 million.

7.18 For UK banks with a minimum credit rating of AA-/Aa3/AAA and above it is proposed that the maximum individual investment limit is increased from £25m to £70m and the maximum tenor of investment is changed from one to three years.

7.19 UK banks with a minimum credit rating of A-/A3/A- and above it is proposed that the maximum individual investment limit is increased from £25m to £30m and the maximum tenor of investment is changed from three to six months.

7.20 Non-UK banks with a minimum credit rating of AA-/Aa2/AA- and above, it is recommended that the maximum individual investment limit is increased from £25m to £30m and that the maximum tenor of investment is changed from six months to one year.

7.21 Non-UK banks with a minimum credit rating of A/A2/A and above, it is recommended that the maximum individual investment limit is increased from £10m to £15m and that the maximum tenor of investment is changed from three to six months.

7.22 In summary, the bank investment limits are shown in the table below.

Institution Type	Minimum Credit Rating Required (S&P / Moodys / Fitch)	Maximum Individual Counterparty Investment limit (£m)	Maximum tenor of deposit / investment
UK Bank	With UK Government ownership of greater than 25%.	70	Three years
UK Bank	AA- / Aa3 / AA- and above subject to minimum ST ratings	70	Three years
UK Bank	A- / A3 / A- and above, subject to minimum ST ratings	30	Six months
Non-UK Bank	AA- / Aa2 / AA- and above, subject to minimum ST ratings	30	One year
Non-UK Bank	A / A2 / A and above, subject to minimum ST ratings	15	Six months

Non-specified investments

7.23 Under section 15(1) of the Local Government Act 2003, restrictions are placed on Local Authorities around the use of so-called specified and non-specified investments. A specified investment is defined as an investment which satisfies all of the conditions below:

(i) The investment and any associated cash flows are denominated in sterling ;

(ii) The investment has a maximum maturity of one year;

(iii) The investment is not defined as capital expenditure; and

(iv) The investment is made with a body or in an investment scheme of high credit quality; or with the UK Government, a UK Local Authority or parish/community council.

7.24 A non-specified investment is any investment that does not meet all the conditions above. The only likely non-specified investment that the Council may make is for any investment greater than one year. For such an investment, a proposal will be made to the Executive Director of Finance and Corporate Governance and Leader of the Council on the recommendation from the Tri Borough Director of Treasury and Pensions after taking into account cash flow requirements, the outlook for short to medium term interest rates and the proposed investment counterparty.

7.25 Long term investments (for periods over 364 days) will be limited to no more than £70 million.

Local Authority investments

7.26 It is recommended that the maximum tenor of investments to local authorities (other than TfL or the GLA) is reduced to six months, and the maximum individual limit is reduced from £25 million to £10 million with an aggregate of £50 million for the investment class as a whole.

Creditworthiness Criteria

7.27 As has been the case for 2013/14, the Council's investment priorities continue to be the security of capital and the liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to security of its investments.

7.28 In accordance with this, and in order to minimise the risk to investments, the Council has set the minimum acceptable credit quality of counterparties for inclusion on the lending list. As at present, if a downgrade results in the counterparty / investment scheme no longer meeting the Council's minimum criteria, its further use as a new investment will be withdrawn immediately and any existing investment will be matured at the earliest possible convenience.

7.29 For the financial institution sector, the Council will invest in entities with a minimum credit as set out above (A-/A3/A- for a UK bank, and A/A2/A for a non-UK bank as appropriate), as long as that entity has a short term rating F2/P-2/A-3 or better. Where a split rating applies the lowest rating will be used. This methodology excludes banks with UK Government ownership. Banks would need to be rated by at least two of the three main credit rating agencies and where there was a split rating the lower rating would be used.

7.30 The limits can change if there are rating changes, however the maximum limit would never be more than £70 million. Officers are likely to work well within these limits to ensure headroom for short term liquidity.

Country Limits

7.31 The Council has determined that it will only use approved counterparties from countries with a minimum sovereign credit rating of AA+ / Aa1 / AA+ from S&P / Moodys / Fitch (respectively). This criteria applies to countries other than the UK.

8. BORROWING STRATEGY

8.1 The Council has a debt strategy of no new borrowing and where borrowing has fallen due for repayment it has not been replaced. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with borrowing, as cash balances and cash flow has been used as a temporary measure instead. This strategy is prudent as investment returns are low and counterparty risk is high.

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

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

8.3 The tables below sets out these treasury indicators and limits. The Council is currently compliant with all these indicators. The Council's existing level of fixed interest rate exposure is 100.0% and variable rate exposure is 0.0%.

Interest Rate Exposure for borrowing

£m / %	2014/15		2015/16		2016/17	
Upper Gross Borrowing Limits on fixed interest rates	320	100%	320	100%	320	100%
Upper Gross Borrowing Limits on variable interest rates	64	20%	64	20%	64	20%

Structure limits for debt maturity

Maturity structure of fixed rate borrowing during 2014/15	Upper Limit	Lower Limit	Actual Limits as at 31 March 2013
Under 12 months	15%	0%	4.4%
12 months and within 24 months	15%	0%	1.1%
24 months and within 5 years	60%	0%	11.5%

5 years and within 10 years	75%	0%	9.8%
10 years and above	100%	0%	73.2%

9. POLICY ON BORROWING IN ADVANCE OF NEED

9.1 Under CIPFA's Prudential Code, any decision to borrow in advance of need has to be:

- Within forward approved Capital Financing Requirement (CFR) estimates.
- Would have to be considered carefully to ensure that value for money can be demonstrated;
- And that the Council can ensure the security of such funds.

10. PRUDENTIAL INDICATORS FOR TO BORROWING ACTIVITY

10.1 The Prudential Code requires that the Council set certain limits on the level and type of borrowing before the start of the financial year together with a number of Prudential indicators, for the next three years ensuring the capital investment plans are affordable, prudent and sustainable.

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

Authorised Limit

£m	2012/13 Actual	2013/14	2014/15	2015/16	2016/17
Borrowing	325	325	325	325	325
Other long term liabilities	20	20	20	20	20
Total	**345**	**345**	**335**	**335**	**335**

10.3 The Operational Boundary. Is the focus of day to day treasury management activity within the authority and is set at £55m below authorised limit for borrowing. It is a means by which the Council manages its external debt to ensure that it remains within the self imposed Authorised Limit. Sustained breaches of the Operational Boundary would give an indication that the Authority may be in danger of stepping beyond the Prudential Indicators it set itself.

Operational Boundary

£m	2012/13 Actual	2013/14	2014/15	2015/16	2016/17
Borrowing	275	275	275	275	275
Other long term liabilities	13	15	15	15	15
Total	**288**	**290**	**290**	**290**	**290**

10.4 Separately, the Council is also limited to a maximum HRA CFR through the HRA self-financing regime, as set by CLG. This is set out in the table above, and declines due to the repayment of the current borrowing as and when it falls due.

10.5 The Executive Director of Finance and Corporate Governance reports that the Council complied with the prudential indicators in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report.

11. DEBT RESCHEDULING

11.1 Consideration will be given to identify if there is any residual potential for making savings by running down investment balances to repay debt prematurely as short term rates on investments are likely to be lower than rates paid on current debt.

11.2 However, these savings will need to be considered in the light of the current treasury position and premia incurred in prematurely repaying debt. Given the current approach, Officers monitor the situation continually for an opportunity to repay voluntary any debt. The reasons for any rescheduling to take place will include:

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

12. HOUSING REVENUE ACCOUNT

12.1 There are to be no changes to the current arrangements regarding debt and the HRA. The separate HRA and General Fund debt pool established from 1 April 2012 will continue to operate. The HRA shall continue to receive investment income on unapplied HRA receipts and other HRA cash balances calculated at the average rate of interest earned on temporary investments.

13. INVESTMENT TRAINING

13.1 The Council is a member of the CIPFA treasury management network which provides a forum for the exchange of views of treasury management staff independent of the treasury management consultants.

13.2 Officers attend the CIPFA network and other providers meetings on a regular basis throughout the year to ensure that they are up to date at all times on developments in treasury management and continue to develop their expertise in this area.

14. GOVERNANCE

14.1 The revised CIPFA Treasury Management Code (2011) requires the Council to outline a scheme of delegation thereby delegating the role of scrutiny of treasury management strategy and policy to a specific named body. In this way treasury management performance and policy setting will be subject to proper scrutiny. The Code also requires that members are provided adequate skills and training to effectively discharge this function.

14.2 The role of the Section 151 officer is delegated to the Executive Director of Finance and Corporate Governance (the S151 Officer), pursuant to Section 101 of the Local Government Act 1972 and by the Executive under Section 15 of the Local Government Act 2000.

14.3 The S151 Officer may authorise officers to exercise on their behalf, functions delegated to them. Any decisions taken under this authority shall remain the responsibility of the S151 Officer and must be taken within the guidelines of the Treasury Management Strategy.

14.4 The S151 Officers has full delegated powers from the Council and is responsible for the following activities:

- Investment management arrangements and strategy;
- Borrowing and debt strategy;
- Monitoring investment activity and performance;
- Overseeing administrative activities;
- Ensuring compliance with relevant laws and regulations;
- Provision of guidance to officers and members in exercising delegated powers.

Monitoring and Reporting

14.5 The Treasury Management activities during the year will be included in the monitoring reports to the Audit, Pensions and Standards Committee.

14.6 The Council's Treasury Management Strategy will be approved annually by full Council and there will also be a mid-year report. The aim of these reporting arrangements is to ensure that those with the responsibility for treasury management policies and activities and those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting. The Council will adopt the following reporting arrangements in accordance with the requirements of the revised code:

Area of Responsibility	**Council / Committee / Officer**	**Frequency**
Treasury Management Strategy	Full Council	Annually, at meeting before the start of the financial year.
Scrutiny of Treasury Management Strategy	Audit, Pensions and Standards Committee	Annually
Treasury Management Strategy: Mid-year report	Audit, Pensions and Standards Committee	Annually, after the first half of the financial year
Treasury Management Strategy: Updates / revisions at other times	1. Audit, Pensions and Standards Committee 2. Full Council	As and when required
Treasury Out-turn Report	1. Audit, Pensions and Standards Committee 2. Full Council	Annually, after year-end
Treasury Management Monitoring Reports	Executive Director of Finance and Corporate Governance	Monthly

15. FINANCIAL AND RESOURCE IMPLICATIONS

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

16. LEGAL IMPLICATIONS

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

17. COMMENTS OF THE AUDIT, PENSIONS AND STANDARDS COMMITTEE

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

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Financial monitoring documents & Capital Programme 2014/18 report	Jade Cheung ext 3374	Finance Department, 2nd Floor, HTH Extension
2.	Treasury Management Strategy 2012/13 (Approved by Full Council February 2013)	Halfield Jackman Tel: 0207 641 4354	Tri-Borough Treasury and Pensions, WCC City Hall

APPENDIX A

THE TREASURY MANAGEMENT POLICY STATEMENT

The CIPFA recommendations contained in the Code of Practice and Cross-Sectoral Guidance Notes issued as a revised version in 2009 and 2011 for Treasury Management in the Public Services require that each Local Authority has a Treasury Management Policy Statement that is approved by the Full Council.

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

This Council defines its Treasury Management activities as:

- The management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

- This Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of Treasury Management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

This Council acknowledges that effective Treasury Management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance.

APPENDIX B

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

UK Gilts: UK Government Gilts provide a greater yield than cash deposits with the DMO. At present, there are a limited number of gilts that will mature in the next two years, and as the shorter dated gilts were issued in a higher interest rate environment than at present, the coupons on these gilts are higher than current interest rates.

UK Government repurchase agreements (Repos): UK Government repurchase agreements are the purchase of UK Government securities with an agreement to resell them back at a higher price at a specific future date. By their nature, repos are short term secured investments in UK Government bonds which provide a greater return than cash deposits with the DMO. Ownership of the UK Government bond is temporarily transferred to the Council, thereby providing security over the funds invested.

Commercial Paper (CP) is similar to a very short term bond issue (up to one year), issued to investors on a discounted basis, and with the interest rate based on prevailing rates at the time of pricing. The Council may invest in Commercial Paper issued by UK domiciled corporate subject to the minimum credit ratings for up to a maximum of six months with no more than £15 million per name, and £90 million in aggregate.

Supra-national institutions are those that sovereign backed or supported institutions that span more than one country, such as the European Investment Bank, the European Bank of Reconstruction and Development, the World Bank, etc.

Network Rail: All Network Rail infrastructure debt is directly and explicitly backed by a financial indemnity from the Secretary of State for Transport acting for and on behalf of the government of the United Kingdom of Great Britain. The financial indemnity is a direct UK sovereign obligation of the crown and cannot be cancelled for any reason (prior to its termination date in October 2052). Propose to change TMS limit to unlimited and set the maximum maturity to Oct 2052.

APPENDIX C

CREDIT RATING AGENCY NOMENCLATURE

Long term ratings	Fitch	Moody's	S&P
Investment Grade Focuses on liquidity and ability to meet payment obligations on time	AAA	Aaa	AAA
	AA+	Aa1	AA+
	AA	Aa2	AA
	AA-	Aa3	AA-
	A+	A1	A+
	A	A2	A
	A-	A3	A-
	BBB+	Baa1	BBB+
	BBB	Baa2	BBB
	BBB-	Baa3	BBB-
Non-investment grade (junk) Focus on recovery percentage in the event of partial or total default	BB+	Ba1	BB+
	BB	Ba2	BB
	BB-	Ba3	BB-
	B+	B1	B+
	B	B2	B
	B-	B3	B-
	CCC	Caa	CCC
	CC	Ca	CC
	C	C	C
	D		D

Short term ratings	Fitch	Moody's	S&P
Investment Grade	F1+	Prime-1	A-1+
	F1	Prime-2	A-1
	F2	Prime-3	A-2
	F3		A-3
Non-investment grade	B	Not Prime	B
	C		C
	D		D

APPENDIX D
Money Market Funds and Enhanced Money Funds

A Money Market Fund (MMF) is a pooled investment vehicle which is provides liquidity, stability of capital and typically offers a better yield than a traditional bank deposit. MMFs invest in a variety of high quality, short dated cash instruments (for example certificates of deposit, time deposits, call deposits, commercial paper).

An Enhanced Money Fund (EMF) is a pooled investment vehicle that invests in a wider variety of assets than an MMF. EMFs are permitted to hold longer dated assets and as a result they are not as liquid and are aim to attract a higher return than MMFs.

Both funds offer asset diversification and are managed by fund managers with specialist fund management skills.

Both funds can use two methods to value their assets; constant net asset value (CNAV) or variable net asset value (VNAV) or a combination of both. The principal difference is the accounting technique used to value the assets:

- Amortised cost accounting which values the asset at its purchase price, and then subtracts the premium / adds back the discount in a regular fashion (linearly) over the life of the asset. The asset will then be valued at par (100) at its maturity. This enables the funds to maintain a net asset value (NAV), or value of a share of the fund at £1. This is the CNAV approach typically adopted by MMFs funds.

- Mark-to-market accounting values the assets at market price. The NAV of a fund that uses this form of accounting will change due to the changing value of the assets or in the case of accumulating funds (where any interest is capitalised back into the fund instead of being paid out as an income) by the amount of interest earned. This is the VNAV approach usually adopted by EMFs which have a constantly varying share price. In practice the fund manager will aim to maintain the share price above £1 and ensure a smooth gradual increase in price on a daily basis.

MMFs tend to pay out monthly dividends to investors whereas the EMFs tend to reinvest dividends back into the fund.

MMFs funds are marketed as an instant access investment where funds can be invested and removed on a daily basis therefore forming part of the council operational cash pool.

EMFs tend to marketed as a longer term investment that offers an enhanced return over the MMFs. Investments should therefore only be invested as part of a longer term investment plan.

At present, the Council invests in several AAA-rated sterling MMFs. The Council will only invest in funds that comply with the criteria agreed by the Executive Director of Finance and Corporate Governance and the Leader of the Council.

h&f the low tax borough	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **13th February 2014**
CERTIFICATION OF 2012/13 STATEMENT OF ACCOUNTS AND ANNUAL AUDIT	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification - For Information **Key Decision:** - No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Christopher Harris, Head of Corporate Accountancy and Capital	**Contact Details:** Tel: 020 (8753 6440) E-mail: (christopher.harris@lbhf.gov.uk)

1. EXECUTIVE SUMMARY

1.1. This report informs Members that the 2012/13 Statement of Accounts have now been formally certified. It also includes the Annual Audit Letter, for information, which summarises findings previously reported to Committee in September 2013. The letter reports that the actual fees charged for 2012/13 main audit were in line with those originally planned however it notes that additional fees – estimated at £5,000 – will need to be charged to cover the cost of handling elector objections.

2. RECOMMENDATIONS

2.1. To note the contents of this report and its appendices.

3. REASONS FOR DECISION

3.1. Not applicable.

4. 2012/13 AUDIT CERTIFICATE

4.1. The 2012/13 Statement of Accounts were presented to the Committee on 26th September 2013. While the external auditor was able to offer an unqualified opinion on the Accounts he reported that he was unable to certify them at that time due to a number of outstanding objections which required further review. Work to review these objections was completed and the audit certificate was issued on 12th December 2013, thereby formally closing the 2012/13 audit.

4.2. An updated version of the accounts, including the audit certificate, has now been published and is available on the Councils website at:

http://www.lbhf.gov.uk/Directory/Council_and_Democracy/Plans_performance_and_statistics/Performance_information/Statement_of_accounts/68526_Statement_of_accounts.asp

5. ANNUAL AUDIT LETTER

5.1. The external auditor has also issued their 2012/13 Annual Audit Letter which is appended to this report. It summarises the findings of the 2012/13 audit as previously presented to Committee in September 2013. Appendix 1 reports that actual fees for the main audit are in line with those originally planned, however the auditor reports that they will need to make an additional charge – currently estimated at £5,000 – to cover the cost of handling elector objections.

6. EQUALITY IMPLICATIONS

6.1. Not applicable.

7. LEGAL IMPLICATIONS

7.1. Not applicable.

8. FINANCIAL AND RESOURCES IMPLICATIONS

8.1. Not applicable.

9. RISK MANAGEMENT

9.1. Not applicable

10. PROCUREMENT AND IT STRATEGY IMPLICATIONS

10.1. Not applicable.

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location

1.	KPMG reports	Christopher Harris, 020 8753 6440	Corporate Accountancy and Capital, 2nd Floor, Hammersmith Town Hall Extension

LIST OF APPENDICES:

Appendix 1 – KPMG Annual Audit Letter 2012/13

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Annual Audit Letter 2012/13

London Borough of Hammersmith and Fulham

October 2013

Contents

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Headlines

This report summarises the key findings from our 2012/13 audit of London Borough of Hammersmith and Fulham (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2012/13 financial statements and the 2012/13 VFM conclusion.

VFM conclusion	We issued an unqualified value for money (VFM) conclusion for 2012/13 on 30 September 2013. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness. To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.
Audit opinion	We issued an unqualified opinion on your financial statements on 30 September 2013. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund.
Financial statements audit	Our audit of the financial statements did not identify any material adjustments. The Authority made three non-trivial adjustments in addition to the removal of the prior year adjustment originally shown in the draft accounts. We raised two recommendations in our ISA 260 report. These relate to the management of non current assets and the arrangements for accounting for these and an opportunity to generate efficiencies in the investment approval process.
Annual Governance Statement	We reviewed your *Annual Governance Statement* and concluded that it was consistent with our understanding.
Pension fund audit	There were no significant issues arising from our audit of the pension fund.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.

Headlines (continued)

Certificate	We have not issued a certificate closing the audits for 2012/13 as we have been considering a number of issues raised by members of the public relating to the following recent asset disposals the Authority has made in relation to: • Sands End Community Centre; • Stewarts Lodge; and • West Lodge.
Audit fee	Our fee for 2012/13 was £216,000 excluding VAT, for the main audit and £21,000 for the pension fund. This is consistent with the planned fee for 2012/13. The fee excludes the additional fees relating to our ongoing consideration of matters raised by members of the public. To date we have not issued any additional fees in relation to electorate activity, we anticipate raising fee of approximately £5,000 to cover meetings and correspondence so far. In addition to the above we also provided a non audit review of the Council's response to the identification of a fraud in the collection of National Non Domestic Rates for a fee of £35,000. No other non audit work has been performed by KPMG on behalf of the Authority. Further detail is contained in Appendix 2.

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.

2013

January

February

March

April

May

June

July

August

September

October

November

External Audit Plan (February 2013)

The *External Audit Plan* set out our approach to the audit of the Authority's financial statements and to work to support the VFM conclusion.

Interim Audit Letter (May 2013)

The *Interim Audit Letter* summarised the results from the preliminary stages of our audit, including testing of financial and other controls.

Auditor's Report (September 2013)

The *Auditor's Report* included our audit opinion on the financial statements including the pension fund accounts and our VFM conclusion.

Certification of Grants and Returns (November 2013)

This report summarised the outcome of our certification work on the Authority's 2011/12 grants and returns.

Interim Audit Report (April 2013)

The *Audit Fee Letter* set out the proposed audit work and draft fee for the 2013/14 financial year.

Report to Those Charged with Governance (September 2013)

The *Report to Those Charged with Governance* summarised the results of our audit work for 2012/13 including key issues and recommendations raised as a result of our observations. We issued a separate report for the audit of the pension fund.

We also provided the mandatory declarations required under auditing standards as part of this report.

Annual Audit Letter (October 2013)

This *Annual Audit Letter* provides a summary of the results of our audit for 2012/13.

Appendix 2: Audit fees

This appendix provides information on our final fees for 2012/13.

To ensure openness between KPMG and your Audit and Performance Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2012/13 planned audit fee.

External audit

Our final fee for the 2012/13 audit of the Authority was £216,000. This is an overall reduction of 40 percent on the comparative total fee for 2011/12 of £360,000. This reflects the significant reductions made nationally by the Audit Commission to its scale fees. This fee is in line with the planned fee.

Our final fee for the 2012/13 audit of the Pension Fund was in line with the planned fee of £21,000.

In addition we perform the statutory audits for H&F Development Limited and Wormwood Scrubs Charitable Trust both are related parties to the Authority. The combined fees for both audits was £18,500.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2012/13* which we are due to issue in January 2014.

Non audit work

Review of the Council's response to the identification of a fraud in the collection of National Non Domestic Rates for a fee of £35,000.

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h&f the low tax borough	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **13th February 2014**
GRANTS REPORT 2012/13	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification - For Information **Key Decision:** - No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Christopher Harris, Head of Corporate Accountancy and Capital	**Contact Details:** Tel: 020 (8753 6440) E-mail: (christopher.harris@lbhf.gov.uk)

1. EXECUTIVE SUMMARY

1.1. The report details the results of work conducted by KPMG to certify grant claims in respect of the 2012/13 financial year.

1.2. KPMG have made one recommendation to management in respect of improving Housing Benefit processes as a result of their certification work. This represents an improvement from 2011/12 where two recommendations were made to management.

2. RECOMMENDATIONS

2.1. To note the KPMG report.

2.2. To monitor the implementation of the recommendation.

3. REASONS FOR DECISION

3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

4.1 Not applicable.

5. EQUALITY IMPLICATIONS

5.1. Not applicable.

6. LEGAL IMPLICATIONS

6.1. Not applicable.

7. FINANCIAL AND RESOURCES IMPLICATIONS

7.1. Not applicable.

8. RISK MANAGEMENT

8.1. Not applicable

9. PROCUREMENT AND IT STRATEGY IMPLICATIONS

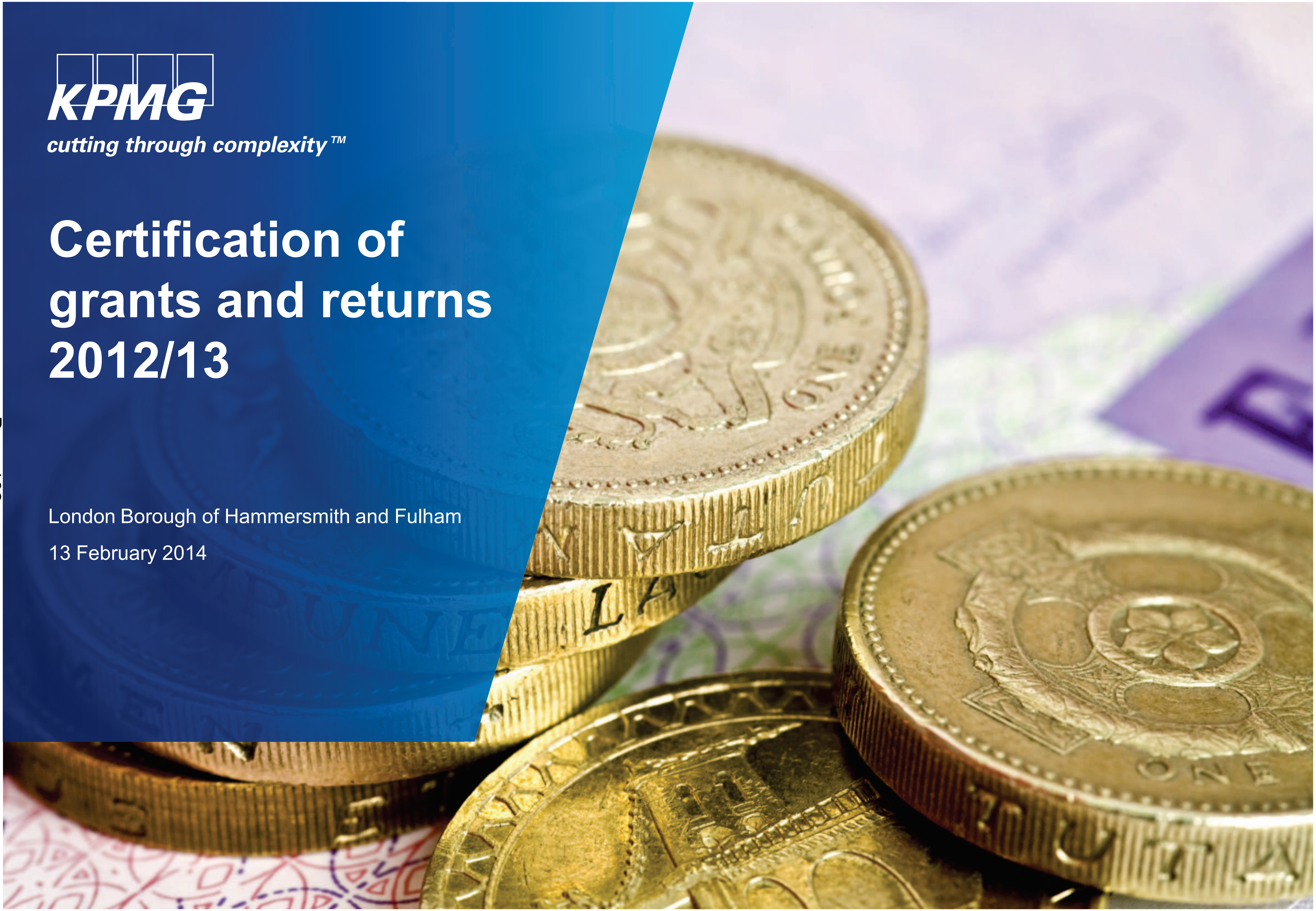
9.1. Not applicable.

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

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

LIST OF APPENDICES:

Appendix 1 – KPMG Certification of Grants and Returns 2012/13 report



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Certification of grants and returns 2012/13

London Borough of Hammersmith and Fulham

13 February 2014

Contents

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

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, who is the engagement leader to the Authority (telephone 0116 256 6067, e-mail andrew.sayers@kpmg.co.uk) who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees (telephone 0161 236 4000, e-mail trevor.rees@kpmg.co.uk) who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by e mail to: complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Headlines

Introduction and background	**This report summarises the results of work on the certification of the Council's 2012/13 grant claims and returns. For the first time, this certification work was fully undertaken by KPMG as appointed auditor. In 2011/12, KPMG reported on work largely carried out by the Audit Commission.** ■ For 2012/13, four claims and returns with a total value of £381 million were certified.	-
Certification results	**We issued unqualified certificates for three grants and returns, and issued qualification in respect of the housing and council tax benefits.** ■ The housing benefits claim was qualified due to benefit being incorrectly classified on the claim, the claim was qualified in 2011/12 for similar reasons. ■ All four claims were submitted by the audited deadline.	Pages 4
Adjustments	**Adjustments were necessary to one of the four grant returns certified (the teachers' pensions return).** ■ The teachers pension return was adjusted by £0.078 million. In 2011/12 minor adjustments were made to the housing and council tax benefit scheme and the HRA subsidy.	Pages 4
The Council's arrangements	**The Council has adequate arrangements for preparing its grants and returns and supporting our certification work, but the following improvement is required:** ■ Controls over the accuracy of information used to calculate housing benefits should be reviewed;.	Page 5
Fees	**The Audit Commission changed its fee regime for certifying grants and returns in 2012/13. The actual fee (subject to Audit Commission agreement) will be £44,933.** ■ This compares to a fee in 2011/12 of £50,045. The reduction is due to two factors: a reduction of one claim requiring certification and changes to the Audit Commission's fee regime.	Page 6

Summary of certification work outcomes

Overall, we certified 4 grants and returns:

- **2 were unqualified without amendment;**
- **1 was unqualified, but required amendment;**
- **1 required a qualification to our audit certificate (also amended).**

Detailed comments are provided overleaf.

Detailed below is a summary of the key outcomes from our certification work on the Council's 2012/13 grants and returns, showing where either audit amendments were made as a result of our work or where we had to qualify our audit certificate.

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

	Comments overleaf	Qualified certificate	Significant adjustment	Minor adjustment	Unqualified certificate
Housing and council tax benefit	1	●			
National non-domestic rates return	2				●
Teachers' pensions return	3			●	●
Pooling of housing capital receipts	4				●
		1	-	1	3

Detailed below is a summary of the certification work on the Council's 2011/12 grants and returns.

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

Summary of certification work outcomes (cont.)

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

Ref	Summary observations	Amendment
1	**Housing and council tax benefit (£166,602,802)** During the initial testing, we identified the following errors: ■ 1 case where the tenancy type was not a regulated tenancy and therefore had been misclassified. A further sample of 40 cases were tested focusing on the specific error previously identified: in the additional sample we identified the following errors: ■ 4 cases where the tenancy type was not a regulated tenancy and therefore had been misclassified. In line with instructions given to auditors, we extrapolate any errors found and report them in a qualification letter. The extrapolated errors reported could lead to a loss of up to £202,000 on the total claim of £167 million. The level of errors is relatively high compared with other London boroughs. The types of errors identified are similar to those found in previous years. The Council carried out testing on the additional cases on the return. We re-performed the Council's assessment of cases to confirm we were satisfied with the findings. For all the cases where we re-performed the testing, we found the Council had correctly reviewed them. The Council responded quickly to audit queries throughout, and processed the additional testing in a timely way, which allowed the auditor deadline to be met. We recognise the Council's contribution in helping us achieve this. Within our qualification letter we also highlighted some reconciliations and diagnostic reports which had not be performed by the Council.	£nil
2	**National non-domestic rates return (£174,812,452)** The Council completed the claim and it was fairly stated. The is a notably achievement for the Authority given the size of the claim and the qualification in the previous year.	£nil
3	**Teachers' pensions return (-£881)** A single amendment was made to the claim by the Authority during the audit to ensure the contributions paid as per the claim were consistent with the underlying records from the payroll system. The unqualified certificate was issued following the amendment.	-£77,898
4	**Pooling of housing capital receipts (£40,200,913)** ■ The claim required additional information this year. The Council completed the claim and it was fairly stated.	£nil

Recommendations

We have given each recommendation a risk rating and agreed what action management will need to take. We will follow up these recommendations during next year's audit. Of the two recommendations made in 2011/12 both were implemented, however errors were still identified within the housing benefits claim.

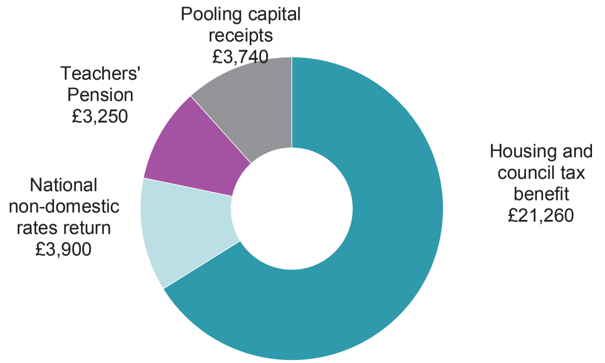
Priority rating for recommendations		
1 Issues that are fundamental and material to your overall arrangements for managing grants and returns or compliance with scheme requirements. We believe that these issues might mean that you do not meet a grant scheme requirement or reduce (mitigate) a risk.	2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

Issue	Implication	Recommendation		Priority	Comment	Responsible officer and target date
Controls						
Correct data is not being used to calculate housing benefits	The Council either incorrectly pays claimants or does not claim the right amount of subsidy.	**2**	Controls over the accuracy of information used to calculate housing benefits should be reviewed.	2	The council has improved the accuracy of assessments over the last few years and will continue to review & monitor progress to continue this trend.	Director, H&F Direct Immediately.

Fees

Our overall fee for the certification of grants and returns is noted opposite.

Breakdown of certification fees 2012/13



Breakdown of fee by grant/return			
	Indicative Fee	Variance Request	Actual
(£)	2012/13	2012/13	2011/12
Housing and council tax benefit	21,260	36,050	28,659
National non-domestic rates return	3,900	3,900	7,077
Teachers' pensions return	3,250	2,683	4,757
HRA subsidy	-	-	2,706
Pooling of housing capital receipts	3,740	2,300	3,948
Reporting (now allocated across the individual grants)	-	-	2,942
Total fee	**32,150**	**44,933**	**50,045**

The Audit Commission changed its fee regime for certifying grants and returns in 2012/13. It set an indicative fee for the Council of £32,150. As a result of completing the work, we have identified that the indicative fee did not reflect the amount of work required to certify the grants and returns.

The main reasons for the movements on the fee from the previous year were a reduction of one claim requiring certification and changes to the Audit Commission's fee regime.

We recommend the Council takes the following steps to improve its support for our certification work, which should help minimise certification fees in the future:

- ensure that it continues to identify and act on changes in guidance for claim preparation;
- controls over the accuracy of information used to calculate housing benefits should be reviewed;
- strengthen arrangements for the production of the teachers' pension return, particularly ensuring that claim entries can be derived from systems in line with scheme guidance.

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h&f the low tax borough	**London Borough of Hammersmith & Fulham** **AUDIT, PENSIONS AND STANDARDS COMMITTEE** **13th February 2014**
2013/14 AUDIT OPINION PLAN	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
Classification - For Information **Key Decision:** - No	
Wards Affected: All	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Christopher Harris, Head of Corporate Accountancy and Capital	**Contact Details:** Tel: 020 (8753 6440) E-mail: (christopher.harris@lbhf.gov.uk)

1. EXECUTIVE SUMMARY

1.1. This report details the 2013/14 External Audit Plan as set-out by the Council's auditor, KPMG. The plan (Appendix 1) describes how the auditor will deliver the financial statements audit work and sets out their approach to value for money (VFM) work for 2013/14.

1.2. The overall audit approach is unchanged from last year. The financial statements audit will focus on the following significant areas:

- Property, Plant and Equipment;
- Cash;
- Pension Costs and Liabilities; and

The other area of audit focus for the Pension Fund will be the LGPS Triennial Valuation.

2. RECOMMENDATIONS

2.1. To note the 2013/14 Audit Plan as put forward by KPMG.

3. REASONS FOR DECISION

3.1. Not applicable.

4. INTRODUCTION AND BACKGROUND

4.1 Not applicable.

5. EQUALITY IMPLICATIONS

5.1. Not applicable.

6. LEGAL IMPLICATIONS

6.1. Not applicable.

7. FINANCIAL AND RESOURCES IMPLICATIONS

7.1. Not applicable.

8. RISK MANAGEMENT

8.1. Not applicable

9. PROCUREMENT AND IT STRATEGY IMPLICATIONS

9.1. Not applicable.

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	KPMG External Audit Plan 2013/14	Christopher Harris, 020 8753 6440	Corporate Accountancy and Capital, 2nd Floor, Hammersmith Town Hall Extension

LIST OF APPENDICES:

Appendix 1 – KPMG External Audit Plan 2013/14

KPMG

cutting through complexity ™

External Audit Plan 2013/14

London Borough of Hammersmith and Fulham

13 February 2014

Contents

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

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.

Introduction

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

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* presented to you in April 2013. It describes how we will deliver our financial statements audit work for London Borough of Hammersmith and Fulham ('the Authority). It also sets out our approach to value for money (VfM) work for 2013/14.

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

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

Statutory responsibilities

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

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

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

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

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements of the Authority and the Pension Fund and Value for Money audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks for the Authority and Pensions Fund.
- Section 5 explains our approach to VfM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Audit approach	Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with Jane West, Executive Director of Finance and Corporate Governance, and her team. Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.
Key financial statements audit risks for the Authority	We have completed our initial risk assessment for the Authority's financial statements audit and have not identified any significant risks this year.
Key financial statements audit risks for the Pension Fund	Our initial risk assessment for the Pension Fund's financial statements audit has not identified any significant risks this year.
VfM audit approach and risk assessment	We have completed our initial risk assessment for the VfM conclusion and have not identified any significant risks at this stage.
Audit team, deliverables, timeline and fees	We have refreshed our audit team this year with Andrew Sayers replacing Michael McDonagh as the Engagement Partner and Samuel Dang replacing Joel Harrison as the Assistant Manager for the audit. Our main year end audit is currently planned to commence on 7 July with the audit of the Pension Fund, ahead of this we will perform planning and control evaluation work. Upon conclusion of our work we will again present our findings to you in our *Report to Those Charged with Governance (ISA 260 Report)*. The overall planned fee for the 2013/14 audit is £265,000. This is unchanged from the position set out in our *Audit Fee Letter 2013/14*. This comprises £216,000 for the Authority's audit and £21,000 for Pension Fund and an indicative fee of £28,000 for certification of grant claims and returns.

KPMG

Section three

Our audit approach

We undertake our work on your financial statements in four key stages during 2014:

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

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

	Stage	Activities	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1	Planning	Update our business understanding and risk assessment.	▲								
		Assess the organisational control environment.		●							
		Determine our audit strategy and plan the audit approach.		▲							
		Issue our *Accounts Audit Protocol*.		▲							
2	Control evaluation	Evaluate and test selected controls over key financial systems.		●							
		Review the internal audit function.		●	●						
		Review the accounts production process.			▲						
		Review progress on critical accounting matters				●					
3	Substantive procedures	Plan and perform substantive audit procedures.							▲	▲	
		Conclude on critical accounting matters.								▲	
		Identify audit adjustments.								▲	
		Review the Annual Governance Statement.							▲	▲	
4	Completion	Declare our independence and objectivity.									▲
		Obtain management representations.									▲
		Report matters of governance interest.									▲
		Form our audit opinion.									▲

Key: ● Authority only ■ Pension Fund only ▲ Authority and Pension Fund

Our audit approach – planning

During January and February 2014 we complete our planning work.

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

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

Our planning work takes place in January and February 2014. This involves the following aspects:

Planning

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

Business understanding and risk assessment

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

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

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

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 '*Audit materiality*', we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

An indicative level of materiality for the Authority's financial statements for 2013/14 is £24m. For the Pension Fund , the corresponding figure is £13m . This is based on the prior year Statement of Accounts and on our understanding of the projected outturn for the current year. This figure is a guide only. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context. See appendix 3 for further details.

Our audit approach – control evaluation

During February 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14.

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

We will report any significant findings arising from our work to the Audit, Pensions and Standards Committee.

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

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

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

Accounts production process

We raised three recommendations in our *ISA 260 2012/13 Reports* relating to the accounts production process of the Authority's financial statements and those of the Pension Fund. The most significant of these was around the implementation of a non-current asset management system to improve efficiency throughout the year and increase accuracy in the financial reporting process.

We will assess the Authority's progress in addressing our recommendations and in preparing for the closedown and accounts preparation

Critical accounting matters

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

Following our interim visit if necessary we will issue an *Interim Report* which will set out any significant findings from our planning and interim work to be present these at the Audit, Pensions and Standards Committee meeting in June.

If, as was the case last year, there are only insignificant findings arising at the interim we will present these to the Audit, Pensions and Standards Committee within our ISA 260 in September 2014.

Our audit approach – substantive procedures

During July to August 2014 we will be on site for our substantive work on the Authority's financial statements. We will conduct our work on the Pension Fund at the same time.

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

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

We will present our *ISA 260 Report* for the Authority's and Pension Fund audits to the Audit, Pension and Standards Committee in September 2014.

Our final accounts visit on site has been provisionally scheduled for the period 7 July - 7 August 2014 for the Authority and the Pension Fund. During this time, we will complete the following work:

Substantive Procedures

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

Substantive audit procedures

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

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key audit areas with Jane West, Executive Director of Finance and Corporate Governance, and her team in August 2014, prior to reporting to the Audit, Pension and Standards Committee in September 2014.

Audit adjustments

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

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

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

Annual Governance Statement

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

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

Pension Fund Annual Report

We also issue our opinion on the consistency of the Pension Fund annual report with the Pension Fund's accounts. We intend to issue this opinion at the same time as our opinion on the accounts.

Our audit approach – other

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

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

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

Whole of government accounts (WGA)

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

Elector challenge

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

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

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

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

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the Head of Corporate Accountancy and Capital and the Audit, Pensions and Standards Committee. Our deliverables are included on page 14.

Independence and objectivity confirmation

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

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

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

Appendix 1 provides further detail on auditors' responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of 13 February 2014 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Key financial statements audit risks - the Authority and the Pensions Fund

In this section we set out our assessment of the significant risks to the audit of the Authority's financial statements for 2013/14.

We have identified no specific risks at this stage.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*.

- Management override of controls – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Our initial assessment has not identified any significant risks that are specific to the Authority and the pension fund, listed below are other areas of audit focus for the Authority.

Area	Why	Audit work
Property, Plant and Equipment	The Authority has a significant asset base primarily relating to Council dwellings and Investment property. The potential for impairment/valuation changes makes this balance inherently risky due to the high level of judgement and estimation uncertainty.	■ Reviewing management's assessment of property valuations and impairment calculations. ■ Reviewing the information provided to the valuer by the Authority. ■ Comparing the assumptions made by your valuer to benchmarks and to the assumptions used for 2011/12 for consistency.
Cash	Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements.	■ We will seek bank confirmations over account balances. ■ We will review and test the controls over bank reconciliations.
Pension Costs and Liabilities	Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.	■ Reviewing the information provided to the actuary by the Authority. ■ Reviewing the actuarial valuation and considering the disclosure implications. ■ Comparing the assumptions made by your actuaries to benchmarks, which are collated by our KPMG actuaries, and to the assumptions used for 2012/13 for consistency.

Key financial statements audit risks - the Authority and the Pensions Fund (continued)

Listed below is the other area of audit focus for the Pension Fund.

Area	Why	Audit work
LGPS Triennial Valuation	During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.	For the audit of the Pension Fund, we will complete work to agree the data provided to the actuary back to the systems and reports from which it was derived, and to understand the controls in place to ensure the accuracy of this data. This work will be focused on the data relating to the Authority itself as the largest member of the Pension Fund. If we receive specific requests from the auditors of other admitted bodies, we are required to support their audits under the protocols put in place by the Audit Commission for this purpose. If the work they request is over and above that already planned, there will be additional costs arising from this. The Pension Fund is able to recharge these costs to the relevant admitted bodies.

VfM audit approach

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

Background to approach to VfM work

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

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

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

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

Specified criteria for VfM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing **financial resilience**.	The organisation has robust systems and processes to: ▪ manage effectively financial risks and opportunities; and ▪ secure a stable financial position that enables it to continue to operate for the foreseeable future.	▪ Financial governance ▪ Financial planning ▪ Financial control
The organisation has proper arrangements for challenging how it **secures economy, efficiency and effectiveness**.	The organisation is prioritising its resources within tighter budgets, for example by: ▪ achieving cost reductions; and ▪ improving efficiency and productivity.	▪ Prioritising resources ▪ Improving efficiency and productivity

VfM audit approach (continued)

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

Overview of the VfM audit approach

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

Each of these stages are summarised further below.

VfM audit stage	Audit approach
VfM audit risk assessment	We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the *Code of Audit Practice*. In doing so we consider: ■ the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; ■ information from the Audit Commission's VfM profile tool and financial ratios tool; ■ evidence gained from previous audit work, including the response to that work; and ■ the work of inspectorates and other review agencies.

KPMG

Section five

VfM audit approach (continued)

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

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

VfM audit stage	Audit approach
Linkages with financial statements and other audit work	There is a degree of overlap between the work we do as part of the VfM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VfM audit responsibilities. We have always sought to avoid duplication of audit effort by integrating our financial statements and VfM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VfM audit.
Assessment of residual audit risk	It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VfM criteria. Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics. To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VfM conclusion. At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.
Identification of specific VfM audit work	If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including: ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.

VfM audit approach (continued)

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

We have completed our initial risk assessment and have not identified any risks to our VfM conclusion at this stage. We will update our assessment at year end.

We will conclude on the results of the VfM audit through our ISA 260 Report.

VfM audit stage	Audit approach
Delivery of local risk based work	Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as: ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VfM guidance and other sources of information.
Concluding on VfM arrangements	At the conclusion of the VfM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VfM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources. If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VfM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.
Reporting	We have completed our initial VfM risk assessment and have not identified any key issues. We will update our assessment throughout the year should any issues present themselves and report against these in our ISA260. We will report on the results of the VfM audit through our *ISA 260 Report*. This will summarise any specific matters arising, and the basis for our overall conclusion. The key output from the work will be the VfM conclusion (i.e. our opinion on the Authority's arrangements for securing VfM), which forms part of our audit report.

VfM audit approach (continued)

We have identified no specific VfM risks.

In line with the risk-based approach set out on the previous page, we have

- assessed the Authority's key business risks which are relevant to our VfM conclusion;
- identified the residual audit risks for our VfM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.

Our initial assessment has not identified any risks that are specific to VfM, listed below are other areas of audit focus.

Area	Risk	Audit work
Savings Plans	Based on the current plan, which covers the period 2013/14 – 2015/16, there is a significant savings requirement over the three year period in the region of £65m. The savings required for 2013/14 of £21.4m have be identified and early indications – including the 2012/13 achievements and under-spends are positive. The pressure mounts considerably in 2014/15 when there is a further £18m saving requirement and 2015/16 when an additional £24.5m needs to be found. Many of these savings requirements are due to be delivered via the Tri borough working arrangements. However, finding additional savings year after year will be a challenge. The Authority will need to establish and manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2012/13 financial statements as appropriate.	Our VFM work will focus on how the Authority is planning and managing its savings plans, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively.

In conjunction with our VfM work we will investigate the concerns raised by an electorate around the Authority's approach to affordable housing.

Audit team

Your audit team has been drawn from our specialist public sector assurance department. We have refreshed our audit team this year with Andrew Sayers replacing Michael McDonagh as the Engagement Partner and Samuel Dang replacing Joel Harrison as the Assistant Manager for the audit.

Contact details are shown on page 1.

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

Andrew Sayers

Partner

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

Samantha Maloney

Senior Manager

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

Grant Slessor

Manager

"I am responsible for the management, review and delivery of the Pension Fund Audit and will work alongside Andrew and Samantha to deliver a co-ordinated audit approach for the Authority."

Samuel Dang

Assistant Manager

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

Audit deliverables

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

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

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

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures.	**February 2014**
Control evaluation and Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements.	**September 2014**
Report to Those Charged with Governance (ISA 260 Report) – Pension Fund	■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements.	**September 2014**
Completion		
Auditor's Report	■ Provides an opinion on the Authority's and Pension Fund accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VfM conclusion).	**September 2014**
Whole of Government Accounts	■ Provide our opinion on the Authority's WGA pack submission.	**September 2014**
Pension Fund Annual Report	■ We provide an opinion on the consistency of the Pension Fund annual report with the Pension Fund accounts,	**September 2014**
Annual Audit Letter	■ Summarises the outcomes and the key issues arising from our audit work for the year.	**November 2014**

Audit timeline

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

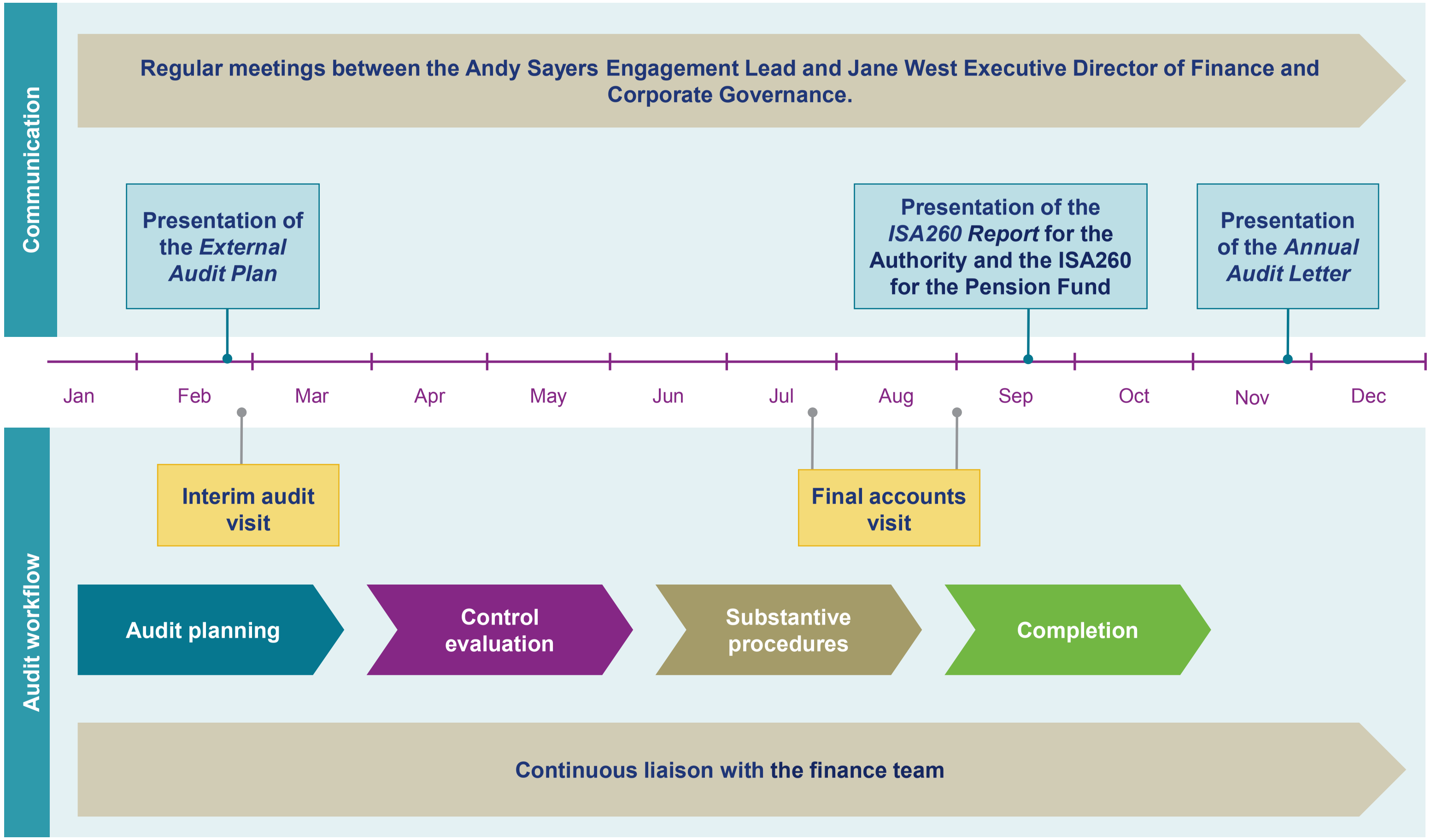
Key formal interactions with the Audit, Pensions and Standards Committee are:

- January – External Audit Plan;
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team throughout the year.

Our main work on site will be our:

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



Key: ● the Audit, Pensions and Standards Committee meetings.

Audit fee

The main fee for 2013/14 audit of the Authority is £216,000. The fee for our audit of the Pension Fund is £21,000. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in April 2013.

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

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

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Element of the audit	2013/14 (planned)	2012/13 (actual)
Main audit fee	£216,000	£216,000
Pension Fund audit fee	£21,000	£21,000

Our main audit fee includes our work on the VfM conclusion and our audit of the Authority's financial statements.

Audit fee assumptions

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

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
  - the financial statements are made available for audit in line with the agreed timescales;
  - good quality working papers and records will be provided at the start of the final accounts audit;
  - requested information will be provided within the agreed timescales;
  - prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit adheres to our joint working protocol and completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

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

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

Changes to the audit plan

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

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

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

Appendix 1: Independence and objectivity requirements

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

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

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

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

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

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

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

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

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

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

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

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

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

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

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

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

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

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

Commitment to technical excellence and quality service delivery: Our professionals bring you up-to-the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

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

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

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

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

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.

Appendix 3: Materiality and reporting of audit differences

When we determine our audit strategy we set a monetary materiality level for planning purposes.

For 2013/14 we have set this at £24 million for the Authority's account. For the Pension Fund it is £13 million.

We will report all audit differences over £1.2 million for the Authority's account and for the Pension Fund £0.65 million to the Audit, Pensions and Standards Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

Materiality for planning purposes has been set at £24 million for the Authority's standalone accounts which equates to around 3 percent of gross revenues.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit, Pensions and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Pensions and Standards Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.2m.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Pensions and Standards Committee to assist it in fulfilling its governance responsibilities.

Materiality – pension fund audit

The same principles apply in setting the Pension Fund audit. Materiality for the Pension Fund has been set at £13 million which is approximately 2 percent of gross assets.

The design our procedures to detect errors at a lower level of precision, set at £0.65 million for 2013/14, and we have some flexibility to adjust this level downwards.

KPMG

cutting through complexity™

Agenda Item 13

	London Borough of Hammersmith & Fulham (AUDIT, PENSIONS AND STANDARDS COMMITTEE) (13 February 2014)
Annual Governance Statement Action Plan, Outstanding Recommendations for External Audit and Fraud response Plan	
Open Report	
For Information **Key Decision: No**	
Wards Affected: None	
Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance	
Report Author: Geoff Drake – Senior Audit Manager	**Contact Details:** Tel: 020 753 2529 E-mail: geoff.drake@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report summarises:

- Progress on implementing recommendations arising from the Audit Commission 2012/13 Annual Governance Report
- The action plans relating to the control weaknesses identified in the 2012/13 Annual Governance Statement and progress in implementing these action plans.
- Progress on implementing the recommendations in the Fraud Response Plan

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 2013 the Council's External Auditors (KPMG) issued their 'Report to those charged with governance (ISA 260) 2012/13'. The report contained 2 recommendations for implementation by management.

4.2. The Council's 2012/13 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.

4.4. The Fraud Response Plan was largely cleared at the last APSC meeting, there were 4 recommendations outstanding to report on progress to this meeting.

5. PROPOSAL AND ISSUES

5.1. Update on External Audit recommendations

5.1.1. The table attached as Appendix A shows the progress reported by the responsible managers in implementing recommendations from the KPMG 'Report to those charged with governance (ISA 260) 2012/13'. Updates on 2 recommendations have been sought for this report. One has been reported as implemented and one is in progress. Unless otherwise stated, Internal Audit has not verified the information provided and can therefore not give any independent assurance in respect of the reported position.

5.2. Annual Governance Statement Action Plan

5.2.1. Attached as Appendix B are the action plans relating to the significant control weaknesses identified in the 2012/13 Annual Governance Statement.

5.2.2. The action plans and the progress made in implementation for all three AGS entries (Contract Management, Business Continuity Supply Chain Resilience and Health and Safety) have been provided by the identified responsible officers. Unless otherwise stated, Internal Audit has not verified the information provided and can therefore not give any independent assurance in respect of the reported position. We will continue to report progress until these are implemented.

5.3. Fraud Response Plan

5.3.1. Attached as Appendix C is the progress report on the implementation of the remaining recommendations.

5.3.2. One of the recommendations relating to blue sky thinking is now considered cleared. The remaining recommendations remain extant as they cannot be cleared yet. Unless otherwise stated, Internal Audit has not verified the current position reported by officers and can therefore not give any independent assurance in respect of the reported position.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable

7. CONSULTATION

7.1. Not applicable

8. EQUALITY IMPLICATIONS

8.1. Not applicable

9. LEGAL IMPLICATIONS

9.1. Not applicable

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

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

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	External Audit report recommendations progress update	Internal Audit Manager Ext. 2505	Finance, Internal Audit Town Hall King Street Hammersmith W6 9JU
2.	2012/13 Annual Governance Statement	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 2012/13 Annual Governance Statement Action Plan
Appendix C Fraud Response Plan Recommendations

Appendix A

External Audit Recommendation updates

Report	Recommendation/Areas of Improvement	Initial response and timescale	Responsible Officer	Update to Audit, Pensions and Standards Committee
Report to those charged with governance (ISA 260) 2012/13				
	R1 - Non-Current Asset Management The Authority should consider implementing an asset management system with the required functionality to improve efficiency of officers throughout the year and increase accuracy in the financial reporting process reducing the risk of error.	We accept the recommendation. The spread sheets have generally served the Authority well but as part of the transition to Managed Services an asset management system will be introduced. This is due to go live in April 2014 and it will form the basis of closing the accounts in 2014/15. In the meantime (year of account 2013/14) the Council will continue to use spread sheets which will be refined and improved where possible.	Bi-Borough Director of Finance	As per the original response, this recommendation is being addressed via the Managed Services project. The specification for the Fixed Asset register has now been agreed with the provider. Integrated Systems Testing (IST) commenced on 11th November 2013 with User Acceptance Testing to follow in January.
	R2 - Investments There is an opportunity to remove the additional layer of approval, to make the process more efficient and reducing the time officers spend processing each investment. A preparer and reviewer is sufficient to segregate duties and mitigate the risk of error and fraud.	We accept the recommendation. We will seek to make the authorisation process more efficient while continuing to ensure a sound control environment observes necessary segregation of duties.	Director of Corporate Finance & Investment	This was put in place from 1 October 2013

2012/13 Annual Governance Statement Action Plan

Entry	Responsible Officer	Action Plan	Progress To date
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. Any proportionate systems or process improvements identified following on completion of the audit will be adopted to improve the control environment in this area.	Deputy Head of Emergency Services	Service Continuity plan development workshops have been held to ensure that P1 and P2 service leads have compliant Business Continuity plans. Within the workshops, emphasise was placed on the importance of ensuring their key suppliers were resilient. Develop reporting dashboard to report compliance for continuity plans as a KPI, this includes scoring element on supply chain resilience within service. KPI to be reported to Service Resilience Group and EMT. Where P1 and P2 services have Tier 2 suppliers to HFBP (Tier 1), that regular credit checking is undertaken on the suppliers by HFBP. That monthly credit rating checks are carried out on the most important suppliers, based on spend and service criticality. That all outsourced single Managed Services have a Strategy for the loss of the supplier, and that this is both workable and robust. Run contract management workshops for all P1 and P2 service contract managers. These *specific* workshops will focus on understanding how Resilience should be implemented in supplier operations, plus ensure that the resilience capability is tested on at least an annual basis, ensuring that evidence of their capabilities is captured, and that shortfalls have controls.	6 workshops completed. Dashboard developed and first round of KPI reporting undertaken and reported to Service Resilience Group. KPI reporting to EMT in January 2014. Now undertaken by HFBP on a monthly basis and forwarded to the Business Continuity Manager. Checks are undertaken for top 200 spend contracts, checks for high risk contracts under development. Pending Pending

Entry	Responsible Officer	Action Plan	Progress To date
		That contract Business Continuity clauses are commensurate to the service being provided, and where additional guidance is sought, Legal Teams direct the procuring officer / contract manager to the Business Continuity Manager for advice. That thresholds for key performance indicators in contracts are monitored on a regular basis. Ensure that the impending Capital eSourcing (BRAVO) platform has a Business Continuity workflow process. This directs procuring officers and contract managers to ensure the resilience of the intended supplier is commensurate to the service being provided. Assess weaknesses and vulnerabilities within council supplied services and develop action plan to address specific areas of concern. Formalise and codify actions above into a Supplier Resilience Strategy.	Legal have begun to send contracts to the BC Manager for advice, this has not previously occurred. Being developed by the BRAVO team. Supplied to the BRAVO team for testing. Internal Audit undertaken with results about to be formalised. Initial feedback suggests discreet areas of supply chain can be identified to enable targeted remedial action for high risk areas. Strategy developed and agreed on a Bi-Borough basis (RBKC & LBHF) at Procurement board. Process underway to turn in to tri borough strategy prior to corporate sign off. E-procurement system as catalyst for tri borough approach.

Entry	Responsible Officer	Action Plan	Progress To date
Contract Management Chief Officers are responsible for all contracts tendered and let by their Department. They accountable to the Cabinet for the performance in relation to contract letting and management, which are 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.	Head of Procurement	1. Update reports are being provided to Bi borough Procurement Board to raise awareness of the issue and ensure departments update the contract register accordingly. 2. The internal audit report recommendations when received will be submitted to Bi borough Procurement Board – currently planned for December 2013 - and implemented as required. 3. As part of the Tri-borough Managed Services Programme, the three Councils have commissioned an eSourcing solution from Bravo Solutions called “capitalEsourcing” which comprises a range of modules including spend analysis, etendering, contract and vendor management. Work is underway to implement this with effect from January 2014. This will include putting together a new Contracts Register in the system which will interface with the etendering module. This will significantly improve contract record keeping. There is no such interface in the current systems. The programme of work is as follows: • Nov 13 - Commence data gathering exercise to draw up a list of contracts by authority with supporting metadata (e.g. expiry, value, supplier contacts details etc.) • Dec 13 - Collate, validate, and rationalise data to a standard format • Jan 14 – Upload data to the capitalEsourcing system • Feb 14 – Continue updating register in “new” format	Report submitted to Bi borough Procurement Board on 19 Sept outlining current contracts on the register and highlighting the need to update especially when transferred to the new TB capitalEsourcing system. Data gathering well underway with a view to completion by 31st Jan 14.

Entry	Responsible Officer	Action Plan	Progress To date
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. While proposals, including an appointed person in post for the management of Asbestos, to improve the controls, have been agreed and will being monitored by Hammersmith and Fulham Business Board, these arrangements are not fully established at this time. Action Plans have been modified to improve the system of internal control in this area.	Bi-Borough Director of Environmental Health	The management of facilities has transferred to Amey as of October 1st 2013. The Link (Client function) hosted by RBKC is responsible for the performance management of the Amey contract. Key Performance Indicators have been put forward by corporate safety (agreed between all three councils) which includes a target for monitoring contractors delivering the Amey contract. Relevant KPIs were not included in the original contract for health and safety. A service level agreement between the Link and Corporate Safety teams (3 boroughs) has been put forward. The corporate safety business plan sets out key audits over the next two years which includes the monitoring of contractors: gas safety, fire safety, lift safety management and asbestos management Appointed asbestos manager in post.	Awaiting for the Link (Director HR Strategy & Business Centre) to agree SLA and associated KPIs Gas safety audit completed and circulated with recommendations. Fire safety audit circulated with recommendation. Review scheduled in March 2014. Lift audit completed and circulated with recommendations for action. Three month review completed December 2013. Asbestos management audit – scope in place All corporate buildings now have an asbestos management plan. Responsibility transferred to AMEY. Corporate Asbestos Managing overseeing sovereign corporate compliance. Resourcing (6 months) agreed by children's Services for Corporate Asbestos Compliance Manager to manage survey and asbestos management plans in schools. Programme agreed. Schools separated into three types based on levels of duty of care. Programme on schedule.

Appendix C

Fraud Response Plan Recommendations

APSC requirement	Action Plan	Responsible Officer	Progress to August 2013	Progress to November 2013
1. Look at the potential to share intelligence with others, particularly Govt Depts (HMRC), to consider the potential for prosecution of businesses: 'The Exec Dir of Finance & corp Gov cross checks the list of property owners benefiting from the granting of retrospective NNDR relief with records of operators of premises who have had licenses revoked and/or have been subject to enforcement action by HMRC, as a means of focussing any further investigations'.	We have contacted HMRC and the units within LBHF who dealt with them and collected some information from them. However further evidence has been identified within the investigation which may offer a more effective solution to the potential for prosecution of some businesses. This is currently being looked into. Further details cannot be provided at this time due to the confidentiality of prosecution cases.	Investigations consultant	We will trial a data exchange on large scale local frauds but for the local rate payer prosecutions we are using a more effective risk based approach to identify the most appropriate cases. Once the criminal action is complete a more detailed update will be provided.	We will trial a data exchange on large scale local frauds but for the local rate payer prosecutions we are using a more effective risk based approach to identify the most appropriate cases. Once the criminal action is complete a more detailed update will be provided.
7. Develop proposals for 'blue sky thinking' on risk and control for audit and risk involving other officers.	Under development.	Internal Audit	An initial review has identified where existing appropriate Officers and groups can contribute to the process. The contacts have been established in IT. Information Management, BiBorough Procurement, Policy and Strategy. A model is under development for a periodic exercise which may within the remit of a new Strategic Tri-borough risk management group.	An existing group (the Tri-Borough Information Management project Board) has been identified through which this might be delivered. Blue sky thinking in relation to information governance and technology management. A second stream, the newly established Tri-borough Corporate Risk Management Group will also have the responsibility to undertake this exercise. The two of these will provide the overall scope looked for. This is now considered complete.

No.	Recommendation	Responsible Officer	Proposed action	target date	Progress to September 2013	Progress to November 2013
KPMG Rec R8	As part of the Council's assessment against the new Public Sector Internal Audit Standards and ensure that: § The annual audit plan is presented to the Audit Committee in the context of a wider strategic plan, together with a supporting risk assessment.	Internal Audit	While the risk assessment is already provided in the form of the risk registers which are reported to every Committee meeting, additional information will be provided to the committee to support the audit plans and put them into context	31 March 2014	This will be undertaken for the 2013/14 audit plans due to APSC in February 2014	This will be undertaken for the 2013/14 audit plans due to APSC in February 2014
KPMG Rec R14	Disseminate the lessons learnt from this review widely.	Internal Audit	Once the criminal proceedings are completed, this will be shared with HFBB and the Finance Strategy Board to act on as appropriate.	31 March 2014, but dependent on court cases	It is not possible to action this yet.	It is not possible to action this yet.

the low tax borough	London Borough of Hammersmith & Fulham AUDIT PENSIONS AND STANDARDS COMMITTEE 13th February 2014
Combined Risk Management Highlight report	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
For Review & Comment **Key Decision: No**	
Wards Affected: None	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Michael Sloniowski, Bi-borough Risk Manager	**Contact Details:** Tel: 020 8753 2587 E-mail: michael.sloniowski@lbhf.gov.uk

1. EXECUTIVE SUMMARY

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

2. RECOMMENDATIONS

2.1. That The committee consider the current Bi-borough Departmental Strategic, Change and Operational risks as outlined in the report.

3. REASONS FOR DECISION

3.1. This report updates Members on the risk management issues identified across council services.

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. In the Bi-borough work environment, people have to be stretched in their decision making and "doing" role. If there is no allowance for taking managed risks in an appropriate control environment, this stifles the whole process, prevents innovation and breeds poor morale. So a balanced approach to Enterprise Risk Management should allow for risk taking in a managed environment.

5.2. **Tri-borough Risk Management approach**.

5.3. Following a period of consultation with Officers of the London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea it is proposed that a TriBorough Risk Management forum of Officers is established. The Director of Strategy and Local Services at the Royal Borough has been approached to Chair the forum. Draft terms of reference have been issued to Officers for comment, feedback has been received and considered. The resulting draft Terms of Reference will be placed on the agenda for review and adoption. Westminster City Council will be represented by their Strategic Business Analyst who reports to their Strategic Executive Board on risk.

5.4. The responsibilities of the Tri-borough Risk Management Group will include;

5.4.1. To share risk management issues across Tri-borough services highlighting those that others may have missed. It would act as a hub where best practice is shared.

5.4.2. To agree final reports on risk for the Audit Committees at each Council, involving departments directly in the scrutiny of risks.

5.4.3. To assist in responding to issues where risks had been identified but not given sufficient priority or those which require review or closure. It would focus on strategic, portfolio and business as usual risks by department which would include those defined as common risks across the organisations. There would be a process of moderation in terms of those that were reported to Audit Committees.

5.4.4. To determine the appropriateness of the Risk Management Policy and methodology and keep this under review.

5.4.5. The previous board in existence at the Royal Borough of Kensington and Chelsea met quarterly and each meeting was scheduled for a one hour slot to ensure time was effectively managed.

5.4.6. The key success of the Royal Borough group was that each management board had to have an agenda item on their Management Team meeting on at least a quarterly basis which ensured risk management was more embedded.

5.4.7. Attendees will be invited to attend to represent Tri-borough, Bi-borough and or Sovereign borough services and Officers whom have some risk management responsibility for Portfolio or Programme Management, Business Continuity, Health & Safety and the Tri-borough Insurance Officer.

5.5. **Tri-borough methodology.**

5.5.1. A single Risk Management methodology has been agreed with the Royal Borough of Kensington and Chelsea and Westminster City Council. This completes the harmonisation of 3 differing approaches to how risks are identified, scored and reported. Guidance has been issued to departments for comment. Feedback has been positive as the 3 boroughs different styles have been accommodated into one simplified approach. This has been delivered in line with the Tri-borough Risk Management Strategy.

5.6. **Tri-borough Information Technology and Governance Risk Management workshop**.

5.6.1. A risk identification workshop was held on the 6th January at the Royal Borough of Kensington and Chelsea. Invitations were issued to the 3 Heads of IT, Information Managers, the Strategic Business Analyst of Westminster City Council and the Bi-borough Risk Manager. The purpose of the workshop was to further examine and refine new or existing shared or common risks faced by the 3 boroughs. Additional information was shared on the governance arrangements, reporting arrangements and mitigations for IT Risk.

5.7. **Bi-borough Business Continuity and Supply Chain Management.**

5.7.1. The Bi-borough Risk Manager has also been directly involved in the re-visioning and rearticulation of the complex Business Continuity and Supply Chain Risk Management arrangements. Both exercises resulting in the further simplification and streamlining of 3 processes. A Bi-borough strategy has been agreed for the management of these risk areas and following our invitations to discuss these areas with Westminster City Council it is hoped that agreement can be reached to adopt a single and more efficient single Tri-borough approach.

5.8. **Bi-borough Enterprise Wide Risk Register**

5.8.1. The Enterprise Wide Risk and Assurance Register has been significantly revised and updated following the review of Tri-borough, Bi-borough and Departmental submissions and is attached as reviewed by the Hammersmith and Fulham Business Board.

5.8.2. Changes include entries of the more significant risks identified directly by departments from their risk registers, significant programme, project and Information Technology and governance risks.

5.8.3. The register remains an indicator of 'Corporate Preparedness' and illustrative of good governance. The full version accompanies this paper for Members information attached at **Appendix 1.**

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.	Tri-borough Programme report updates	Michael Sloniowski 2587	TriBnet
5.	BS 31100 Code of Practice	Michael Sloniowski	Corporate

	for risk management	2587	Finance Division, Internal Audit, Town Hall, Hammersmith

*[**Note:** Please list <u>only</u> those that are <u>not</u> 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
Bi-borough departmental Risk and Assurance register

Appendix 1	Strategic Bi-borough Risk Register						
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**
1	Managing budgets • Threat posed by grant reductions and changes to local government finance • NNDR localisation of Business Rates – taking on financial risk of non-collection of NNDR plus the associated loss of government grant • Impact of a sluggish national economic recovery and cascade effect on social budgets * link to revenue forecast • Pressure on demand led services may occur mid-year resulting in unanticipated additional costs • Failure to achieve Value For Money • Creditworthiness of some contractors may be downgraded as a result of the economic downturn	• Budget proposals growth and reductions planned and monitored • Tri-borough Business and Financial Planning • High risk and volatile budget areas identified. • E-Learning package for Finance Managers • Collaborative Planning system with supported training for budget holders • Medium Term Financial Strategy • Medium Term Financial Strategy Officer and Member Challenge • Leader's monthly monitoring reports • Financial Strategy Board (FSB) periodically evaluates the effectiveness of the financial management arrangements • Monthly corporate revenue and capital monitoring • Reports to the Leader identify where spend levels exceed a tolerable level during the year • Maximisation of asset disposal • Credit check of contractors is being undertaken through the Bi-borough Procurement Strategy Board (RBKC & H&F). The Royal Borough's practice has been to use a firm called Brookes Bates to carry out financial appraisals on putative suppliers. The firm is given the identity of the bidder, a description of the	3	4	Medium 12	• Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham) • Nicholas Holgate, Bi-borough Interim Chief Executive • All Executive Directors	January 2014

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
		contract and its estimated value. <u>Assurances</u> • Cabinet and Corporate Services scrutiny committee • The Royal Borough of Kensington and Chelsea Cabinet and Corporate Services Scrutiny Committee.					
2	Managing the Business Objectives (publics needs and expectations known and addressed)	• Tri-borough Business and Financial Planning guidance has been issued for 2014 2015 • Manager and Staff 1-2-1's and appraisals • Implementation of Lean Thinking principles putting the voice of the customer at the heart of service design • Performance monitoring and feedback through the local media • Customer experience and satisfaction surveys <u>Assurances</u> Joint Management Team, Hammersmith and Fulham Business Board Cabinet Cabinet Members. The Royal Borough of Kensington and Chelsea Cabinet and Corporate Services Scrutiny Committee and H&F Scrutiny Committee review departmental performance. Ofsted inspections of Children's Services. Care Quality Commission	3	3	Low 9	All Executive Directors	January 2014

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
3	Market Testing (Failure to deliver high quality commissioned services at the best cost to the taxpayer) • Tri-borough or Bi-borough procurement risk appetite may vary • Procurement procedures may become unclear across Tri or Bi Borough services • Uncertainty about the most appropriate procurement route, lengthens processes due to reporting to 3 Member bodies	• Bi-borough Procurement Board (RBKC & H&F) with WCC invited as required • Tri-borough Children's Services and Adult Social Care Contracts and Commissioning Boards • Implementation of BRAVO software solution scheduled for 23rd January 2014 across H&F, RBKC and WCC. • Harmonising the Royal Borough Contract Regulations and Hammersmith and Fulham Contract Standing Orders and simplification of Governance processes • Review of the 3 boroughs Procurement service provision as part of the Corporate Services Programme. • H&F Transforming Procurement work with Agilisys procurement processes to make them slicker and more efficient • Transforming Procurement Programme with Agilisys undertakes to improve the knowledge base and skills throughout H&F	4	3	Medium 12	All Executive Directors Bi-borough Procurement Strategy Board	January 2014

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
		• Consultation with other boroughs • Appropriate project management process • Separation or joining of procurement projects to maximise benefit potential • Realistic timetables agreed and reviewed at Bi-borough Procurement Board (RBKC & H&F) • Market Testing progress report to HFBB • Programme & Project Management – Risk Logs being maintained, periodic risk reviews. • Transformation Board					
4	Failure to manage Public Health Service and NHS Provision Sub-risks the Council remains concerned about the impacts of proposals to change the hospital arrangements in North West London The transfer of the Public Health Service from the NHS to local government may not go well If controls over the security, access, storage and use of	• The Director of Public Health will attend Housing, Health and Adult Social Care Select Committee • Health & Well Being Board • The Council has no obligation to cross subsidise Public Health. • The Tri-borough Public Health service is hosted at Westminster as agreed by the Leaders of the three councils <u>Assurances</u> Joint Management Team, Hammersmith and Fulham Business Board Cabinet • Public Health is now registered with the Information	4	4	High 16	Nicholas Holgate, Bi-borough Interim Chief Executive Interim, Director of Public Health, Meradin Peachey appointed	January 2014

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
	Person Identifiable Data (PID) are not acceptable to the data owner (including NHS) and access is denied, the effectiveness of services will be compromised.	Commissioner for the Local Authority (IGSoC). • The principles governing data have been agreed through a memorandum of understanding.					
	If the PCT Financial Legacy team did not pay all the outstanding PH invoices from the period up to 31 March 13 and no handover of information and funding has been made to councils, then suppliers will be looking for the Tri-borough PH service to settle these debts putting a financial and reputational risk on each borough	• Identify what the believed debt may be and write to Stephen Lorimer at the DH for funding. 2 Dec Update • Detailed paper requested for consideration at Public Health SMT on 16 Dec 13.					
	If the staff capacity is insufficient to cope with service workload due to unfilled vacancies, or if there is loss of key staff and knowledge to other employment opportunities then full delivery of the work	The Director and Line Managers to work with staff and key stakeholders to prioritise work and manage expectations.					

Appendix 1

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
	programme and service quality will be compromised and decline in service efficiency will occur. If 'open access' service providers (primarily Acute Hospitals) fail to accept all contract terms and conditions, then there will be additional costs for 'out of contract' charges	The main areas of contention are the tariff and the NHS incentive, CQUIN, which is a 2.5% innovation incentive that has traditionally been applied across all of the Acute Provider contracts irrespective of whether innovation and improvements have been achieved. CQUIN has not been offered to NHS Providers and can be mitigated by: 1) No provider-led service development ("scope creep") 2 Dec Update A further Cabinet Paper being written with recommendations on way forward					
5	Business Resilience Sub-risks IT resilience (RBKC) IT resilience (H&F)	• The Councils generic Contingency Management Plan and Business Continuity Plans are designed to be 'scalable' in response to any size of incident, and linkages with the and neighbouring local authorities ensure that central government and local government mutual aid assistance will be forthcoming in the event of a large-scale attack. • Corporate Incident Management Procedures incorporate Business Continuity • Training has been delivered to local service plan	4	3	Medium 12	Lyn Carpenter (Corporate Business Continuity) Bi-borough Director for Environment, Leisure and Resident Services with	January 2014

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
	Proposed move of the H&F IT from the East London site. Systems not joined up and connected in the event of a H&F, Royal Borough or Tri-Bi Borough event. Lack of top tier response plans. Electronic information storage capacity. Mobile Communications technology provider service failure. Information Governance during the development of major programmes (Managed Services, FM). H&F Openscape as a form of remote communications and working.	leaders • A corporate service resilience group has been formed and meet periodically • Directors of Resources have been appointed as Departmental contact leads • Local Service Plans have been compiled, reviewed and refreshed and quality checked by Emergency Services • The Corporate Firewall restricts and regulates network connections and communications on the perimeter of the RBKC private network with the public internet. • Request For Change process in use by Hammersmith and Fulham is being adopted under the Tri-Borough shared services initiative. • Business Continuity Recovery Group allocates resources between business groups for recovery • H & F Bridge Partnership have submitted a Local Service Recovery Plan. A major incident process has been established by HFBP and part of data recovery costs are insured under the councils corporate insurance package (but limited) • The Service Desk Manual • A threat assessment has been compiled • Some H&F ITC service has been moved to East London • The Business Continuity (BC) project now involves provision of IT BC for approximately 30 First Order applications as identified by H&F. The data is				the Royal Borough of Kensington and Chelsea. Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham) for HFBP. Nicholas Holgate, Bi-borough Interim Chief Executive Jackie Hudson Tri-borough Information and Communication s Technology	

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Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
	Contractor Liquidity Terrorist attack/Civil disturbance	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. • Creditsafe Financial checks. • Corporate Finance credit checking. • Contractor Business Continuity Planning. • Pension fund performance bond (H&F). • Terrorism insurance cover. • Tri Borough councils are working together to prevent terrorism offering free interactive workshops to raise awareness of the Prevent Strategy. • Prevent aims to stop people from becoming terrorists or supporting terrorism by focusing on supporting and protecting those who might be vulnerable to radicalisation. NOTE Please refer to BCP Risk Assessment for highlighted risks and controls. <u>Assurances</u> HFBB				Lead Advisor Barry Holloway Head of RBKC ISD. Tony Redpath Director of Strategy and Local Services	

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
		The Royal Borough of Kensington & Chelsea Internal Audit The London Borough of Hammersmith & Fulham Audit Pensions and Standards Committee The Royal Borough of Kensington and Chelsea Audit and Transparency Committee Service Resilience Groups for both Councils ELRS Department Management Team London Regional Resilience Forum Bi Borough Procurement Board Cabinet Office COBRA					
6	Managing statutory duty Sub-risks Non-compliance with laws and regulations	• The Royal Borough Stock Conditions Surveys. • Capital Programme • The Royal Borough publishes an annual workforce report covering a number of key workforce indicators.	4	3	Medium	Nicholas Holgate, Bi-borough Interim Chief Executive	January 2014

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
	Breach of duty of care Equalities (public sector equality duty or 'PSED') and Human Rights (a budget challenge could be in whole terms or of a single line)	• Hammersmith & Fulham production of key workforce indicators to management teams. • Nigel Pallace is lead Sponsor on HFBB for Health & Safety • Pro-active Health, Safety and Welfare culture across the council. • Tri-borough - The Total FM contractor manage a number of statutory and regulatory Health & Safety procedural, record and management processes. • A Bi-borough Health and Safety Service will commence in January 2014. • A Bi-borough Occupational Health Service is being considered within a service review. • Tri-borough Health & Safety protocols are being discussed and established and guidelines reviewed, refreshed and communicated. • Contractors are managed within CHAS regime. • Insurance cover is in place in the event of a claim for breach of duty of care and in respect of financial claims. • Legislative changes are adopted and reflected in amendment to the council's constitution, budget allocation through MTFS (Now unified business & financial planning process). • Training and guidance packages are available and newly agreed performance management indicators monitor the service. • Periodic reporting to HFBB.			12 ⬌	Responsibility for Health & Safety, Debbie Morris (The Royal Borough of Kensington & Chelsea) Nigel Pallace (London Borough of Hammersmith and Fulham) All Executive Directors	

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
		• Health & Safety campaign on slips, trips and falls. • Promotion of the Occupational Health Service and Workplace Options Employee Assistance Scheme. • Housing and Regeneration have rolled out personal safety training to over 130 staff through the Suzy Lamplugh Trust Training. • A reviewed and approved process now exists harmonising the Management Assurance process at Director and Divisional level with that of RBKC and H&F. • EIA's or Equality Statement (where applicable) must accompany all Cabinet, Full Council and Key Decision reports, KPI's • EIA's and Equality Statements address Human Rights where applicable • HFBB signed off actions that included a Policy for completion of Service Delivery EIA's (April 2012) and guidance for equality impacts of budget proposals to be drawn up and disseminated. <u>Assurances</u> The Royal Borough Regulation & Enforcement Review Committee HFBB, Audit Pensions and Standards Committee Audit and Transparency Committee H&F Safety Committee Tri-borough Safety Committees CHS and ASC					

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
		Internal Audit 2012 2013 Review of Health & Safety Statutory & Regulatory compliance FSB, Executive Director of Finance and Corporate Governance, Chief Executive and Leader of the Council Limited Assurance report April 2012 H&F Application of the Equality Act 2010 Officer Working Group					
7	Standards and delivery of care	• The Royal Borough Local Safeguarding Adults Board	4	3	Medium	Liz Bruce	Review

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Strategic Bi-borough Risk Register

Appendix 1

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
	Sub-risks Breach in standard and delivery of care – caring and care homes The Executive, and Management Teams may not have been apprised of significant controls weaknesses that appear in the service area. A breach of information security protocols in relation to an individual Corporate Parenting Sub-risks (RBKC) Service quality of the short breaks services for people with learning disabilities. Kingsbridge Road.	Strategic Plan 2012-2015 • The Royal Borough Safeguarding Adults Partnership Board Annual Report • Adult Social Care is making improvements to its approach to strategic risk management. The service is in the process of establishing improved governance linked tightly into its substantial transformation and efficiency planning processes, as well as business as usual boards. • To develop a greater awareness and ensure good practice in relation to risk management amongst both senior and middle managers, we are undertaking a number of sessions with the Corporate Innovation and Change management team. • In addition the service is introducing a more dynamic risk register which is updated in real time by nominated risk owners detailing the current assessment of the scale of each risk and detailing current planned mitigations. • Insurance cover is in place in the event of a claim for breach of duty of care and in respect of financial claims. • Legislative changes are adopted and reflected in			12 ↔	Tri-borough Executive Director of Adult Social Care	August 2013

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
		amendment to the council's constitution, budget allocation through MTFS (Now unified Tri-borough business & financial planning process). • Training and guidance packages and agreed performance management indicators. • Periodic reporting to HFBB and the Royal Borough of Kensington and Chelsea Management Board. • All child protection cases have remained allocated to a social worker despite of the high demand. • A detailed action plan has been implemented in response to the increased numbers of children with child protection plans, to safely manage the demand and reduce activity in line with that of our statistical neighbours. • The number of qualified social workers delivering a child protection service has increased by two over the past year. • Contract Management • Scrutiny by Officers in Contracts, Commissioning and Safeguarding. • The contractor has committed to self-funding immediate additional management and support staff for a minimum 6 months until the Royal Borough is satisfied with the service. Assurances Adult Social Care Tri-borough Management Team (TMT).					

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
		The Royal Borough of Kensington and Chelsea Safeguarding Adults Partnership Board. Adult Social Care Contracts and Commissioning Board (CoCo), the Home Care Board, TAS programme, Whole Systems review board H&F Housing, Health And Adult Social Care Select Committee Annual Assurance process The Royal Borough of Kensington & Chelsea Internal Audit The London Borough of Hammersmith & Fulham Audit Pensions and Standards Committee The Royal Borough of Kensington and Chelsea Audit and Transparency Committee Education & Children's Services Select Committee Local Safeguarding Children's Board, Unannounced Safeguarding Inspection, Ofsted , Local and London Child Protection Procedures					

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
		Officer Working Group Kingsbridge Road Care Quality Commission inspection 29th May 2013.					
8	Successful partnerships & Major Contracts Sub-risks • Partnering activity with other boroughs and the NHS may blur the lines of responsibility, accountability, governance or liability in the event of service failure • Local Housing Company Differing procurement processes Financial Regulations and Contract Standing Orders across Tri-borough services	• Governance arrangements are in place • Performance monitoring reports reported to Select Cttee's • The Cabinet Members will be closely involved in business plan discussions • Financial creditworthiness checks at Bi-borough Procurement Board (RBKC & H&F) H & F Bridge Partnership Assurance process Internal Audit Substantial Assurance report 2011/12 Partnership Governance Bi-borough Procurement Board (RBKC & H&F) <u>Assurances</u> HFBB,	4	3	Medium 12	Nicholas Holgate, Bi-borough Interim Chief Executive	January 2014

Strategic Bi-borough Risk Register

Appendix 1

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
		The London Borough of Hammersmith & Fulham Audit Pensions and Standards Committee					
9	Maintaining reputation and service standards Sub-risks • Multiplicity of external forces and initiatives • Breach of Officer or Member code of conduct • Information Management and Governance • Inappropriate Data released • Poor data quality internally or from third parties, breaches of information protocols, information erroneously sent to third parties. • Auto forwarding of information (Information control and threat of leakage	• The Royal Borough Administration Committee Annual report of the Monitoring Officer of the code of conduct and arrangements for dealing with complaints. • Hammersmith and Fulham Council Annual Complaints review report April 2010 to March 2011 produced to Committee • The Annual Residents Survey • A review of the corporate governance arrangements has been conducted by Internal Audit • Combined Tri-borough Finance & Service Planning processes • New Standards procedures are in place • Standards issues now covered under the Audit Pensions and Standards Committee at Hammersmith and Fulham Council • Information governance forms part of the Tri-borough ICT Programme • New Information Management Security Protocols published on the Intranet • Regular reporting on Security Incidents by the Information Management Team • Performance statistics are scrutinised by Select Committees, HFBB & DMT's • Corvu Performance Management System is able to	4	3	Medium 12	Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham) Nicholas Holgate, Bi-borough Interim Chief Executive	January 2014

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
	) Local information interconnectivity and data storage (hosting)	pick up anomalies • Data Quality E-Learning module has been released • From Wednesday 1st August 2012, the Council introduced a new contractor (industry specialists) for the collection and destruction of confidential waste from all Council offices in H&F. • Webmail has now been banned across H&F. • New Egress system introduced to protect confidential e-mails going outside of Tri-borough <u>Assurances</u> Cabinet Ofsted, Care Quality Commission, Annual Audit letter HFBB, Audit Pensions and Standards Committee, Overview and Scrutiny Board Tri-borough Information Management Project Board ITSOG Management Letter has been issued (based on comparison to requirements under the Data Protection Act)					

Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
10	Failure to identify and address internal and external fraud. Sub-risks Misappropriation of assets Appointee ship/custodian or guardian Contracting Gifts & Benefits Manipulation of performance data, collusion, billing, non-compliance with Financial and or Contract Standing Orders Misrepresentation of Personal or Commercial Circumstances NNDR Payroll Cheque	• An adaptable Tri-Borough corporate fraud function now exists which responds through a single professional and effective team to the challenging and changing range of fraud, both internally and externally executed. • CAFS teams use a risk assessment to assist in targeting and workload prioritisation • Literature, web presence and training is being reviewed to deliver to all levels of the authority • Information and guidance is available on the corporate intranet • Level of fraud is being tracked through FSB • Close working relationship is established with the Police, DWP and other enforcement agencies • Bribery Act Policy and Risk Register • Money laundering policies recently reviewed and amended. <u>Assurances</u> Both H&F and RBKC Audit Committees receive bi-annual reports on Fraud HFBB receive quarterly summary information on anti-fraud activity	4	3	Medium 12	Jane West, Executive Director of Finance and Corporate Governance (The London Borough of Hammersmith and Fulham) Nicholas Holgate, Bi-borough Interim Chief Executive All Executive Directors Tri-borough Director of Internal Audit, Risk, Fraud and Insurance	January 2014

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Appendix 1

Strategic Bi-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
	Grant award Treasury Housing and Tenancy Fraud Benefit Fraud						

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Strategic Tri-borough Risk Register

Appendix 1

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
~~11~~	~~Merging of education services~~ ~~(with Westminster Council and the Royal Borough of Kensington and Chelsea)~~	• ~~Service Reviews, Looked after Children, Leaving Care~~ • ~~Tri-borough Managers Induction~~ • ~~Tri Borough Mandate approved for Childrens Services at Cabinet 05-12-11~~ • ~~Combined Senior Management Team~~ • ~~A single education commissioning function responsible for raising standards~~ • ~~A single commissioning function responsible for arranging services for early years, children, young people, social care, health, disability and workforce development.~~ • ~~Three Borough-based delivery units with responsibility for protecting children, supporting families and delivering early help in the most efficient manner possible.~~ ~~Children, young people and their families~~ ~~Schools, partners and Health Services~~ ~~3 x Cabinet Portfolio Holders for Childrens Services~~ ~~3 x Health and Well-being Boards~~	~~2~~	~~4~~	~~Low~~ ~~8~~	~~Andrew Christie~~	~~Review~~ ~~August 2013~~ Risk Closed

Appendix 1

Strategic Tri-borough Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
		~~3 x Childrens Trust Boards~~ ~~Bi-borough Business Board~~ ~~WCC Strategic Executive Board~~ ~~3 x Childrens Scrutiny Committees~~ ~~Local~~ ~~Safeguarding Children Board (Tri-borough)~~					
12	Earls Court regeneration	• Earls Court Regeneration Team supported by high quality advisory team comprising Jones Lang LaSalle, SNR Denton and PWC. • All major decision reports reviewed by Tim Kerr QC in relation to Judicial Review challenge risk. • Workshops in August 2012 to cover procurement, risk, finance, housing redevelopment, planning, legal and communications. • Comprehensive report submitted to and approved by Cabinet 3rd September 2012.	3	4	Medium 12	Mel Barrett	January 2014

Appendix 1		Strategic Tri-borough Risk Register					
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**
		• H&F 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 <u>Assurances</u> Project Group chaired by Executive Director HFBB and the Royal Borough Management Board Cabinet Housing, Health And Adult Social Care Select Committee Planning Applications Committee The Royal Borough Major Planning Development Committee The Royal Borough Planning Applications Committee					

DEPARTMENT SPECIFIC

Appendix 1

Tri-borough Adult Social Care

Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
1	A risk of unplanned cuts to services as a result of further reductions in government grant for social care. A risk of unplanned cuts to services as a result of loss of funding from health.	• Out of Hospital Strategies in place; Community budgets, sharing whole systems savings. • Operational integration with health will deliver staffing savings; review skill mix etc. • Hold reserves or balances to manage better. • Develop exit strategies for one off services. • Develop prioritisation strategy for all services.	5	3	Medium 15 ⬌	Rachel Wigley	Review August 2013
2	A risk of proposed changes to long term funding of social care.	• Work is being undertaken by the Director of Adult Social Care Finance and Resources to assess the magnitude of this risk.	5	3	Medium 15 ⬌	Liz Bruce Tri-borough Executive Director of Adult Social Care	Review August 2013
3	A risk of increasing demand for social care services.	• Community budgets – sharing savings from acute sector. • Development new model of personalisation to reduce costs. • Prevention/Info and Advice/signposting – deflect demand, enable individuals.	5	3	Medium	Liz Bruce Tri-borough Executive Director of Adult Social Care	Review August 2013

DEPARTMENT SPECIFIC

Appendix 1

Tri-borough Adult Social Care

Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
		• Reablement/rehab to reduce residential care admissions. • Review charging policies.			15		
4	A risk of not effectively establishing ASC 3 B personalisation model. Risks of negative service outcome; lack of consistency across boroughs; reputations; negative impact on capacity and increased financial cost.	• New common model of personalisation needs to be developed and agreed across 3B ASC and inform the next phrases of TAS programme.	5	3	Medium 15	Liz Bruce Tri-borough Executive Director of Adult Social Care	Review August 2013
5	A risk of not developing effective integrated commissioning with Clinical Commissioning Groups.	• Out of Hospital Strategies agreed. • Community budget project, sharing savings. • ASC linked to Whole Systems workstream across the local health sector. • ASC involvement in review of contracts/commissioning plans re joint services reporting back to CCG OoH boards.	5	3	Medium 15	Cath Atlee	Review August 2013

DEPARTMENT SPECIFIC

Appendix 1

Tri-borough Adult Social Care

Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
6	A risk of the ability to share information at necessary level with health partners for the purpose of planning and evaluation.	• Update information sharing and information processing agreements. • Explore shared access/stakeholder with CCGs and CLCH in NWL NHS data warehouse. • Shared consent process.	4	3	Medium 12	Martin Waddington	Review August 2013
7	A risk of death or serious injury of vulnerable residents.	• Effective safeguarding adults processes in place across tri borough.	4	3	Medium 12	Liz Bruce Tri-borough Executive Director of Adult Social Care	Review August 2013

DEPARTMENT SPECIFIC

Appendix 1

Tri-borough Adult Social Care

Ref	Ref	Ref	Ref	Ref	Ref	Ref	Ref
8	There is a Tri-borough risk that LAC numbers start to rise, increasing demand for placements. Even without a rise in overall numbers, ongoing or even increased demand for high cost placements, particularly for adolescents, will put pressure on placements budget.	• The LAC numbers are rising in the rest of the country. Plans need to be put in place to monitor numbers and need.	3	5	Medium 15	Tri-borough Children's Services SLT (Management Team)	August 2013
9	There is a CHS Project risk that there is insufficient contingency time between the valuation of bids and political process to the award of contract. Also a tight time scale after award of contract to mobilise in time for start date.	• Contract award processes have been planned.	3	5	Medium 15	Karen Tyerman	August 2013

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Tri-borough Children's Services							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
10	There is a risk of the difficulty of using multiple systems for current combined systems for current combined services. If common ICS and processes are not developed, then there will be a risk to delivery for the next wave of combined services – one provider may pose a quality / time issue.	It is clear that a number of projects are dependent on ICS convergence. Work has started on what this might look like. PID has been developed. The Project Board which was scheduled to take place on 2nd May was intended to highlight some of the key dependencies in relation to "family view" being available.	3	4	Medium 12	Dave McNamara	November 2013
11	There is a CHS Portfolio risk of limited financial contingency to meet new unanticipated demands this will led to potential budget overspends.	• CHS Finance to monitor closely. Maintain sight of risk on register.	3	4	Medium 12	Tri-borough Children's Services SLT (Management Team)	November 2013

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Tri-borough Children's Services							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
New	Continued effective engagement across Member and Officer level.	• Ensure that regular engagement takes place between Officers and Cabinet Members through regular meetings and updates.	3	4	Medium 12 **New**	Children's Services SLT (Management Team)	November 2013
New	Passenger Transport risks -Financial benefit of procurement over existing provision. -Opposition from Service users -Mini competition does not produce viable results. -Suitability of proposed transport framework -Timescales -Strategic client in place in time -Contractors ability to deliver as promised	• CHS Programme Board active in mitigating these risks. • Project team is working across all aspects of the project. • Additional resources are being recruited. • Engaging Members, service users, staff and other stakeholders is underway.	3	4	Medium 12 **New**	Andrew Christie	November 2013

Tri-borough Children's Services							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
New	Staff morale Pay, terms and conditions Workforce anxiety (changes to the way they work) Reduction in workforce numbers affecting ability to drive change.	• No single corporate solution. • On-going staff engagement and consultation. • Workforce development and workforce planning.	3	4	Medium 12 **New**	Children's Services SLT (Management Team)	November 2013
New	Change activities risk if unsuccessful. If IT services or systems change is not delivered this may have a detrimental effect on service delivery. Loss of workforce skills and experience.	• Outputs and analysis from the Your Voice Survey • Devise an action plan following the staff survey to support the workforce through change processes. • Workforce development and workforce planning.	3	4	Medium 12 **New**	Children's Services SLT (Management Team)	November 2013
New	The potential of serious harm or injury to a child or young person to whom we have a duty of care for.	• Ongoing Local Safeguarding Children's Board activities. • Review lessons learned from cases and ensure appropriate training is undertaken by staff.	3	4	Medium 12 **New**	Children's Services SLT (Management Team)	November 2013

Tri-borough Children's Services							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
New	There is a risk that the numbers of looked after children rises, particularly for adolescents putting pressure on the placements budget.	• Numbers are starting to rise in the rest of the country. • A looked after children tracker has been put in place to monitor numbers and need.	3	4	Medium 12 **New**	Children's Services SLT (Management Team)	November 2013
New	Implications of the changes with in Health provision which may impact on the way service is delivered.	• Ensure that regular engagement takes place between colleagues in health services and colleagues across the directorate.	3	4	Medium 12 **New**	Children's Services SLT (Management Team)	November 2013
New	Changing relationships with schools to ensure that effective financial standards are in place in all schools.	• Review and develop the Scheme for Financing Schools across Tri-borough to incorporate the funding, procurement and legislative changes. • Review findings of audit reports to develop and target training at areas of concern and weaknesses in the operation of financial processes within schools.	3	4	Medium 12 **New**	Children's Services SLT (Management Team)	November 2013

Bi-borough Environment, Leisure and Resident Services risks

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
12	There is a medium risk that increasing financial pressures and uncertainty leads to loss of staff, skills and knowledge, increase in workplace stress, high levels of sickness and ultimately affecting service delivery.	• Communications with Tier 4 managers have begun; some reviews are still in progress, a few are at the start of implementation phase. • Workforce Development Working Group and Talent Management Plan in place.	4	3	Medium 12	Lyn Carpenter Bi-borough Executive Director Environment, Leisure and Resident Services	December 2013
13	There is a risk that contamination levels to the recycled waste stream continues to increase. Resulting in a potential financial implications running into hundreds of thousands of pounds. This means that the boroughs would pay twice for disposal, once at the recycling gate fee rate, and a second time at the higher incineration gate fee.	• September 2013 Regular sampling and consequent analysis of a larger dataset provides a more accurate view of performance and possible management. The service will continue to investigate waste contamination issues and take appropriate enforcement action. • An action plan is in place and close monitoring of contamination levels is being undertaken. • April 2013 , Cory has reduced its gate fee for recycled waste. Research has been undertaken and service managers have developed action plans and communications appropriate for each borough in light of the research findings.	5	4	High 20	Kathy May	December 2013

Bi-borough Environment, Leisure and Resident Services risks							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
	Increased residual waste tonnages and falling recycling rates can also impact on disposal costs and recycling.						
New	There is a Royal Borough of Kensington and Chelsea medium risk that the Opera Holland Park income for 2014 season is not achieved.	• Regular financial monitoring	3	4	Medium 12 **New**	Sue Harris	December 2013
New	There is a Royal Borough of Kensington and Chelsea risk of insufficient resilience and workforce planning in the planning process for Notting Hill Carnival	• Operational manual. • Team Leaders at sub-bronze level	4	3	Medium 12 **New**	Ian McNicol	December 2013

Bi-borough Environment, Leisure and Resident Services risks							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
New	There is a risk that a 6% increase in cemeteries income target is not met	• Work with QSL to mitigate	4	3	Medium 12 **New**	Ullash Karia	December 2013

Tri-borough Libraries risks (Medium and low risks only)							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
17	There is a medium risk of failure to realise Archives savings and inability to re-provide a service as part of tri-borough.	• Regular meetings. • Monthly meetings with tri-borough and regular meetings with stake holder groups.	3	4	Medium 12	David Ruse Donna Pentalow	August 2013
18	There is a low risk that the number of Library issues continue to decline.	• Regular meetings. • Close monitoring of issue figures and analysis by customer and item type.	3	3	Low 9	David Ruse Donna Pentalow	August 2013

Bi-borough Transport and Technical Services risks (Medium risks only)							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
~~**19**~~	~~Tri/Bi-borough working - Pace and scale of change may adversely affect service delivery.~~	• ~~Regular communications.~~ • ~~Nigel Pallace Divisional briefings (floorwalks).~~ • ~~Ongoing programme of engagement.~~	~~3~~	4	~~Medium~~ ~~12~~	~~T&TS DMT (Management Team)~~	~~July 2013~~ Risk Closed
~~**20**~~	~~Tri-Borough working arrangements~~	• ~~Tri Borough Programme Boards.~~ • ~~Environment Family Programme Board.~~ • ~~TTS Programme Board.~~ • ~~Staff Forums held and service reviews underway. HR input and Union dialogue integrated into review process.~~	~~3~~	4	~~Medium~~ ~~12~~	~~Unallocated~~	~~July 2013~~ Risk Closed
~~**21**~~	~~Adverse consequences of recession/downturn in economic environment.~~	• ~~BC Workload planning.~~ • ~~Planning Workload planning.~~ • ~~Corporate revenue monitoring.~~ • ~~Staffing to match workload.~~ • ~~Review of debt.~~	~~5~~	~~3~~	~~Medium~~ ~~15~~	~~Unallocated~~	~~July 2013~~ Risk Closed

Bi-borough Transport and Technical Services risks (Medium risks only)

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
22	Adverse budget variances.	• Regular finance & trading accounts monitoring. • Work with policy and planning to bring in funds. • Financial reporting by Quantity Surveyors, BTS, QA system, use of contingencies. Training plan for staff. • New criteria introduced to prevent blue badge fraud. • Review budget staffing level. • MTFS planning process. • Parking Control Board. • Recovery plan in place. • Recruitment approval restricted. • Review adverse variances and report action plan to DMT.	3	4	Medium 12	Mark Jones	December 2013
New	Health and Safety breaches affecting staff and others	• Safety Audit. • Management of contractors. • Construction, Design and Management (CDM) controls in place. • Maintenance and inspection schemes underpin the engineering response to risk. • Monthly compliance reports from the Link. • ISO Certified Quality Assurance. • Learning and development plans. • Ongoing training programme. • Established H&S Committee	3	4	Medium 12 **New**	T&TS DMT (Management Team), All Managers	December 2013

Bi-borough Transport and Technical Services risks (Medium risks only)							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
		• Departmental policies. • Divisional risk assessments. • Statutory responsibilities audits. • Guidance on cross borough working issued. • Review of the Bi-borough Health and Safety programme.					

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Housing (Medium and Low risks only)							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
23	There is a medium risk of pressure on Housing temporary accommodation budgets arising from: a) LHA changes b) Introduction of the benefit cap and, c) Introduction of the Universal Credit.	• Regular financial reports identifying projected budgetary variances discussed at HSDMT and with Cabinet Member. • Close working with the Housing Benefits Team to identify financial implications arising from policy changes. • Negotiation of lower rents with landlords. • Use of Discretionary Housing Payments. • Seek to move households to more affordable housing	5	3	Medium 15	Steve Mellor Laura Johnson	August 2013
24	The risk of a major civil emergency or major incident/failure within the housing sector.	• Emergency Plan procedures implemented. • Monitoring of Council stock. • Monitoring of contracts. • Regular gas inspections. • Fire safety checks undertaken in line with London Fire Brigade.	1	5	Low 5	Laura Johnson	August 2013

Housing (Medium and Low risks only)							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
25	The scheme to build at least 63 units of affordable housing on a garage site on the Silchester Estate is tied with a Unilateral Undertaking relating to Holland Park School, with a risk of costly litigation should the new homes not be built by a deadline.	• Rigorous contractor selection process by the development partner. • Close liaison with development partner. • Early Identification of potential barriers. • Reviewing the need for a renegotiation of Holland Park Unilateral Undertaking to relax the deadline. • Project Team in place	1	5	Low 5	Laura Johnson	August 2013

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Information and Communications Technology							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
26	The risk of the Public Services Network Authority (PSNA) do not accept a single Tri-Borough Network as a Code of Connection (Co-Co)	• The Information Security teams from each borough will seek clarification from the PSNA together with technical expert input.	4	4	High 16	Dave Gough-Palmer	January 2014
27	Programme resource capacity	• If the ICT Programme has insufficient skills and resource to deliver the agreed solutions /enablers this may impact on the ability to meet expected targets or compliance with statutory requirements.	4	4	High 16	Jackie Hudson Barry Holloway Ben Goward Howell Huws	January 2014
28	Access to applications, There is a risk of a potential lack of control over who can access which applications	• A process document has been created by information security. PM's to collect names of business data controllers. • Recent requests for multiple log ons have increased this risk and although controlled/limited, there is a risk that areas where there is no official co-lo site may look to implement local solutions/work arounds. This is being monitored. • This is still a risk as requests for multiple logins continue. Any audit of this process to date may also highlight risks around the process.	3	4	Medium 12	Jackie Hudson	January 2014

Information and Communications Technology							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
		• 12/7 Dual logins have been restricted but there is still a residual risk from earlier allocations					

Information and Communications Technology							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
29	The Programme Board recognises that there is a risk for Education procurement around the system requirements for those areas not covered by the frameworki project. Education have a 15 month deadline with CAPITA 1 that has to be met.	• 24/4 David Alcock is involved in the requirements exercise for Education and these are reviewed at the HFBP meeting, with a view to updated the programme board and CIO. • 15/4 the education move to KTH was managed /led by the RBKC space programme but will be supported by the tri-b ICT team 12/7 Nic Fell is looking at the requirements of the education teams and whether this can be addressed by frameworki or will require an additional solution/capability	3	4	Medium 12	Dave McNamara	January 2014
30	Difference in Smartworking policies There is a potential financial risk to H&F due to the different approaches to smart working e.g. laptop policies within the RBKC space programme	A response to John O'Sullivan's paper has been sent and a meeting to review the options will take place in the next two weeks. 17/7 A review meeting was held between the Space Programme, service area and the ICT programme to review issues and options. 04/9 This risk will be addressed by the wider WFA Programme which will define the new ways of working and the associated IT requirements. 4/10 This discussion is still ongoing and cannot be closed at this time as there is still a risk.(AO) 31/10 the move of H&F ChS team into the smart space area of KTH was due Jan, so a decision around laptops was required ASAP.	4	4	High 16	Howell Huws	January 2014

Information and Communications Technology							
Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
		19/11 Although agreement was reached for the H&F team at KTH, with the supply of smart laptops, there is still a wider risk involved with the ongoing differences in policies between the three boroughs, with potential cost implications 12/7 The different policies that are still in place have the potential to impact financially on H&F and therefore need to be monitored.					

Total Facilities Management and Property							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
~~**31**~~	~~Intelligent client function software not yet in place~~	~~Requirements to be ascertained and solution implemented.~~	4	4	~~High~~ ~~16~~	~~Keith Newman~~	~~August 2013~~ Risk Closed
~~**32**~~	~~Failure to have robust and suitable arrangements to manage the mortuary Disaster Management Plan (DMP).~~ ~~Failure to have suitable arrangements with sub-contractors to implement the DMP.~~	~~Robust plans to be put into place and suitable arrangements put into place with sub-contractors~~	~~5~~	~~2~~	~~Medium~~ ~~10~~	~~Steve Bowker~~	~~August 2013~~ Risk Closed
33	~~Schools are not able to join the Amey contract~~	~~Paper to be written and agreed as soon as possible so services can be mobilised in time for 1st April.~~	4	4	~~High~~ ~~16~~	~~Glenn Woodhead~~	~~August 2013~~ Risk Closed

Total Facilities Management and Property							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review date**
~~34~~	~~Amey are not issued with current records.~~ ~~ICF do not know if Amey are compliant.~~ ~~Data is not identified as to who needs access.~~	~~Review what systems need to be viewed and by whom. Provide access.~~	4	4	~~High~~ ~~16~~	~~Keith Newman~~	~~August 2013~~ Risk Closed
~~35~~	~~There is a Capital Programme risk that projects experience delays in reaching financial close prior to 2nd stage appointment of the Design and Build contactor, negatively impacting the delivery of the projects to programme~~	~~We are reviewing our procurement strategy for contractor appointments on future and current projects by investigating the use of alternative frameworks to IESE. We have been experiencing issues reaching financial close on KALC. We will continue to monitor performance of the IESE framework as well as exploring alternative frameworks and procurement routes~~	~~3~~	4	~~Medium~~ ~~12~~	~~Steve Bell~~	~~August 2013~~ Risk Closed

Total Facilities Management and Property

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
New	Tasks not completed in compliance with the TFM contract or are missed.	• Checks that systems are working as intended and that staff have adequate training.	3	4	Medium 12 **New**	Debbie Morris	December 2013

STRATEGIC I.T. RAG ASSESSMENT

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
36	Procurement of I.T. Purchase of personal computers and IT equipment across the TriBorough estate. This may lead to equipment used to access Council systems that does not conform to required standards or meet individual IT policy or procurement guidelines. This will be exacerbated if policy of staff using their own devices is pursued but uncoordinated.	• A Tri-borough risk workshop is taking place on 6th January 2014 to develop the initial risk assessment.	3	4	Medium 12	Programme Board	August 2013
37	Security of systems. Unavailability of data due to IT security threats such as malware or issues with cloud-based technology leading to system downtime or staff unable to work effectively. This becomes an increasing risk to the success of the	• A Tri-borough risk workshop is taking place on 6th January 2014 to develop the initial risk assessment.	4	4	High 16	Programme Board	August 2013

STRATEGIC I.T. RAG ASSESSMENT

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
	business if a uncoordinated response is maintained.						
38	Information Governance and Control. Inconsistent procedures and practice for compliance to local policy and issues with developing common policy suitable for the three authorities. Now partly mitigated through the IT Strategy but this will take time to implement a harmonisation of procedures.	• A Tri-borough risk workshop is taking place on 6th January 2014 to develop the initial risk assessment.	4	4	High 16	Programme Board	August 2013
39	File management and control. Issues with enforcement of local policies and inability to adequately control access to data from remote sites, web-based systems and	• A Tri-borough risk workshop is taking place on 6th January 2014 to develop the initial risk assessment.	4	4	High 16	Programme Board	August 2013

STRATEGIC I.T. RAG ASSESSMENT

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
	peripherals such as data sticks cloud drives and smart technology that enables individuals to transfer data via a uncontrolled third party.						
40	Access by unauthorized personnel. Inability to adequately control permissions, authorized user lists and unauthorized access to data via council PCs or web-based systems.	• A Tri-borough risk workshop is taking place on 6th January 2014 to develop the initial risk assessment.	4	4	High 16	Programme Board	August 2013

MANAGED SERVICES

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
41	Changes to Third Party Interfaces Third party suppliers may not have the capacity to make changes to their systems to accommodate the interface changes in the timescales being requested. It is not only the question of changing the interface content and format, it may also involve changes to 3rd party systems in order to supply or receive the new transformed data. Updated description of Risk: There is a Risk that: Third party timescales may not deliver the desired interfaces for April 1st.	1) Early engagement of 3rd parties. 2) The recommendation is to wait until after the impact analysis in order to give supplier definitive information. 3) If 3rd parties are unable to change then a translation/transformation stage will be added. 4) Update 10/05/2013 – Less likely now to have significant & complex changes to interfaces, so timescales less likely to be impacted. 5) Update 31/05/2013 - Detailed planning for interfaces have been delayed. 6) Update 06/06/2013 - Action is in progress. Plan due for completion end of June 2013 and will address requirements. 7) Update 12/06/2013 - Warm-up letters sent to 3rd party interface suppliers, however the design process must start urgently to give the suppliers more details of the changes required. 8) Update 26/07/2013 - ICT Working Group formed. Business engagement for the Finance Big6 and non-standard interfaces has started and will expand to all Big6 and non-standard interfaces. Engagement with 3rd parties to be planned in detail next week.	3	4	Medium 12	Tim Brewster	November 2013

MANAGED SERVICES

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
	This Risk is caused by: Lack of information on the scope of interfaces required or how they could be implemented in the new system early on in the project.	9) Update 2/8/2013 - Probability raised to 3 by SO'G due to late engagement on interface changes. To be reviewed by 15/8/2013 as a two week time-box is being applied to interface identification and development. 12) Update 30/08/2013 - Work continuing to identify all interfaces and their priorities and complexity. The position seems quite clear for HR as the interfaces are mainly "standard" interfaces with third parties. A full list of qualifying LOB systems for Finance is due to be signed off by FIP on 03/09/2013, but this is only the first step in prioritising, specifying and commissioning the work required. 13) Update 05/09/13 - Full list of qualifying systems signed off by FIP on 03/09/13. List is being converted into ProcServe format to assess issues and requirements for 'plan B'. Residual risk probability upgrade from 1 to 3. Overall residual score changed from low to medium. 14) Update 13/09/2013 - Risk score updated: impact=3; probability=4 following review by Ops Board	3	4	Medium 12	Tim Brewster	November 2013

MANAGED SERVICES

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
		15) Update 7/11/13 - This is an ongoing risk regarding interfaces - ICT are waiting responses from all third parties for each of the boroughs in line with the plan - there is considerable work underway on this risk. Mitigation is that third party end of the interface is not changed and mitigation has been identified for the majority of the interfaces.					
42	There is a risk that Year Functionality testing cannot be completed during UAT because it is too early to complete such processes (UAT starts in December; year-end isn't until end March 2014). P60 functionality may not work correctly. This is caused by P60s cannot be produced until year end.	• Ensure BT provides evidence that this functionality is tested and passed in the System Testing Phase. • Update 15/10/2013 - Nigar Diwan and Brian Smith to arrange to meet w/c 21 October to resolve this risk and agree testing plans • Update 08/11/13 - ND - Expecting System Test plan back from Bryan on 15/11. ND to review this and sign off before this Risk can be closed	3	4	Medium 12	Nigar Diwan	November 2013

MANAGED SERVICES							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**
43	There is a risk that critical defect/s may not have been found by that point. This may result in critical defects being found during UAT which may impact UAT duration and UAT completion	• Plans for completion of System Testing in relation to commencing UAT to be confirmed. Further decisions required on status of testing and how UAT may be impact if System Testing is not complete. • Nigar will work with Brian to ensure that in ST a risk based approach will be taken to test the core functionality first. Yet to be agreed with BT	3	4	Medium 12	Nigar Diwan	November 2013

MANAGED SERVICES

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date
44	There is a Risk that: The scale of the challenge for Change Management is significant, resource requirements are not fully met from the business side nor programme side (ambassadors) 8/11 - RR - Reworded the Cause of this Risk This Risk is caused by: The complex and different ways of working across the Tri-B and how differently they will need to work post implementation.	• Review resource availability and check against plan. Deliver Change activity as per recently devised plan	4	4	High 16	Suzanne Wilmott	November 2013

MANAGED SERVICES							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**
	Lack of take up of system and processes by the users resulting in delayed benefits realisation. Lack of take up of system and processes by the users resulting in delayed benefits realisation.						

MANAGED SERVICES							
Ref	**Risk**	**Mitigating Action**	**Likelihood**	**Impact**	**Risk rating /exposure**	**Officer Group**	**Review Date**

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

i. Previous models of the Corporate Risk & Assurance Registers.
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, Programme and Projects 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 Bi-borough Risk Manager.
x. Data Quality and Integrity.
xi. Cabinet, Scrutiny and public domain reports.
xii. WCC H&F and RBKC Risk knowledge pooled information.
xiii. Zurich Municipal, Grant Thronton and Price Waterhouse Coopers reports.

Note 2. Categorised 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

MANAGED SERVICES							
Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review Date

Agenda Item 15

h&f the low tax borough	**London Borough of Hammersmith & Fulham** **(AUDIT, PENSIONS AND STANDARDS COMMITTEE)** **(13 February 2013)**
TITLE OF REPORT	
Internal Audit Annual Plans 2014/15 year	
Open Report	
For Information **Key Decision: No**	
Wards Affected: None	
Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance	
Report Author: Geoff Drake – Senior Audit Manager	**Contact Details:** Tel: 0208 753 2529 E-mail: geoff.drake@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report summarises internal audit approach used to develop the Internal Audit plans for the 2014/15 year as well as providing the audit plans.

2. RECOMMENDATIONS

2.1. To note the planning approach and approve the 2014/15 year Internal Audit plans

3. REASONS FOR DECISION

3.1. To enable the delivery of the audit plans to start from 1 April 2014 .

4. INTRODUCTION AND BACKGROUND

4.1. This report explains the process for developing internal audit annual plans. This is provided to help inform the APSC of the process followed, this also meets the requirement of the outstanding recommendation in the fraud response plan regarding internal audit planning.

4.2. The key document for consideration by the Committee is the Internal Audit plans provided at Appendix C.

5. PROPOSAL AND ISSUES

5.1. Internal Audit Planning Process

5.1.1. The Initial stage of the planning process for the 2014/15 year was to develop and update the audit universe, which lists all the potential auditable areas within the organisation. A copy of this document is provided at Appendix A for information.

5.1.2. At the same time a list of all the entries in the corporate and departmental risk registers that have a medium or high inherent risk rating were listed for consideration for the audit plans. As the risk registers are already reported to Committee separately a copy of this schedule has not been provided here.

5.1.3. These two documents were evaluated to consider which areas should go forward into an initial draft plan, taking into account risk, materiality and whether the area has been audited in the last three years. Some of the selected items are standing entries in audit plans because they are inherently always high risk to the council. These include gas safety, financial management, and schools. Other standing entries are procurement/contracts and project management and the registers for these areas were reviewed to select proposed contracts and projects to audit.

5.1.4. The initial H&F draft audit plan was produced, a copy of which is at Appendix B for information. This was shared across the tri-borough internal audit service and was combined with the draft plans from the other tri-borough audit partners to produce a single draft plan that included tri-borough, bi-borough, and sovereign audits proposed to be undertaken. This expanded plan was discussed with departments to get their feedback and the plan was updated taking into account the feedback from departments to produce a final draft which is the basis for the plan at Appendix C. A similar document will be taken to each of the Internal Audit Committees of the three councils.

5.2. Internal Audit Plan 2014/15 year

5.2.1. As already stated, the draft Internal Audit plan for the 2014/15 year is provided at Appendix C. The plans take into account the evaluation undertaken by Internal Audit, the coordination of audit coverage on a bi- and tri-borough basis, and feedback from departments in relation to the originally planned audit coverage. Based on the budgets set for each audit this plan is considered affordable and is presented to the Committee for their approval.

5.2.2. The plan is still continuing to be developed as further evaluation of some areas is still under way. Any major update on the current plan will be reported to the next Committee meeting. Changes to the plan will be reported to the Committee as the year progresses, in line with already existing reporting arrangements.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable

7. CONSULTATION

7.1. Not applicable

8. EQUALITY IMPLICATIONS

8.1. Not applicable

9. LEGAL IMPLICATIONS

9.1. Not applicable

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable

11. RISK MANAGEMENT

11.1. Not applicable

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

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

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Full supporting documents for Internal Audit reports planning	Geoff Drake Ext. 2529	Corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

LIST OF APPENDICES:

Appendix A	Audit reports issued 1 October to 31 December 2013
Appendix B	Internal Audit reports in issue more than two weeks as at 31 December 2013
Appendix C	Amendments to 2013/14 Internal Audit Plan

APPENDIX A

Audit Universe 2013

Department	Audit subject	11/12	12/13	13/14
		Days	Days	Days
Corporate				
	Corporate Performance management (PIs and data quality, legislative compliance)			
	Business / Financial Planning including MTFS	**25**		Y
	Business Continuity/disaster recovery	10		**Y**
	Government Grants (Play grant financial return; GLA grants returns; planning return)	**2**	**3**	**6**
	Risk Management (3 yr rolling programme: framework and governance; roles and resps; risk identification; assessment; management of risk, assurance framework; monitoring and reporting of risk)	**42**	**30**	**25**
	Corporate Governance (3 yr rolling programme: governance framework; roles and resps; capacity and capability; partnership organisations)	**10**	**15**	**15**
	Partnership Arrangements , governance frameworks (Agylisis; Local strategic Partnership)			
	Tri-borough governance			
	Maximising Income			
	Economic Development/business regeneration			**10**
	Service demand reduction planning			**10**
	Anti-money Laundering			
	Regulation of Investigatory Powers Act compliance			
	Gas safety: corporate policy and corporate estate	**8**		
	Gas safety: council houses			**12**
	Gas safety: temporary accommodation		19	
	Website management	Y		
	Bribery Act			**8**
	Complaints and whistleblowing	9		
FCS				
	HR: Workforce strategy and planning			
	HR: Recruitment and selection			
	HR: staff changes and terminations (to be covered under Payroll)			
	HR: Staff records			
	HR: job evaluation, local pay and grading structure, equal pay			
	HR: Sickness monitoring and absence management			
	HR: Staff Benefits			
	HR: staff travel, expenses and allowances			
	HR: Gifts and Hospitality	**4**		
	HR: Grievance, bullying and harassment			
	HR: Disciplinary			
	HR: Staff performance management			
	HR: staff health and safety			

	HR: season ticket loans			
	HR: DBS (prev. CRB) management	1		
	HR: redundancy and redeployment, early retirement			
	HR: Registers of Interest	**5**		
	HR: employment of consultants and interims			**12**
	Equalities Act	Y		
	Agency staff			
	Occupational Health			
	Staff learning and development			
	Members' allowances and expenses			
	Anti-Fraud services			
	Legal services			
	Communications, media, PR and marketing	9		
	Communications: Advertising			
	Hammerprint/print services			
	Freedom of Information			
	Data Protection Act compliance			
	Information governance			
	Information management and security: personal data security	10	15	
	HFBP: billing		**12**	
	HFBP Contract Management			
	HFBP: Inventory management	Y		
	Electoral Services: Electoral Registration			
	Electoral Services: election Expenses (every 4 years)	8		
	H&F Direct: Call centre administration	9		
	H&F Direct: Freedom passes			**10**
	H&F Direct: Concessionary fares and taxicards, & Blue badges			
	Continuous assurance and duplicate payments			**46**
	Managed Services Intelligent Client Function			
	Cashiers, Cash & Bank, Cheque Custody , bank recs		**8**	
	Council Tax		**10**	
	Housing and council tax Benefits			**12**
	Housing Rents			
	National Non Domestic Rates		39	**10**
	Debtors	10		**10**
	Budgetary control			**12**
	Creditors	13		
	General Ledger		**8**	
	Insurance			**Y**
	VAT			
	Payroll	10		
	Pension Scheme administration			**10**
	Pensions Fund investments			
	Capital programme, budgeting and accounting			
	Treasury Management including Loans & Investments		Y	
	Petty cash and imprests including establishments			
	Purchase cards			

	Members' allowances and expenses			
	Members and Committees support			
TTS				
	Trading Accounts			
	Fixed assets/asset management			
	Property disposals			10
	Street furniture and signs			
	Planned / Reactive Road Maintenance		**20**	
	Traffic management and road safety			8
	Highways engineering			
	Residents Parking permits		7	
	Borough research			
	Valuation of properties			
	Health and Safety/duty of care - council estate			
	Grant Development Control Return (annual return)			6
	Total Facilities Management		10	Y
	Smart FM professional services	Y		
	Asset Management Planning/ Civic Buildings/Estate			
	Commercial property portfolio management			
	Premises Security			
	Public Health & Safety/Duty of Care		**20**	
	Energy efficiency and carbon reduction			
	Pollution control			
	Parking: Parking Enforcement and PCNs (including wardens service)		**30**	
	Parking: on-road parking		7	
	Parking: off-road parking		15	
	Parking: Income Collection – P&D, Meters, Car Parks			
	parking suspensions			**20**
	Licensing	8		
	Skips and scaffolding - licencing and income			
	Permitting of Utilities			
	Rechargeable Works			
	Street Lighting			Y
	Planning Applications/Local Development Schemes			Y
	Planning enforcement			
	Building Control/Development Control			
	Land Charges			
	Land Disposals/Purchases			**10**
	Renovation grants			
	Trading Standards			
	Food safety			
	Abandoned Vehicles			
	Improvement Grants, loans and other assistance			
	Noise pollution, Noise and Nuisance			
	Section 106		Y	**12**
ELRS				
	Market Traders		9	

	Coroners Court			
	Street enforcement			**15**
	Libraries			
	Parks and Open Spaces			
	Parks constabulary			
	Arts in Hammersmith and Fulham			
	Archiving / Museums			
	Registrars			**10**
	Street Cleaning			
	Vehicle fleet management			
	CCTV / Bus Lane Enforcement		**8**	
	Cemeteries & Crematoriums			
	Waste Management / Recycling		**Y**	**Y**
	Western Riverside Waste Authority			
	Sports Centre Management			**16**
	Refuse Collection (domestic and commercial)			**Y**
	Grounds maintenance		**7**	
	Graffiti Removal including Council estates			
	Anti-Social Behaviour (including Troubled Families initiative)			**Y**
	Pest control			
	Traveller sites			
	Conferences and events			
	Halls and lettings			
CHS				
	Departmental governance		Y	
	Play service			
	Schools (see separate schedule)	x	x	x
	Schools themed audits		5	
	School Meals			
	Schools admissions and exclusions			
	Schools funding	Y		
	Themed schools audit: leasing		8	
	Schools ELM			**2**
	Schools governor support			
	School Management Support			
	School improvement			
	School Quality, Monitoring and Evaluation Service			
	Special Educational Needs (including OOB placements)			
	Financial Support for Pupils & Students			
	Pupil support			
	Student support including awards and loans			
	Early Years and Sure Start	8		Y
	Formula Funding/Fair Funding	5		
	Passenger transport			Y
	Recoupment			
	Childcare including nursery grants			
	Children's transport service (see ASC transport service)			

	CPTU Transport - move to self service	4		
	CHS procurement		10	**12**
	Schools annual financial returns		**10**	
	Protecting Children, including referral and assessment			
	Children being looked after		10	Y
	Safeguarding children		Y	
	Children's Fund (5-13 years)			
	Adoption and Fostering		10	
	Young People's Service (young people looked after)			
	Children & Families Placements & Payments - incl OOB placements			
	Unaccompanied asylum seeking children			
ASC				
	Safeguarding adults		**30**	
	Home Care (including charging)			**20**
	Meals on Wheels			
	Occupational Therapy			
	Single Assessment Process			
	Quality Assurance	8	**6**	
	Client Affairs	15	**10**	
	Commissioning (procurement and contract management)		10	**20**
	housing related support contracts (previously supporting people)	10		**12**
	Appointeeships and receiverships			
	Direct payments	8		**20**
	Personal budgets		**12**	
	Personalisation			
	Business planning			
	Information management			
	residents' health and safety			
	Reablement	Y		
	Community Equipment scheme			
	Transport Service (Includes Children's transport service)			
	Grants to voluntary organisations			
	Adult Education			
	Adult placements including out of borough			
	Adults with learning difficulties			
	Asylum seekers			
	Drugs Intervention/drug action			
	Community Safety			
	Merger of operations (CLCH)			**15**
	Service integration			
HRD				
	Housing Strategy			
	Regeneration programmes (Earls Ct; King Street and Civic Offices; Shepherds Bush)		**19**	**36**
	Community Alarm Service			
	Concessionary Dec Scheme - Cash Allowance			
	Housing advice			

	Homelessness			
	Temporary accommodation			
	Housing Reactive repairs	15	9	**15**
	Housing Maintenance - Programmed			
	Stakeholder Satisfaction/ residents consultation			
	Housing register, applications, assessments and allocations			**10**
	Fixed Term Tenancies			10
	Voids management		**4**	
	Termination, Transfer & Exchange Tenancies			
	Tenancy verification	Y		
	Housing rents: income collection (see under FCS)		**9**	
	Neighbourhood services	Y		
	Out of Hours contact centre	Y		
	Housing Estate services			
	Right to Buy	10		
	Theft of metals	Y		
	Housing Options (Homebuy)	Y		
	Leaseholder Service Charges		**7**	**7**
	Leasehold Properties			
	Garages			
	Stocks and Stores Controls			
	Housing capital programme		Y	
	Housing Revenue Account management			
	Housing Special Purpose Vehicle			
	Local Housing development company			
	Emergency Planning	Y		
	Sale of council house properties			**10**
	Health and safety of housing service users			
Public Health				
	Governance			**Y**
	Commissioning			
Contracts				
	Contracts policy strategy and procedures			
	Tendering Procedures			
	Contracts register			**10**
	Corporate Procurement support/service (including contracts register)			
	e-purchasing/auctions			
	Vertical contract audits- selection of contracts	**20**	30	Y
	contract management - corporate guidance and selection of contracts		51	Y
	Procurement policy and procedures			
	Supply Chain resilience			12
	Extended contracts		30	
Programmes/ Projects				
	Programmes management	Y	**12**	**Y**
	Project management corporate policy and procedures			
	Project management: Change management			

	Project management: change management			
	Market testing	Y		
	Selection of projects	Y		
	Tri- and bi-borough programme and project management (selection of progs and projects)	19	60	
	Benefits management and realisation			

APPENDIX B

LBHF Initial Draft 2014/15 Internal Audit Plan

Audit title	Source	Coverage /Mini-Scope	Comments
Corporate			
Organisational resilience/business continuity	risk register C2; IT1; HRD8; TTS1		quality of business continuity plans; failure of significant contractors/sub-contractors; business continuity for tri-borough provided IT is unclear; response plans eg for loss of office, for loss of tenancy files: viability of Mouchelfor PCN IT system
Corporate Governance	risk register C4; C6: C10: CHS 3		Principle statutory duties including their range and complexity, plus breach in standards/quality of care/services. Also ethics and conduct eg breaches of codes of conduct, misuse of data, and falsification of information; managing the relationship with Members as decisions/actions can be delayed
Risk Management	Internal Audit: risk register C14		
Risk Management: Risk registers	Internal Audit		
MTFS/savings plans (benefits management)	risk register C21: Env2; Env5; Env7		Failure to meet savings expectations eg cemeteries 6% increase in income, Archive savings, Trade Waste income target
Service demand reduction planning	risk register ASC4; CHS12		increasing demand for social care services; out of hospital strategies (public health commissioning) increasing social care pressures, demographic drivers; LAC numbers rise increasing demand for places

Gas safety: corporate policy, governance and corporate estate (3 year rolling programme)	Internal Audit		3 year rolling programme
FCS			
Financial planning	risk register C1; C5; C19; ASC 1; ASC2; ASC3: CHS 2; CHS6; TTS2; TTS6		Govt settlements; optimising investments; demand impacts; delivery of planned savings; unplanned growth; debt management fails; challenge to the council's VFM/budget setting process; loss of funding from Health; limited financial contingency for unanticipated demand leading to potential overspends, funding formula changes eg for ASC or for schools; economic climate and its impact on savings/MTFS
Council tax	Internal Audit: risk register C16		Managed Services - new processes/procedures: potential manipulation for personal gain
NNDR	Internal Audit; risk register C16		Managed Services - new processes/procedures: potential manipulation for personal gain
Housing and council tax benefits	Internal Audit; risk register C15		Managed Services - new processes/procedures: universal credit, benefits cap, extended means test
Housing rents	Internal Audit		Managed Services - new processes/procedures
creditors	Internal Audit		Managed Services - new processes/procedures
debtors	Internal Audit		Managed Services - new processes/procedures
cashiers, cash and bank	Internal Audit		Managed Services - new processes/procedures
budgetary control	Internal Audit		Managed Services - new processes/procedures
General ledger	Internal Audit		Managed Services - new processes/procedures
VAT	Internal Audit		Managed Services - new processes/procedures
payroll	Internal Audit		Managed Services - new processes/procedures

Managed Services - Intelligent Client functions	Internal Audit		Managed Services - new processes/procedures
capital programme, budgeting and accounting	Internal Audit		Managed Services - new processes/procedures
HR: workforce strategy and planning	Internal Audit: risk register CHS10; ENV1; HRD23		Managed Services - new processes/procedures; loss of knowledge/experience; remaining staff capabilities; differing terms and conditions; increased stress levels and sickness levels; loss of key staff, morale, poorly implemented change
HR: recruitment and selection	Internal Audit; risk register HRD6		Managed Services - new processes/procedures; difficulty with recruitment and retention;
HR: staff changes and terminations	Internal Audit		Managed Services - new processes/procedures
HR: staff records	Internal Audit		Managed Services - new processes/procedures
HR: job evaluation, pay and grading, equal pay	Internal Audit		Managed Services - new processes/procedures
HR: sickness and absence management	Internal Audit		Managed Services - new processes/procedures
HR: staff benefits	Internal Audit		Managed Services - new processes/procedures
HR: staff travel, expenses and allowances	Internal Audit		Managed Services - new processes/procedures
HR: Gifts and hospitality	Internal Audit		Managed Services - new processes/procedures
HR: grievance, bullying and harassment	Internal Audit		Managed Services - new processes/procedures
HR: disciplinary	Internal Audit		Managed Services - new processes/procedures
HR: staff performance management	Internal Audit		Managed Services - new processes/procedures
HR: staff health and safety	Internal Audit; risk register HRD7		Managed Services - new processes/procedures: lone worker provision; internal compliance to health and safety
HR: season ticket loans	Internal Audit		Managed Services - new processes/procedures

HR: redundancy, redeployment, early retirement	Internal Audit		Managed Services - new processes/procedures
HR: Register of interests	Internal Audit		Managed Services - new processes/procedures
Information management and security	risk register C20		inaccurate records, loss of data, inappropriate communication of data,
Agency staff	risk register HRD6		quality and competence of available agency staff (linked to ability to recruit and retain staff)
Election expenses	Internal Audit		Elections are due and therefore expenses and accounts will be payable
Contracts			
Procurement strategy	risk register C7; C18; C29: Internal Audit		differing procurement/contracts procedures across the 3 boroughs; over exposure to contractors; financial stability of contractors; cost/time of defending contract awards; non-compliance with standing orders, emergency contract extension, expiry of contracts before replacement, liquidity of contractor, contract management weak.
Vertical audits of new contract tenders (3 contracts, to be selected)	Internal Audit		standard coverage to test compliance with tendering processes/procedures
e-procurement (FCS)	Internal Audit		new process
Housing repairs & maintenance, voids, etc - MITIE (HRD)	Internal Audit		New contract
Pertemps Agency supply contract (FCS)	Internal Audit		over 5 million contract value
Schools support Service mutual (CHS)	Internal Audit		over 5 million contract value
Meals on Wheels (ASC)	Internal Audit		over 5 million contract value
Home case provision (ASC)	Internal Audit		over 5 million contract value
Waste recycling and street cleansing - Quadron (ELRS)	Internal Audit		over 5 million contract value
street lighting (TTS)	Internal Audit		over 5 million contract value

Road resurfacing and road marking (TTS)	Internal Audit		over 5 million contract value
Projects			
Change management	risk register C3: CHS5; TTS4		Need to manage complexities of change; ownership of risks more complex and possibly shared; risk owners unclear of responsibilities; governance arrangements more complex; impact on staff morale and continued service delivery
Benefits management and realisation	risk register CHS4		Lack of clarity of savings make-up
Market testing	risk register C8		differing procurement appetites across the 3 boroughs; differing procurement procedures and clarify of which takes precedence each time.
Regeneration: King Street and civic offices (HRD)	risk register C12; C23		costs of keeping THX running; high vacancy rates of surrounding buildings
Regeneration: Earls Court (HRD)	risk register C13; HRD12		Planning; compulsory purchase order; resident buy-in; project delays
Regeneration: White City (HRD)	risk register C24		Housing; jobs; unemployment
MTFS project :to be agreed	Internal Audit		High risk to council finances
MTFS project :to be agreed	Internal Audit		High risk to council finances
MTFS project :to be agreed	Internal Audit		High risk to council finances
MTFS project :to be agreed	Internal Audit		High risk to council finances
MTFS project :to be agreed	Internal Audit		High risk to council finances
TTS			
Facilities Management contract management (Amey)	Internal Audit		New process
Borough Research	Internal Audit		More than 3 years since last audited. research undertaken to inform council planning and decision making
Planning applications and Local development schemes	Internal Audit		Over 3 years since last audited

Health and safety	risk register TTS5		staff, people, assets, legal compliance, statutory risk assessments
ELRS			
waste management and recycling (see also under contracts)	risk register ENV3		contamination of recycling material, and severe financial impact of this
Parks	risk register Env6		Occupancy rights to properties, ability to sell properties
Coroners Court	Internal Audit		More than 3 years since last audited
Cemeteries and Crematoria	Risk Register ENV2		Risk of not achieving 6% increase in income target
Adult Social Care			
Personalisation	risk register ASC 5		not effectively establishing ASC 3B personalisation model; needed to achieve savings targets; lack of tri-borough policy consistency; need consistent approach and processes new model needs to proceed and influence integration; model needs to influence service configurations, care pathways etc in Out of Hospital models
business planning	risk register ASC 6; CHS 14		unsuccessful operational integration/ alignment with health (TAS), lack of strategy or operating model, complexity of change, leadership capacity, consultation with the public, sovereignty and agreement by CAB members. Potential impact on CHS?
Commissioning	risk register ASC 7		failure to develop integrated commissioning with CCGs; potential demand increase; need whole systems approach; shared savings and meeting savings targets; effective engagement of key players; risk of loss of staff/knowledge

Information management	risk register ASC 8		Unable to share information with health partners to plan and evaluate; inability to evaluate service impacts; possible cross charging for analysis;
Residents health and safety	risk register ASC9		potential death or serious injury of vulnerable residents including due to neglect or abuse by others
CLCH integration	Internal Audit		Ongoing development
Public Health			
Public health governance	risk register C8		Hosting arrangements; governance
Commissioning (See ASC entry)			
Children's Services			
Schools: see separate programme	Internal Audit: risk register CHS1		
Schools: themed audits	risk register: CHS17 and 18		Opportunity to select additional schools coverage beyond core programme
SEN	risk register CHS8		Implementation of the SEN strategy does not occur
Safeguarding	risk register CHS11		harm to young people in council care; harm to young people (non-prevention of offending), sub-standard delivery of care
School improvement	risk register CHS 13		reduced capacity to support school improvement; increased risk of intervention and harm to reputation
Schools management support	risk register CHS15		changing relationship with schools, impact on ensuring effective financial standards; governance of schools
HRD			
Housing Special Purpose Vehicle	Internal Audit risk register HRD1		New council risks with joint venture company; benefits realisation, income

Housing strategy: housing demand	risk register HRD16; HRD17		changes to Housing benefit; Local Housing Allowances; increased demand; reduced housing supply; Welfare reform cap 500 per family
Property disposals	risk register HRD19		disposal of void properties policy
Allocations	risk register HRD20		local lettings plans and allocations of properties linked to regeneration schemes
Health and safety of housing service users	risk register HRD22		breach of statutory duties; asbestos, legionella, gas safety
IT			
See separate programme			
General			
Follow ups (limited assurance reports and Priority 1 recs)			
APSC Training			
Management			
Additional duties			

APPENDIX C

2014/15 Internal Audit Plan

LBHF 2014/15 Internal Audit Plan				
Audit title	**Rating**	**tri/bi borough or sovereign**	**Proposed Coverage /Mini-Scope**	**Comments on scope**
Corporate/Finance				
Creditors	**High TB**	**Tri**	- Legislation, Policies and Procedures - Creditor Transactions and Records - Standing Data Amendments - Purchase Order Processing - Goods Receipting - Invoice Processing - Payments Processing - Management Reporting	Managed Services - new processes/procedures - 2 stage audit covering initially controls followed by substantive testing later in the year. Subject to timely introduction of MS.

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Debtors	**High TB**	**Tri**	- Legislation, Policies and Procedures - Debtor Transactions and Records - Standing Data Amendments - Raising of Invoices - Collection - Refunds - Debt Recovery and Enforcement - Management Reporting	Managed Services - new processes/procedures - 2 stage audit covering initially controls followed by substantive testing later in the year. Subject to timely introduction of MS.
General ledger	High TB	**Tri**	- Policies and Procedures - Management of Cost Centres - Accounting Transactions and Manual Adjustments - Management of Suspense Accounts - Period End Processing	Managed Services - new processes/procedures - 2 stage audit covering initially controls followed by substantive testing later in the year. Subject to timely introduction of MS.
Payroll	High TB	**Tri**	- Payroll Transactions and Records - staff travel, expenses and allowances - Starters - Leavers - Variations and Adjustments to Pay - Reconciliations - Payments	Managed Services - new processes/procedures - 2 stage audit covering initially controls followed by substantive testing later in the year. Subject to timely introduction of MS.
Fixed assets register and asset accounting	High TB	**Tri**		

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Corporate Procurement	**High TB**	**Tri**	Corporate objectives and plans, procurement guidance and procedures, governance arrangements, contracts forward plan and register, compliance monitoring, performance management, spend/budget control, savings targets monitoring, risk management, corporate reporting	differing procurement/contracts procedures across the 3 boroughs; over exposure to contractors; financial stability of contractors; cost/time of defending contract awards; non-compliance with standing orders, emergency contract extension, expiry of contracts before replacement, liquidity of contractor, contract management weak.
E Procurement	**High TB**	**Tri**		
Managed Services - Intelligent Client function. Fin and HR	High TB	**Tri**	Audit of the governance and oversight structures in place within the intelligent client function.	Managed Services - new processes/procedures
Managed Services - H&F Intelligent Client function (linked to above audit)	High	**Sovereign**	Audit of the governance and oversight structures in place within the intelligent client function.	Managed Services - new processes/procedures
HR: recruitment and selection	High TB	**Tri**	- Identification and Approval of Positions - Advertising - Evaluation and Selection - Reward Strategy	Managed Services - new processes/procedures; difficulty with recruitment and retention;

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HR: sickness and absence management	High TB	**Tri**	- Policies, Procedures and Guidance - Absence recording and monitoring - Absence management and application of the sickness management procedure - Management reporting	Managed Services - new processes/procedures
Organisational resilience/business continuity	High	**Sovereign**	- Plans and Procedures - Awareness and Training - Business Impact Analysis - Activation and Escalation - Recovery Procedures - Testing Plans and Lessons Learned - Partner Organisations and Suppliers - Risk Management	- Plans and Procedures - Awareness and Training - Business Impact Analysis - Activation and Escalation - Recovery Procedures - Testing Plans and Lessons Learned - Partner Organisations and Suppliers - Risk Management
Information management and security	TB but take account of 13/14 work.	**Tri**	- Policies and Procedures - Communication and Training - Relevance of Information - Data Accuracy and Completeness - Data Security - Data Sharing	inaccurate records, loss of data, inappropriate communication of data,

Facilities Management contract management (Amey)	High TB but review outcome from 13/14 review	**Tri**	- Contract formalities - Delivery of Services - Contract Monitoring and Performance Management - Payments - Financial Management	New process
Council tax	High Bibo	**Bi**	- Policies and Procedures - Council Tax Transactions and Records - Valuation - Tax Setting - Liability - Billing - Collection - Refunds - Debt Recovery and Enforcement - Management Reporting	
Corporate Governance	High	**Sovereign**		Principle statutory duties including their range and complexity, plus breach in standards/quality of care/services. Also ethics and conduct eg breaches of codes of conduct, misuse of data, and falsification of information; managing the relationship with Members as decisions/actions can be delayed

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Risk Management	High Bibo	**Bi**		
Risk Management: Risk registers	High	**Sovereign**	Audit of Specific Risk Registers. To cover the following areas: - Roles and Responsibilities - Risk Identification - Risk Evaluation - Risk Classification - Risk Recording - Risk Communication and Reporting - Monitoring and Reporting on Risk Management	
Legal Services		**Bi**		
Managed Services Programme	High TB	**Tri**		Carry forward from agreed 13/14 programme. Up to 4 audits
Gas safety: corporate policy, governance and corporate estate (3 year rolling programme)	High	**Sovereign**	-Governance - Policies and Procedures - Training - Identification of Properties Requiring Gas Safety Checks - Completion of Gas Safety Checks and Maintenance - Record Keeping - Performance Management and Reporting	3 year rolling programme
Residents Parking Permits	**Medium Bibo**	**Bi**		

HFBP contract management	High	**Sovereign**	- Contract Formalities - Contract Monitoring and Performance Management - Payments - Budget Management	- Contract Formalities - Contract Monitoring and Performance Management - Payments - Budget Management
Data Transparency	Medium TB	**Tri**	Compliance with 2013 Code	
Adult Social Care				
Personalisation including RAS assessments, personal budgets and direct payments	**High TB**	**Tri**	Risk and control advise over new TB systems relating to personalisation.	not effectively establishing ASC 3B personalisation model; needed to achieve savings targets; lack of tri-borough policy consistency; need consistent approach and processes new model needs to proceed and influence integration; model needs to influence service configurations, care pathways etc in Out of Hospital models
Meals on Wheels (ASC)	**High TB**	**Tri**	- Contract Formalities - Commissioning - Performance Management and Contract Monitoring - Payments - Financial Management	over £5 million contract value - undertake as contract audit from 13/14.

Integrated commissioning with Health (ASC) (combine with CCG commissioning. Leave to Q4)	**High TB**	**Tri**	- Programme Governance - Project Management and Monitoring - Change Control - Delivery of Benefits - Risk Management	High risk to council finances. MTFS savings target of £200-£460k pa
Information management	**High TB**	**Tri**	Scope to be determined through discussions with ASC DMT.	Unable to share information with health partners to plan and evaluate; inability to evaluate service impacts; possible cross charging for analysis;
OT Equipment Contracts	**High TB**	**Tri**	Sovereign and RBKC's London wide role.	
Reablement	**High TB**	**Tri**	Review of management visibility of achievement of client objectives	
Day Care - All Services	**High TB**	**Tri**	Review of commissioning arrangements across the TB.	More research on spend and recent/planned changes in provision
Residential Placements - All Services	**High TB**	**Tri**	Review of commissioning arrangements across the TB.	More research on spend and recent/planned changes in provision
Public Health				
Legacy contracts	High TB	**Tri**		
Children's Services				

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Schools - 3 year rolling programme of coverage of all schools	**High**	**Sovereign**	- Governance and Leadership - Financial Management - Procurement - Staff Expenses & Petty Cash - Income - Payroll - Headteacher's Pay - Assets and Inventory - Leasing - Unofficial Funds	
Children's homes	**High**	**Sovereign**		
SEN	**High TB**	**Tri**	- Policies and Procedures - Referral and Assessment - Statements and Monitoring	Implementation of the SEN strategy does not occur
School Meals - contract	**High TB**	**Tri**		New contract due to be let for 14/15
Unaccompanied Asylum Seeking Children	**High**	**Tri**		Further research needed
Residential Placements	**High TB**	**Tri**		Schools covered in SEN audit
Youth Offending Team	**High TB**	**Tri**		New Tri-boro service
TTS				
Abandoned Vehicles: car recoveries and pound	**Medium BiBo**	**Bi**	- Contract Formalities - Commissioning - Performance Management and Contract Monitoring - Payments - Financial Management	New contract let in 2013

Health and safety	**Medium Bibo**	**Bi**	- Policies and procedures - Guidance and Training - Risk assessments - Incident reporting - Management Assurance and Monitoring	staff, people, assets, legal compliance, statutory risk assessments
Rechargeable Street Works	**Medium Bibo**	**Bi**		
Licencing Permits Income	**Medium Bibo**	**Bi**		
Regeneration: King Street and civic offices	**High**	**Sovereign**	Scope based on current stage of project and also outcome of 2013/14 internal audit work.	costs of keeping THX running; high vacancy rates of surrounding buildings.
IT:				
Parking ICPS system	**Medium Bibo**	**Bi**		
Highways IT Systems review	**Medium Bibo**	**Bi**		
ELRS				
Cemeteries and Crematoria	**Medium Bibo**	**Bi**	Management of Income Streams	Risk of not achieving 6% increase in income target
CCTV	**Medium Bibo**	**Bi**		
Recycling/waste reduction	**High Bibo**	**Bi**		
Commercial vehicle fleet/car leasing/petrol cards	**High Bibo**	**Bi**		Department wants full coverage of area.
Markets	**Medium Bibo**	**Bi**		
HRD				

Housing Special Purpose Vehicle	**High**	**Sovereign**	Audit of governance arrangements	New council risks with joint venture company; benefits realisation, income
Housing strategy: housing demand	**High**	**Sovereign**	Audit of strategies in place to predict, monitor and manage housing demand	changes to Housing benefit; Local Housing Allowances; increased demand; reduced housing supply; Welfare reform cap 500 per family
Health and safety of housing service users	**High**	**Sovereign**	- Policies and procedures - Guidance and Training - Risk assessments - Incident reporting - Management Assurance and Monitoring	breach of statutory duties; asbestos, legionella, gas safety
Regeneration: Earls Court	**High**	**Sovereign**	Scope based on current stage of project and also outcome of 2013/14 internal audit work.	Planning; compulsory purchase order; resident buy-in; project delays. Dept proposal that these audits cover wider strategic regeneration governance and decision making
Regeneration: White City	**High**	**Sovereign**	- Programme Governance - Project Management and Monitoring - Change Control - Delivery of Benefits - Risk Management	Housing; jobs; unemployment

MITIE managed systems - Housing repairs & maintenance, voids, etc	High	Sovereign	Audit of contract management arrangements plus new processes and procedures	New contract
Pinnacle Housing - provision of estate services (lot 1); tenancy management incl reception services and lower level anti-social behaviour	High	Sovereign	- Contract Formalities - Requesting resources - Performance Management and Contract Monitoring - Payments - Financial Management	Over £5 million contract value
IT Audit plans				
Academy (Capita) – Business rates	High	Sovereign	Application audit	
Academy (Capita) – Council Tax	High	Sovereign	Application audit	
IT Asset Inventory / Disposals	High	Sovereign	Application audit	IT Asset Management
Frameworki (Adults)	High	Sovereign	Application audit	ASC case management system
Frameworki (Children's)	High	Sovereign	Application audit	ChS case management system
Bridge Partnership – service contract and delivery	High	Sovereign		
Bridge Partnership – helpdesk support + system development	High	Sovereign		
IT Disaster Recovery arrangements	High	Sovereign		Council wide arrangements
ICPS incl P-Bay	High	Sovereign	Application audit	Parking services system
MITIE	High	Sovereign	Application audit	Housing services system
Confirm (LBHF) / Exor (RBKC)	High	Bi	Application audit	Highways works (TTS)

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CAFM	High	Tri	Application audit	Facilities Management system
Data Sharing Protocols *	High	Tri		Tri-Borough arrangements for data sharing
Managed Services Programme	High	Tri	Application audit	IT review of Agresso implementation
Cloud Computing	High	Tri		Security access vulnerability review

Agenda Item 16

London Borough of Hammersmith & Fulham	
h&f the low tax borough	**London Borough of Hammersmith & Fulham** **(AUDIT, PENSIONS AND STANDARDS COMMITTEE)** **(13 February 2013)**
Internal Audit Quarterly report for the period 1 October to 31 December 2013	
Open Report	
For Information **Key Decision: No**	
Wards Affected: None	
Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance	
Report Author: Geoff Drake – Senior Audit Manager	**Contact Details:** Tel: 0208 753 2529 E-mail: geoff.drake@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 October 2013 to 31 December 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 October to 30 December 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, as well as the full text of any 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 13 audit reports were finalised in the third quarter of 2013/2014 from 1 October to 31 December. In addition 5 management letters and 2 follow ups were issued.

5.1.3. Of the 2 follow ups undertaken, in one case 3 out of 5 recommendations were found to be partly implemented and in the second case 2 out of 4 were found to have been partly implemented.

5.1.4. A further follow up of the Tri Borough Fostering service was undertaken by the Kensington and Chelsea audit team. Of the 16 recommendations raised, 4 had been partly implemented and 4 not implemented.

5.1.5. No audit reports issued in this period received limited or nil assurance:

5.1.6. The Internal Audit department works with key departmental contacts to monitor the number of outstanding draft reports and the implementation of agreed recommendations.

5.1.7. Departments are given 10 working days for management agreement to be given to each report and for the responsible director to sign it off so that it can then be finalised. There are currently 6 reports outstanding that were due to be signed off on or before 31 December 2013. These reports are listed in Appendix B for information.

5.1.8. 4 of these reports relate to Children's Services and 2 relate to Housing and Regeneration.

5.1.9. There are now 9 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 1 outstanding as reported at the end of the previous quarter and represents a deterioration in the overall position. We continue to work with departments and HFBP to reduce the number of outstanding issues.

5.1.10. The breakdown of the 9 outstanding recommendations between departments are as follows:

- Adult Social Care – 1
- Children's Services (Non Schools) – 3
- Corporate Services – 4
- Environment, Leisure and Residential Services – 1

5.1.11. None of the recommendations listed are over 6 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.

5.1.12. 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 2009/10 have been implemented)*

Percentage of 2009/10 year audit recommendations past their implementation date that have been implemented.	99.7%	392 recommendations implemented out of a total of 393 **1 recommendation outstanding**

Percentage of 2010/11 year audit recommendations past their implementation date that have been implemented.	99.6%	222 recommendations implemented out of a total of 223 **1 recommendation outstanding**

Percentage of 2011/12 year audit recommendations past their implementation date that have been implemented.	99.6%	256 recommendations implemented out of a total of 257 **1 recommendation outstanding**

Percentage of 2012/13 year audit recommendations past their implementation date that have been implemented.	98.3%	232 recommendations implemented out of a total of 236 **4 recommendations outstanding**

Percentage of 2013/14 year audit recommendations past their implementation date that have been implemented.	91.9%	60 recommendations implemented out of a total of 62 **2 recommendations outstanding**

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 April to 31 December 2013 are shown below.

Performance Indicators 2013/14

Ref	Performance Indicator	Target	Pro rata target	At end of December 2013	Variance	Comments
1	% of deliverables completed (2013/14)	95%	71%	61%	**-10%**	66 deliverables issued out of a total plan of 110 (accounting for audits carried forward)
2	% of planned audit days delivered (2013/14)	95%	71%	68%	-3%	633 days delivered out of a total plan of 933 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%	92%	**-3%**	23 out of 25 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%	87%	-8%	40 out of 46 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%	79%		15 out of 19 final reports issued within 5 working days.

5.3. Audit Planning

5.3.1. Amendments to the 2013/14 year Internal Audit plan agreed by the Committee are shown at Appendix C.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable

7. CONSULTATION

7.1. Not applicable

8. EQUALITY IMPLICATIONS

8.1. Not applicable

9. LEGAL IMPLICATIONS

9.1. Not applicable

10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable

11. RISK MANAGEMENT

11.1. Not applicable

12. **PROCUREMENT AND IT STRATEGY IMPLICATIONS**

12.1. Not applicable

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

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

LIST OF APPENDICES:

Appendix A	Audit reports issued 1 October to 31 December 2013
Appendix B	Internal Audit reports in issue more than two weeks as at 31 December 2013
Appendix C	Amendments to 2013/14 Internal Audit Plan

APPENDIX A

Audit reports Issued 1 October to 31 December 2013

We have finalised a total of 13 audit reports for the period to 1 October to 31 December 2013. In addition, we have issued a further 5 management letters and 2 follow ups.

Audit Reports

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

Audit Reports finalised in the period:

No.	Audit Plan	Audit Title	Director	Audit Assurance
1	2013/14	Housing Related Support Contract Management	Liz Bruce	Satisfactory
2	2013/14	St Augustines	Andrew Christie	Satisfactory
3	2013/14	Lena Gardens Primary School	Andrew Christie	Satisfactory
4	2013/14	Wendell Park School	Andrew Christie	Satisfactory
5	2013/14	Sir John Lillie School	Andrew Christie	Satisfactory
6	2013/14	Bayonne Nursery	Andrew Christie	Satisfactory
7	2013/14	Queensmill School	Andrew Christie	Satisfactory
8	2013/14	MyAccount Application	Jane West	Satisfactory
9	2013/14	Agilisys Enhanced Revenue Collection Contract Management	Jane West	Satisfactory
10	2013/14	Street Scene Enforcement LBHF	Lyn Carpenter	Satisfactory
11	2013/14	Linford Christie Outdoor Sports Centre	Lyn Carpenter	Satisfactory
12	2013/14	Sports Centres - LBHF	Lyn Carpenter	Satisfactory
13	2013/14	Sports Centres - RBKC	Lyn Carpenter	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
14	2012/13	Continuous Assurance - Gap Analysis	Jane West
15	2013/14	Parking Suspensions - Summary Report	Nigel Pallace
16	2013/14	Continuous Assurance - Gap Analysis	Jane West
17	2013/14	Managed Services Programme	Jane West
18	2013/14	CHS procurement	Andrew Christie

Follow ups

No.	Audit Plan	Audit Title	Implemented	Partly Implemented	Not Implemented	Not Applicable
19	2013/14	Theft of Valuable Metals	2	3	0	0
20	2013/14	Follow up of Priority 1 Recommendations	2	2	0	0
21	2013/14	Fostering	8	4	4	0

APPENDIX B

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

No.	Audit Year	Department	Responsible Director	Audit Title	Assurance	Draft report issued on	Responsible Officer	Target date for responses	Awaiting Response From
1	2013/14	Children's Services	Andrew Christie	St Paul's CoE Primary	Limited	31/07/2013	Headteacher	14/08/2013	Director
2	2013/14	Children's Services	Andrew Christie	Larmenier and Sacred Heart Catholic Primary School	Satisfactory	31/07/2013	Headteacher	14/08/2013	Director
3	2013/14	Children's Services	Andrew Christie	Old Oak Primary School	Satisfactory	19/07/2013	Headteacher	02/08/2013	Director
4	2013/14	Children's Services	Andrew Christie	Phoenix High School	Satisfactory	17/09/2013	Head Teacher / Governing Body	01/10/2013	Director
5	2013/14	Housing & Regeneration	Mel Barrett	Sale of Council Properties	Satisfactory	28/06/2013	Director of Finance and Resources (HRD)	12/07/2013	Director
6	2013/14	Housing & Regeneration	Mel Barrett	Earl's Court Regeneration Project	Satisfactory	21/11/2013	Head of Area Regeneration Programmes	5/12/2013	Auditee

APPENDIX C

Amendments to 2013/14 Audit Plan

	Department	Audit Name	Nature of Amendment	Reason for amendment
1	Corporate Services	Pre Implementation Audit Work on Developing Financial Procedures	Removed from plan	Superseded by work on Managed Services
2	Corporate Services	Managed Service Programme	Added	Requested as part of Managed Services Programme
3	Corporate Services	Project Management - Timebase by Tricostar (case management system)	Added	To follow on from audit on Departmental Management of Portfolio, Programmes and Projects
4	Corporate Services	Project Management - One Place online services	Added	To follow on from audit on Departmental Management of Portfolio, Programmes and Projects
5	Corporate Services	Project Management - Future Shape	Added	To follow on from audit on Departmental Management of Portfolio, Programmes and Projects
6	Children's Services	Project Management - MASH (Multi Agency Safeguarding Hub)	Added	To follow on from audit on Departmental Management of Portfolio, Programmes and Projects
7	Children's Services	Project Management - Neighbourhood Community Budget: Queens Park	Added	To follow on from audit on Departmental Management of Portfolio, Programmes and Projects
8	Environment, Leisure and Residents Services	North End Road Market	Added	Following concerns over debt position
9	Housing and Regeneration	Economic development/Business regeneration	Removed from plan	Scope proposed duplicated audits undertaken in 2012/13

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

Agenda Item 18

Document is Restricted