

# Audit, Pensions and Standards Committee

## Agenda

Tuesday 2 December 2014

7.00 pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

### MEMBERSHIP

Administration:	Opposition	Co-optees
Councillor PJ Murphy Councillor Iain Cassidy (Chair) Councillor Guy Vincent Councillor Adam Connell Councillor Ben Coleman	Councillor Michael Adam Councillor Nicholas Botterill Councillor Mark Loveday Councillor Donald Johnson	

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

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Date Issued: 21 November 2014

# Audit, Pensions and Standards Committee Agenda

2 December 2014

<u>Item</u>		<u>Pages</u>
<b>1. MINUTES OF THE PREVIOUS MEETING</b>		1 - 10
	(a) To approve as an accurate record and the Chair to sign the minutes of the meeting held on 16 September 2014.	
	(b) To note the outstanding actions.	
<b>2. APOLOGIES FOR ABSENCE</b>		
<b>3. DECLARATIONS OF INTEREST</b>		
	If a Committee member has any prejudicial or personal interest in a particular item they should declare the existence and nature of the interest at the commencement of the consideration of that item or as soon as it becomes apparent.	
	At meetings where members of the public are allowed to be in attendance and speak, any Councillor with a prejudicial interest may also make representations, give evidence or answer questions about the matter. The Councillor must then withdraw immediately from the meeting before the matter is discussed and any vote taken unless a dispensation has been obtained from the Standards Committee.	
	Where Members of the public are not allowed to be in attendance, then the Councillor with a prejudicial interest should withdraw from the meeting whilst the matter is under consideration unless the disability has been removed by the Standards Committee.	
<b>4. QUARTERLY PENSION FUND UPDATE</b>		11 - 40
	The report provides an update on the cashflow position, investment performance and funding level of the Pension Fund at 30 <sup>th</sup> September 2014.	
<b>5. TREASURY MID-YEAR REVIEW 2014-15</b>		41 - 47
	The report presents the Council's Half Year Treasury Report for 2013/14 in accordance with the Council's Treasury Management Practices. It is a regulatory requirement for this Report to be presented to the Committee.	
<b>6. ANNUAL AUDIT LETTER 2013/14</b>		48 - 55
	KPMG, as the Council's external auditor, have issued their Annual Audit Letter.	

<b>7.</b>	<b>ANNUAL GOVERNANCE STATEMENT ACTION PLAN AND OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT</b>	56 - 62
	The report summarises Progress on implementing recommendations arising from the KPMG 'Report to those charged with governance (ISA 260) 2013/14' and the Annual Governance Statement.	
<b>8.</b>	<b>INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 JULY TO 30 SEPTEMBER 2014</b>	63 - 78
	The report summarises internal audit activity in respect of audit reports issued during the period 1 July to 30 September 2014 as well as reporting on the performance of the Internal Audit service.	
<b>9.</b>	<b>INDEPENDENT PSIAS APPRAISAL FOR LBHF INTERNAL AUDIT</b>	79 - 110
	The report is an independent review of the LBHF Internal Audit service against the Public Sector Internal Audit Standards.	
<b>10.</b>	<b>CORPORATE ANTI FRAUD SERVICE REPORT 1 APRIL 2014 TO 30 SEPTEMBER 2014</b>	111 - 121
	The report provides an account of anti-fraud related activity undertaken from 1 April 2014 to 30 September 2014.	
<b>11.</b>	<b>RISK MANAGEMENT HIGHLIGHT REPORT</b>	122 - 142
	The report presents what arrangements are in place for identifying and managing key risks.	
<b>12.</b>	<b>PENSION FUND GOVERNANCE - PENSION FUND SUB COMMITTEE</b>	143 - 147
	The report seeks to consider a proposal for a separate Pension Fund Sub Committee to be established to better enable the Council discharge its responsibility for the management of the Pension Fund effectively.	
<b>13.</b>	<b>DATES OF FUTURE MEETINGS</b>	
	Wednesday 11 <sup>th</sup> February 2015.	
<b>14.</b>	<b>EXCLUSION OF THE PUBLIC AND PRESS</b>	
	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 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.	
<b>15.</b>	<b>MINUTES</b>	148 - 151
	To approve as an accurate record and the Chair to sign the minutes of the exempt discussion at the meeting held on 16 September 2014.	
<b>16.</b>	<b>PENSION FUND INVESTMENT STRATEGY</b>	152 - 170
	To receive a report from the Tri-Borough Director for Pensions & Treasury on the Pension Fund investment strategy.	





London Borough of Hammersmith & Fulham

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

**Tuesday 16 September 2014**

### **PRESENT**

**Committee members:** Councillors Michael Adam, PJ Murphy, Iain Cassidy (Chair), Guy Vincent, Adam Connell, Ben Coleman, Nicholas Botterill, Mark Loveday and Donald Johnson

### **Other Councillors:**

**Officers:** David Bays (Committee Co-ordinator), Chris Harris (Head of Corporate Accountancy & Capital), Jonathan Hunt (Tri-Borough Director for Treasury and Pensions), Halfield Jackman (Pension Fund & Treasury Officer), Jackie Hudson (Director for Procurement & IT), Moyra McGarvey (Tri-Borough Director for Audit, Fraud, Risk & Insurance), Andrew Sayers (KPMG), Michael Sloniowski (Bi-Borough Risk Manager), Alastair Sutherland (Deloitte Total Reward), Nicola Webb (Pension Fund Officer), Jane West (Executive Director for Finance & Corporate Governance).

### **53. MINUTES**

#### **RESOLVED –**

That the Minutes of the meeting held on 30 June 2014 be agreed as a correct record and signed by the Chair.

Officers undertook to check whether the list of assets identified for disposal had been supplied to Members.

### **54. APOLOGIES FOR ABSENCE**

There were no apologies for absence.

### **55. DECLARATIONS OF INTEREST**

There were no declarations of interest.

**56. QUARTERLY PENSION FUND UPDATE**

The Committee received a report from the Tri-borough Director of Pensions and Treasury updating Members on the investment performance and funding level of the Pension Fund as at 30 June 2014.

In response to a question about the possible impact on the Fund of the Scottish Referendum, the Director and Alastair Sutherland (Deloitte Total Reward, the Fund's investment advisor) explained that a Yes vote would be likely to lead to uncertainties, with a wider impact on equities linked to Scotland; a No vote would also lead to uncertainties but to a lesser extent.

**RESOLVED –**

That the report be noted.

**57. PENSION FUND ANNUAL REPORT 2013/14**

The Tri-Borough Director for Pensions and Treasury reported on the Pension Fund Annual Report 2013/14 which was scheduled to be published with the Council's Statement of Accounts by 30 September 2014. The Annual Report had been externally audited by KPMG who had confirmed their consistency with the accounts and who had issued an unqualified opinion, as set out in page 47 of the Annual Report. In response to a question, officers agreed to consider a Pensions Annual General Meeting and bring back ideas on content and timing.

In response to queries, the Director undertook to forward Members details of the cost of Support Services. He would also report back on monitoring the administration of the Fund including whether pensioners were being paid the right benefit on time.

**RESOLVED –**

That the Pension Fund Annual Report 2013/14 be approved, subject to final audit sign-off.

**58. LGPS CONSULTATIONS**

The Tri-borough Director for Pensions and Treasury reported on a further consultation from Department for Communities and Local Government about pension scheme governance.

The new regulations required each local authority to set up a local pension board to help administering authorities with the efficient management and administration of their Scheme. This would mean establishing a Board (its position in the Committee structure to be resolved), which would meet four times a year, starting from 1 April 2015.

**RESOLVED –**

That the report be noted.

**59. PENSION FUND EMPLOYERS**

The Committee received a report from the Tri-borough Director for Pensions and Treasury about the various employers in the Pension Fund and the protection in place for these organisations.

In response to questions, the Executive Director of Finance and Corporate Governance explained that most of the organisations concerned gave guarantees, usually in the form of bonds. Members noted that the Tri-borough Pension Fund Officer was working with the organisations currently without bonds and would report to the next meeting with an update.

**RESOLVED –**

That the report be noted.

**60. PENSION FUND CASHFLOW POSITION**

Following a request by the Committee in September 2013, the Tri-Borough Director for Pensions and Treasury reported on the Pension Fund cashflow Position. The Director confirmed that as more staff left the Council there were more benefit payments being made than cash coming into the Fund. Therefore monies had been withdrawn from Majedie, as agreed by the Committee, to rectify the position. A further shortfall was expected over the coming 12 months so it was proposed to use some of the money released by the recent withdrawal from Barings to maintain a positive cash balance.

**RESOLVED –**

That £8m of the proceeds from the sale of the Barings fund be used to maintain a positive cash balance in the Pension Fund bank account over the next 12 months.

**61. STATEMENT OF ACCOUNTS, INCLUDING PENSION FUND FOR 2013/14**

Chris Harris, Head of Corporate Accountancy, presented the report on Hammersmith & Fulham's Statement of Accounts, including the Pension Fund, for 2013/4. He drew attention to the Errata sheet circulated separately to Members which highlighted changes to the Cash-Flow Statement on page 17 of the Statement and changes to pages 94-101 of the Annual Governance Statement. Key points in the Statement included an underspend by the Council of £8.6m and a stable balance sheet with an increase in total net assets, largely due to higher property values.

Andrew Sayers, the KPMG representative, confirmed that he intended to issue an unqualified opinion on the Accounts. KPMG's report had identified two audit adjustments relating to HRA dwellings and to revised revaluations of school land and buildings. Implementation of these adjustments had not impacted on the general reserves. Since their External Audit Plan 2013/14, KPMG had identified, and added, National Non-Domestic Rates (NNDR) as a significant risk to the authority due to Government introduction of a new regime. Testing of the NNDR

area had not identified any issues. In general, KPMG had highlighted the high quality of the Council's supporting documents and audit processes. On Value for Money, they had looked at the Savings Plan which they considered challenging but achievable.

In response to questions, KPMG and the Executive Director of Finance and Corporate Governance confirmed some of the details in the Statements. The Executive Director undertook to send to Members the Pie Chart showing the split between Asset Sales and Operational costs; and a Briefing Paper on the changes to the Savings Plan since January 2014. The savings would be put to the Finance PAC in January 2015, to be followed by the setting of the Council Tax in February 2015.

**RESOLVED –**

- (a) That the content of the auditor's report to those charged with governance (ISA260) stating that the accounts would receive an unqualified opinion, the Council had an adequate internal control environment and had made proper arrangements to secure economy, efficiency and effectiveness in the use of resources, be noted.
- (b) That the auditor's findings, recommendations and the Council's response to those recommendations as set out in the Report to those charged with Governance (ISA260), be noted
- (c) That the management representation letter, included as Appendix 3, be approved
- (d) That the Statement of Accounts for 2013/14, included as Appendix 1, and amended by the circulated errata, be approved.

**62. OUTSTANDING RECOMMENDATIONS FOR EXTERNAL AUDIT AND FRAUD RESPONSE PLAN**

The committee received a report from the Senior Audit Manager about progress in implementing recommendations from the KPMG "Report to those charged with Governance (ISA 260) 2012/13.

Lessons were being learned from the review but the Council wished to see the outcome of the cases taken to court before implementing measures. Meanwhile it was confirmed that Benefits and Revenue Staff in particular were fully trained in possible fraud and there was also now in place arrangements for whistleblowing by staff. The Council were also working closely with the CIPFA Centre of Excellence which had recently been set up.

**RESOLVED –**

That the report be noted.

**63. INTERNAL AUDIT QUARTERLY REPORT FOR THE PERIOD 1 APRIL TO 30 JUNE 2014**

Moyra McGarvey, Tri-Borough Director of Audit, Fraud, Risk and Insurance reported on internal audit activity on audit reports issued during the period 1 April



to 30 June 2014 as well as on the performance of the Internal Audit Service for the 2014/15 financial year.

In response to queries, she clarified the process for Satisfactory and Limited Assurance opinions and the consequences of each. One area of particular focus in the recent period had been Adult Social Care where the audit had identified a issues in respect of risk management arrangements. Members suggested for future meetings that it would be useful to have more detail on limited assurance reports and where possible to provide details of the direction of travel for areas being audited, to identify if service areas had improved or deteriorated since the previous audit. for the next meeting it would be useful to do a comparison of how different services had been assessed between one period and previously; and also how assessments of Limited Assurance had progressed to Satisfactory Assurance.

**RESOLVED –**

That the contents of the Report be noted.

**64. COMBINED RISK MANAGEMENT HIGHLIGHT REPORT**

Michael Sloniowski, Bi-Borough Risk Manager, reported on the development of a Tri-Borough Risk Register and other developments in identification and management of key risks.

Recent work included some focused activity with Adult Social Care to improve their risk management process. Departments are expected and responsible for the production of risk registers. Overall, the aim was to develop the quality of risk registers. Members would be updated quarterly on progress on these.

Appendices to the report outlined the scope of the Tri-Borough Risk Register and risks relating to specific Departments.

In response to questions, the Executive Director confirmed the position on the risk identified at ref. 47 in Appendix 2 that the Hammersmith Sports Facility may not be delivered. The issue identified at ref. 63 for Shepherds Bush Market was thought to be a comment on a delay in the progress of the project.

Committee also requested that the report previously sent to Audit, Pensions and Standards Committee that included reference to risk appetite be identified for Members information.

The Committee also considered the Annual Governance statement 2013/14 that forms part of the Annual Accounts and noted the significant control weaknesses were reviewed as part of the work undertaken to produce the statement

**RESOLVED –**

- (a) That the Committee note the various risks outlined in the report and the Council's arrangements for mitigating these.
- (b) That the Annual Governance Statement be noted and the Committee agree to monitor and track an agreed management action plan to address areas of control weaknesses and thereby ensure continuous improvement of the system of internal control.

64.1 **ANNUAL GOVERNANCE STATEMENT 2013/14**

This item was considered as part of agenda item 12 (Combined Risk Management Highlight Report) and agreed.

65. **DATES OF FUTURE MEETINGS**

The following dates were agreed:

- Monday 2 December 2014
- Wednesday 11 February 2015

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

**RESOLVED –**

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

67. **MINUTES**

**RESOLVED –**

That the exempt Minutes of the meeting held on 30 June 2014 be agreed as a correct record and signed by the Chair.

68. **PENSION FUND INVESTMENT STRATEGY AND BARINGS DECISION**

The Committee received a report from the Tri-Borough Director for Pensions and Treasury on the Pension Fund Investment Strategy.

69. **MANAGED SERVICES UPDATE**

The Executive Director for Finance and Corporate Governance submitted an update report on the delivery of Managed Services project and the contract with BT.

**RESOLVED –**

That the report be noted.

**70. NNDR FRAUD INVESTIGATION UPDATE**

The Tri-Borough Head of Fraud reported an update on progress made on the recent National Non-Domestic Rates (NNDR) fraud, along with a more detailed account of the investigation and subsequent trial.

**RESOLVED –**

That the report be noted.

**71. H&F MEASURES IN PLACE TO MITIGATE THE THREAT OF CYBER-TERRORISM**

Following a request by the Committee at their last meeting, the Committee received a report by the Director for Procurement and IT Strategy about measures in place to mitigate the threat of cyber-terrorism in Hammersmith and Fulham.

**RESOLVED –**

That the report be noted.

**72. PENSION FUND EMPLOYERS - EXEMPT APPENDICES**

The Committee noted the list of Scheduled Bodies, Community Admission bodies and Transferee Admission Bodies.

**RESOLVED –**

That the report be noted.

**73. TREASURY REPORT 2013/14 OUTTURN**

In accordance with the regulatory requirements, the Committee received a report by the Tri-Borough Treasury Manager on the Council's outturn Treasury report for 2013/14. A Half Year report would be presented to the Committee similarly at the next meeting.

**RESOLVED –**

That the report be noted

Meeting started: 7.05pm  
Meeting ended: 9.55pm

Chairman .....


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**Audit, Pensions & Standards Committee – action tracker  
2014/15**

<b>Meeting</b>	<b>Item and Minute number</b>	<b>Action</b>	<b>Lead</b>	<b>Completed?</b>
13 <sup>th</sup> February 2014	Capita Presentation (19)	That officers supply the committee with overtime figures That officers supply a breakdown of administrative costs to the fund	Jonathan Hunt	Yes
13 <sup>th</sup> February 2014	Pension Fund – Funding Strategy Statement (22)	Officers to bring forward a report on admitted bodies and their position in the fund	Jonathan Hunt	Yes
13 <sup>th</sup> February 2014	Treasury Management Strategy (24)	Officers to supply a list of assets identified for disposal and their income target	Christopher Harris	Yes
13 <sup>th</sup> February 2014	Grant Report (26)	Officers to supply the information requested regarding underpayments and what percentage the repayment of the total amount paid	Chris Harris	Yes
13 <sup>th</sup> February 2014	Annual Governance Statement action plan (28)	Officers to provide information on gas safety for leaseholders	Michael Sloniowski	Yes
13 <sup>th</sup> February 2014	Combined Risk Management report (29)	Officers to provide a full list of Children’s Services/Education risks	Michael Sloniowski	Yes

30 <sup>th</sup> June 2014	LGPS Consultations (40)	That a presentation on the CIV be given at a future meeting	Jonathan Hunt	
30 <sup>th</sup> June 2014	Combined Risk Management report (42)	That a briefing on the Council's response to the risk of cyber-terrorism be presented to the next committee;  That risk registers for the Housing and Regeneration Department be made available to members of the Audit, Pensions and Standards Committee	Ed Garcez  Michael Sloniowski	Yes  Yes
30 <sup>th</sup> June 2014	Head of Internal Audit Annual Report (45)	That the Health, Adult Social Care & Social Inclusion PAC be invited to consider the risk management and assurance arrangements of the Tri-Borough Adult Social Care department; and  That Internal Audit report back on the position regarding follow up recommendations that were reported as not implemented	Craig Bowdery  Geoff Drake	Yes  Yes
30 <sup>th</sup> June 2014	Pension Fund Actuarial Extension (51)	Officers explore whether the contract could incorporate other councils beyond the tri-borough and whether RBKC's contract includes a break clause.	Jonathan Hunt	Yes
16 <sup>th</sup> September 2014	Pension Fund Annual Report 2013/14 (57)	The Director undertook to forward Members details of the cost of Support Services. He would also report back on monitoring the administration of the Fund including whether pensioners were being paid the right benefit on time	Jonathan Hunt	Yes
16 <sup>th</sup> September 2014	Statement of Accounts, including Pension Fund 2013/14 (61)	The Executive Director undertook to send to Members the Pie Chart showing the split between Asset Sales and Operational costs; and a Briefing Paper on the changes to the Savings Plan since January 2014.	Jane West	yes

16 <sup>th</sup> September 2014	Combined Risk Management highlight report (64)	The Committee requested that the report previously sent to Audit, Pensions and Standards Committee that included reference to risk appetite be identified for Members information.	Michael Sloniowski	
16 <sup>th</sup> September 2014	NNDR Fraud Investigation update	Officers undertook to send Members a briefing on the Council's experience of recovering money by staged payments.	Andy Hyatt	
16 <sup>th</sup> September 2014	H&F measures in place to mitigate the threat of cyber- terrorism	Officers undertook to brief Members about a DDOS attack	Jackie Hudson	Yes

 <p><b>h&amp;f</b> the low tax borough</p>	<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p>2<sup>nd</sup> December 2014</p>
<p><b>QUARTERLY PENSION FUND UPDATE</b></p>	
<p><b>Report of the Executive Director of Finance and Corporate Governance</b></p>	
<p><b>Open Report</b></p>	
<p><b>Classification:</b> For Information</p> <p><b>Key Decision:</b> No</p>	
<p><b>Wards Affected:</b> All</p>	
<p><b>Accountable Executive Director:</b> Jane West, Executive Director of Finance and Corporate Governance</p>	
<p><b>Report Author:</b> Nicola Webb, Tri-Borough Pension Fund Officer</p>	<p><b>Contact Details:</b> Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk</p>

## 1. EXECUTIVE SUMMARY

- 1.1. This report provides an update on the cashflow position, investment performance and funding level of the Pension Fund at 30<sup>th</sup> September 2014.
- 1.2. Appendix 1 is the cashflow update showing the Pension Fund actual cashflow compared to forecast in September and October 2014. Overall there was £350k less cash coming in than forecast.
- 1.3. The investment report (attached at Appendix 2) has been prepared by Deloitte, the Fund's investment adviser, who will be attending the meeting to present the key points and answer questions.
- 1.4. Appendix 3 is the funding update provided by the Fund Actuary, Barnett Waddingham. This shows the funding level of the Fund at 30<sup>th</sup> September 2014 remained at 86% from the last update as at 30<sup>th</sup> June 2014. This is an improvement from 83% at the last triennial valuation at 31<sup>st</sup> March 2013.

## 2. RECOMMENDATIONS

- 2.1. To note the report.

**3. REASONS FOR DECISION**

3.1. Not applicable.

**4. INTRODUCTION AND BACKGROUND**

4.1. Not applicable.

**5. PROPOSAL AND ISSUES**

5.1. Not applicable.

**6. OPTIONS AND ANALYSIS OF OPTIONS**

6.1. Not applicable.

**7. CONSULTATION**

7.1 Not applicable.

**8. EQUALITY IMPLICATIONS**

8.1. Not applicable.

**9. LEGAL IMPLICATIONS**

9.1. Not applicable.

**10. FINANCIAL AND RESOURCES IMPLICATIONS**

10.1 Not applicable.

**11. RISK MANAGEMENT**

11.1. Not applicable.

**12. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

12.1. Not applicable.



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

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

**LIST OF APPENDICES:**

Appendix 1: Cashflow update: September – October 2014

Appendix 2: Deloitte Quarterly report for quarter ended 30<sup>th</sup> September 2014

Appendix 3: Barnett Waddingham Funding Update report at 30<sup>th</sup> September 2014

## Appendix 1: Cashflow Update: September – October 2014

At the meeting of the committee on 16<sup>th</sup> September 2014, a Pension Fund cashflow forecast for the period September 2014 to August 2015 was presented. An update will be provided every quarter to measure progress against this forecast.

At the time of preparing this report actual figures are available for September and October 2014 only.

	September 2014		October 2014		Sep & Oct 14
	Forecast	Actual	Forecast	Actual	Variance
	£000	£000	£000	£000	£000
Contributions	1,800	1,855	1,800	1,741	-4
Pensions	-2,300	-2,398	-2,300	-2,335	-133
Lump Sums	-390	-357	-390	-881	-458
Net transfers in/(out)	-75	330	-75	0	480
Expenses	-20	-189	-20	-86	-235
Net cash movement in month	-985	-759	-985	-1,561	-350
Withdrawal from fund managers	8,000	8,000	0	0	0

Across the two month period the Pension Fund has £350k less cash than forecast, mainly due to much higher value of lump sum payments in October than anticipated and higher expenses than anticipated in September.

The £8m withdrawal from fund managers is the transfer of cash from Barings agreed by committee on 16<sup>th</sup> September 2014. The majority of the proceeds from Barings have been invested in the Legal & General Sterling Liquidity Fund as agreed.



London Borough of Hammersmith &  
Fulham Pension Fund  
Investment Performance Report to 30  
September 2014 – Executive Summary

Deloitte Total Reward and Benefits Limited  
November 2014

The background of the page features a close-up photograph of a file folder. The folder is yellow with a white label that reads "INVESTMENTS" in bold, black, uppercase letters. The folder is part of a larger set of folders, with other folders visible in the background. Overlaid on the image are several concentric white circles of varying sizes, creating a circular pattern that frames the central text.

INVESTMENTS

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# 1 Market Background

## Three and twelve months to 30 September 2014

UK equities delivered a negative return over the 3 months to 30 September 2014, with the FTSE All Share Index returning -1.0%. The first two months of the quarter saw positive UK equity performance, however the FTSE fell in September, with the uncertainty around the outcome of the Scottish Independence referendum playing its part. Wider concerns around the strength of the global economy also weighed on UK equity returns, a trend which has continued post the quarter end.

Smaller companies marginally outperformed larger companies, albeit both delivered negative absolute returns. There was a range of performance at the sector level. Financials delivered the highest return of 1.9%, whilst the Oil & Gas sector was the worst performing, returning -7.2%.

Global equity markets outperformed the UK in both sterling and local terms over the third quarter of 2014, returning 3.2% and 0.9% respectively. Currency hedging was therefore detrimental to investors over the quarter as sterling depreciated strongly versus the US dollar. At a regional level, the Japanese market delivered the highest local currency return of 5.9%, but only returned 3.1% in sterling terms. Europe (ex UK) was the poorest performing region, returning -2.6% and -0.4% in sterling and local currency terms respectively.

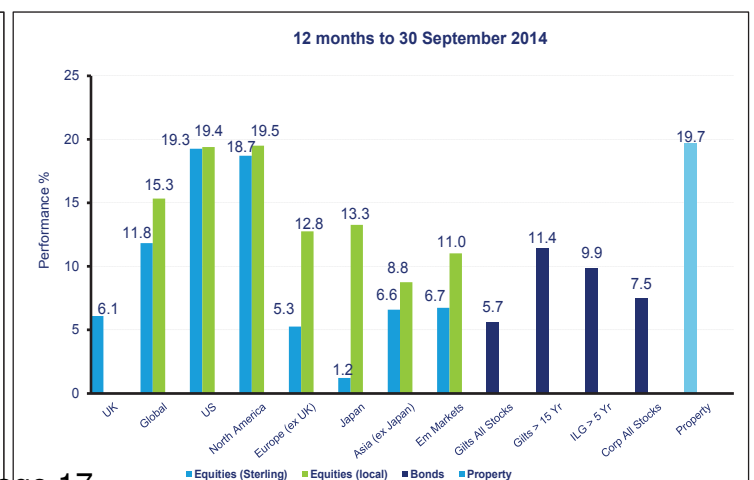
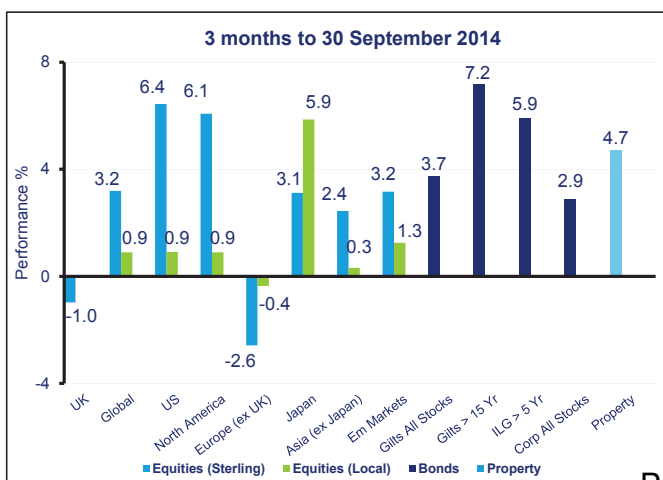
UK nominal gilts performed positively over the third quarter as yields fell at longer maturities. The All Stocks Gilt Index returned 3.7% over the period, whilst the Over 15 Year Gilt Index returned 7.2%. Real yields on UK index-linked gilts also fell over the three months to 30 September 2014, but not to the same extent as nominal yields, resulting in increased inflation expectations. The Over 5 year Index-linked Gilts Index returned 5.9% over the quarter. Corporate bond performance was positive over the quarter, despite credit spreads widening, with the iBoxx All Stocks Non Gilt Index returning 2.9%.

Over the year to 30 September 2014, the FTSE All Share Index returned 6.1%. At the sector level, Health Care delivered the highest return (20.8%), in stark contrast to the Consumer Services sector which delivered the lowest return over the period (-4.5%).

Global markets outperformed the UK in both sterling and local currency terms over the year. The FTSE All World Index returned 11.8% in sterling terms, and delivered a higher return of 15.3% in local currency terms. Currency hedging was therefore beneficial as sterling appreciated against all major currencies over the period, most notably against the Japanese yen and significantly against the euro.

Returns on nominal UK gilts were positive over the year to 30 September 2014, with yields increasing at shorter maturities but falling at the longer end of the curve. The All Stocks Gilt Index returned 5.7% and the Over 15 Year Gilt Index returned 11.4% over the period. Real yields on UK index-linked gilts followed a similar pattern to nominal yields, with the Over 5 Year Index-linked Gilts Index returning 9.9%. Corporate bond markets delivered a positive return over the 12 months to 30 September 2014, with the iBoxx All Stocks Non Gilt Index returning 7.5% as credit spreads narrowed over the year.

The UK property market continues to rise, returning 4.7% over the quarter and 19.7% over the year to 30 September 2014.



## 2 Performance Overview

Breakdown of Fund Performance by Manager as at 30 September 2014

Fund	Manager	3 month (%)	1 year (%)	2 year (%) p.a.	3 year (%) p.a.	5 year (%) p.a.
<b>UK Equity Mandate</b>						
	<b>Majedie</b>					
FTSE All Share		-1.5	8.7	19.7	18.4	13.0
Difference		-1.0	6.1	12.3	13.9	9.7
		-0.6	2.6	7.3	4.4	3.3
<b>Overseas Equity Mandate</b>						
	<b>MFS</b>					
MSCI AC World Growth (ex UK)		1.8	8.7	13.6	15.4	10.6
Difference		4.1	12.1	14.6	16.1	10.8
		-2.4	-3.4	-1.1	-0.7	-0.1
<b>Dynamic Asset Allocation Mandates</b>						
	<b>Barings<sup>(1)</sup></b>					
3 Month Sterling LIBOR + 4% p.a		0.9	3.7	5.2	5.5	5.6
Difference		0.7	4.1	4.3	4.5	4.6
		0.2	-0.4	0.9	0.9	1.0
3 Month Sterling LIBOR + 4% p.a	<b>Ruffer</b>	2.5	3.2	8.2	6.4	7.2
Difference		1.1	4.6	4.5	4.7	4.7
		1.4	-1.4	3.7	1.7	2.4
<b>Matching Fund</b>						
	<b>Goldman Sachs</b>					
3 Month Sterling LIBOR + 2% p.a		0.4	2.4	3.1	3.7	2.6
Difference		0.6	2.6	2.5	2.7	2.7
		-0.2	-0.2	0.6	1.0	-0.1
Bespoke liability related benchmark	<b>Legal &amp; General</b>	12.4	21.1	19.1	n/a	n/a
Difference		7.3	11.9	11.2	n/a	n/a
		5.1	9.3	7.9	n/a	n/a
<b>Private Equity</b>						
	<b>Invesco</b>					
		9.0	30.5	19.2	17.3	n/a
	<b>Unicapital</b>					
		0.2	0.2	5.3	3.7	n/a
<b>Total Fund</b>		2.1	8.3	12.7	12.1	9.3
Benchmark*		2.0	7.2	9.2	10.2	8.6
Difference		0.1	1.1	3.5	1.9	0.7
Liability Benchmark + 2.2% p.a.		4.3	8.5	8.3	8.0	10.2

Source: Northern Trust (Custodian). Figures are quoted net of fees and estimated by Deloitte. Differences may not tie due to rounding.

(1) Due to changes in personnel, the LBHF Pension Fund disinvested with Barings on 29 August 2014 into a temporary LGIM Liquidity Fund.

(\*) The Total Assets benchmark is the weighted average performance of the target asset allocation

# 3 Total Fund

## Investment Performance to 30 September 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Total Fund – Gross of fees	2.1	8.8	13.1	12.6	9.8
Net of fees <sup>(1)</sup>	2.1	8.3	12.7	12.1	9.3
Benchmark <sup>(2)</sup>	2.0	7.2	9.2	10.2	8.6
Gross performance relative to fixed benchmark	0.2	1.6	3.9	2.4	1.1

Source: Northern Trust. Relative performance may not tie due to rounding.

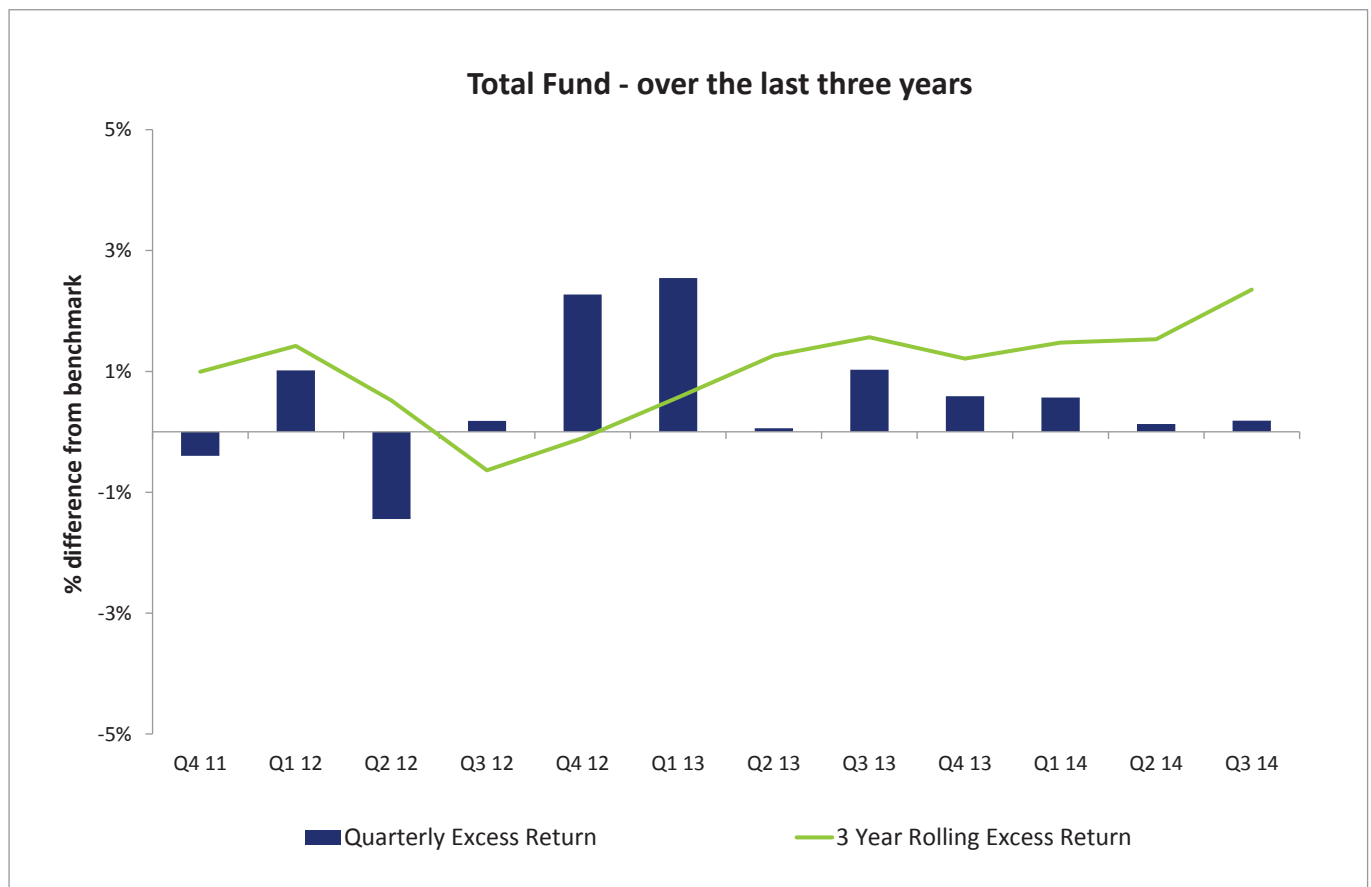
(1) Estimated by Deloitte

(2) Average weighted benchmark

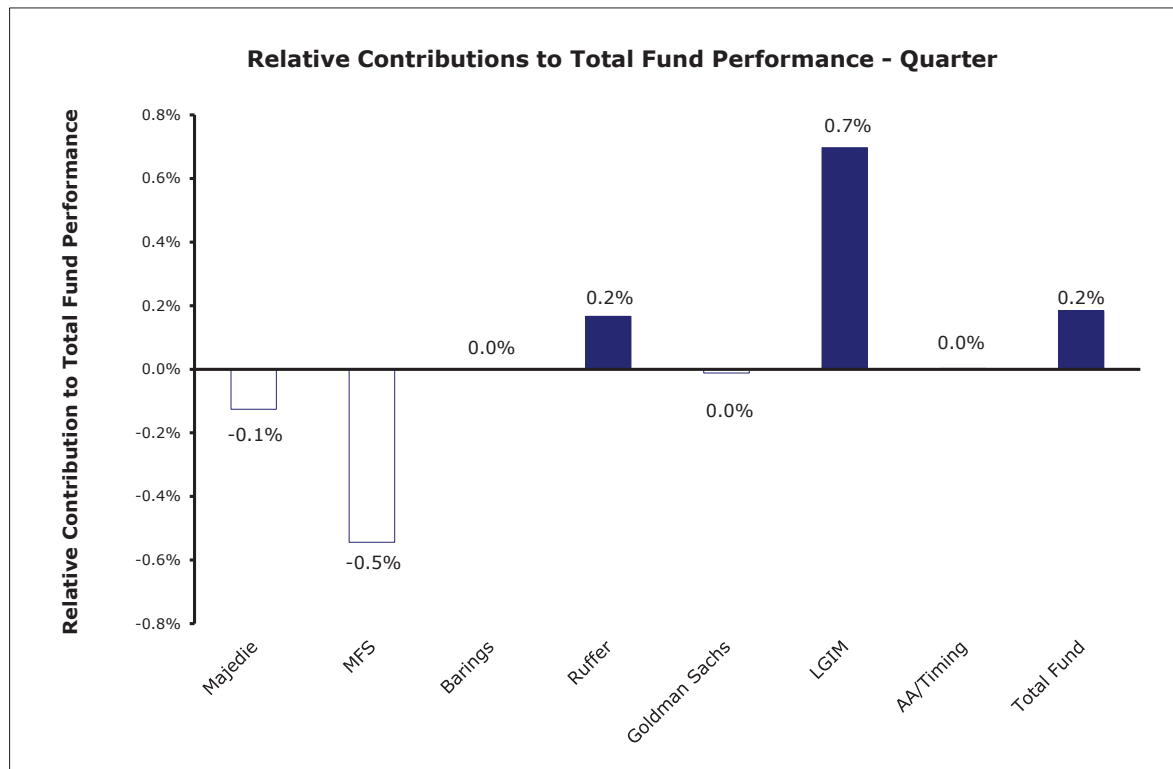
Over the quarter, the Total Fund outperformed its fixed weighted benchmark by 0.1% on a net of fees basis.

Over the one and three year period to 30 September 2014 the Fund outperformed its benchmark by 1.1% and 1.9% per annum respectively net of fees.

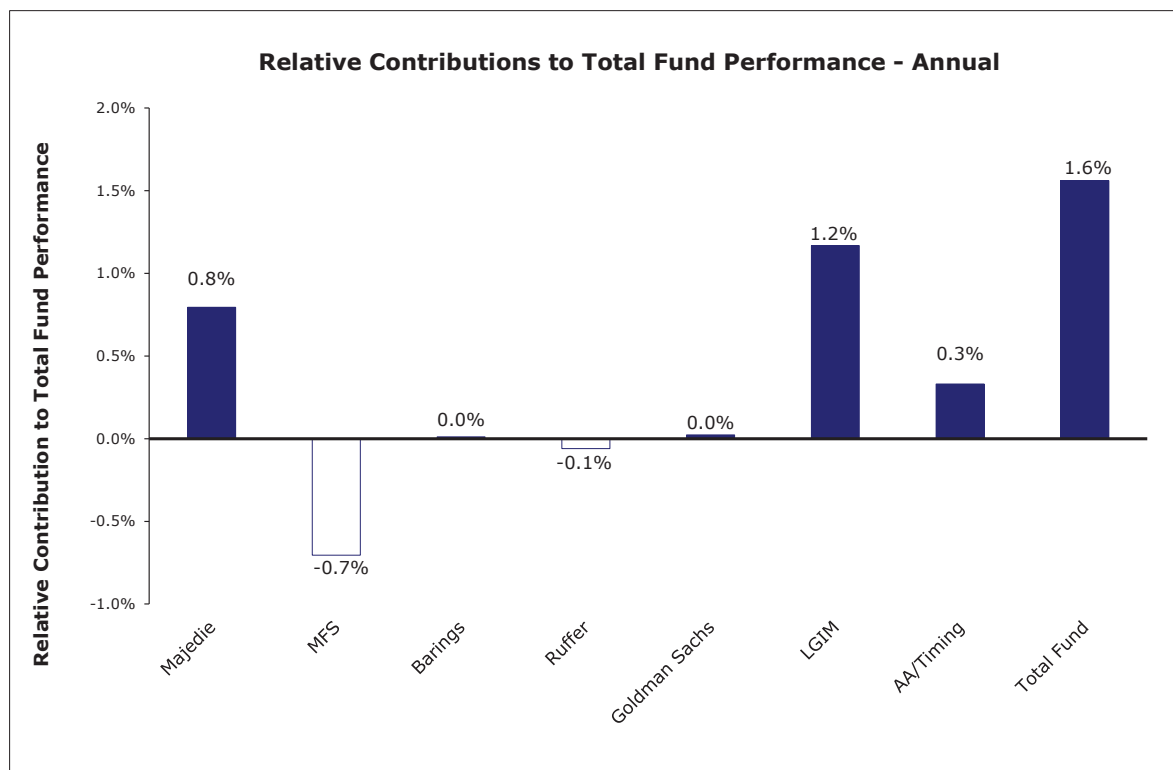
The chart below compares the gross performance of the Fund relative to the fixed weight benchmark over the three years to 30 September 2014, highlighting the strong relative returns over the last couple of years – much of which can be attributed to the outperformance achieved by Majedie.



## Attribution of Gross Performance to 30 September 2014



On a gross performance basis, the Fund outperformed the composite benchmark by 0.2% over the third quarter of 2014, with the positive impact of Ruffer and LGIM being largely offset by MFS' and Majedie's underperformance over the quarter.



Over the last year the Fund outperformed the composite benchmark by 1.6%, with LGIM and Majedie driving the longer term outperformance, more than offsetting the below-target performance from MFS.



## Asset Allocation

The table below shows the assets held by manager as at 30 September 2014 alongside the Benchmark Allocation.

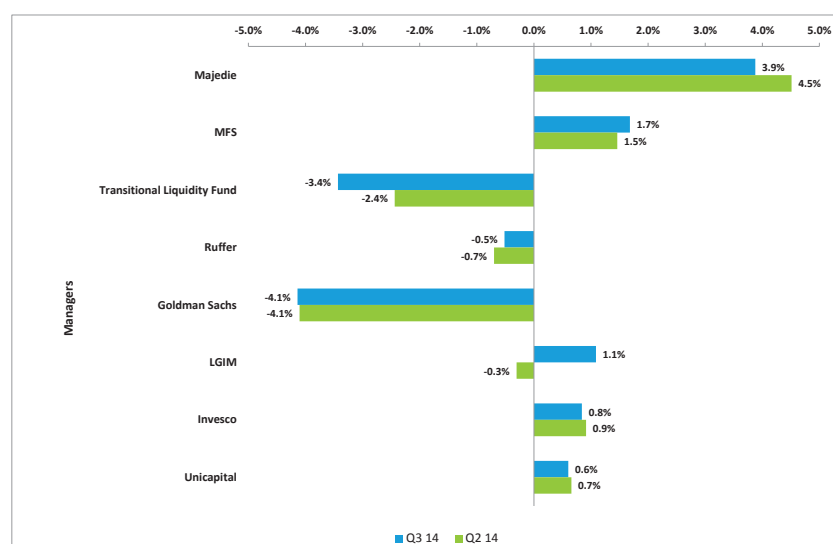
Manager	Asset Class	Actual Asset Allocation				Benchmark Allocation (%)
		30 Jun 2014 (£m)	30 Sep 2014 (£m)	30 Jun 2014 (%)	30 Sep 2014 (%)	
Majedie	UK Equity (Active)	210.2	207.2	27.0	26.4	22.5
MFS	Overseas Equity (Passive)	186.5	189.9	24.0	24.2	22.5
	<b>Total Equity</b>	<b>396.7</b>	<b>397.1</b>	<b>51.0</b>	<b>50.6</b>	<b>45.0</b>
Barings	Dynamic	127.3	0.0	16.4	15.4	18.8
LGIM	Liquidity Fund	0.0	120.7			
Ruffer	Absolute Return	81.7	83.9	10.5	10.7	11.2
	<b>Sub –total</b>	<b>209.1</b>	<b>204.6</b>	<b>26.9</b>	<b>26.1</b>	<b>30.0</b>
Goldman Sachs	Absolute Return Bond	65.3	65.7	8.4	8.4	12.5
LGIM	Matching	94.9	106.7	12.2	13.6	12.5
	<b>Total Matching</b>	<b>160.3</b>	<b>172.4</b>	<b>20.6</b>	<b>21.9</b>	<b>25.0</b>
Invesco	Private Equity	7.1	6.6	0.9	0.8	0.0
Unicapital	Private Equity	5.1	4.7	0.7	0.6	0.0
	<b>Total Private Equity</b>	<b>12.2</b>	<b>11.3</b>	<b>1.6</b>	<b>1.4</b>	<b>0.0</b>
	<b>Total</b>	<b>778.2</b>	<b>785.4</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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. £7.2m with most asset classes delivering positive returns, notwithstanding the £8m that was transferred from the Barings's proceeds to the Fund's bank account.

For the asset allocation chart below, the disinvestment out of Barings into the transitional LGIM liquidity fund has been treated as having the former Barings benchmark allocation of 18.8%. As can be seen below, the Fund remains overweight Majedie and MFS relative to the benchmark allocation at the expense of the former Barings allocation and Goldman Sachs. The LGIM Matching mandate grew to 1.1% above its benchmark allocation following strong relative quarterly returns.



## 4 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	Absolute Return	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

Having launched the new global equity fund at the end of June which was seeded by money from Majedie Investment and Majedie Asset Management, the team has won its first external mandate from an existing Majedie client.

From the UK equity side of the business, Majedie has seen outflows of around £1.3bn over the 12 months to the end of September, largely as a consequence of defined benefit schemes de-risking. However, Majedie has been able to recycle much of the capacity that has been freed up, also adding assets to the Tortoise fund which has doubled in size over the last year.

The only change to the team was the addition of a new equity analyst, Tom Hosking (who is the son of Jeremy Hosking, one of the founders of Marathon Asset Management).

**Deloitte view** – We continue to rate Majedie positively for its UK equity capabilities.

### MFS

There were no changes to the team managing the strategy over the quarter and the process remains unchanged.

**Deloitte View:** We continue to regard MFS' global equity capabilities positively but recognise that the performance of the strategy utilised by the Fund has not lived up to expectations and has lagged some of the organisation's other global equity offerings.

### Barings

Barings announced a number of team changes in August with the departure of Percival Stanion, the portfolio manager on the flagship DAAF product, being the most significant. Along with Percival, Andrew Cole and Shaniel Ramjee are also leaving to join Pictet.

- Percival has been head of Barings' Multi Asset Group and running the DAAF since its launch. The DAAF's asset allocation views have very much been driven by Percival's economic outlook and we have always considered him the key man on the DAAF team. Percival has chaired Barings' Strategic Policy Group (SPG) for a number of years.
- Andrew Cole is a member of Barings' Global Multi Asset Group and lead manager on the Baring Multi Asset Fund (a more retail focussed version of DAAF). He is also a member of the SPG and leads its Risk Sub Group.
- Shaniel is an investment manager in the Global Multi Asset Group responsible for macroeconomic and multi asset research and portfolio construction.

Percival and Andrew will both be serving 6 months' notice periods while Shaniel will serve 3 months.

In response to these departures, there are a number of other changes announced by Barings:

- Ken Lambden joins as new CIO from Schroders where until March 2013 he was Head of Global Equities. Ken will become CIO effective 15 September. Ken will also join the SPG when he arrives.
- Marino Valensise, the current CIO at Barings will move to head the Multi Asset Group and Chair the SPG, with immediate effect. Marino will also become lead fund manager on the DAAF. Marino is already a member of the SPG.

Following the announcement of the departures, the DAAF suffered a series of client outflows, raising concerns about the potential impact on the liquidity of the investment for investors remaining in the fund.

**Deloitte view** – Due to the large outflows from the fund and the team changes, the Fund disinvested with Barings on 29 August 2014 and investing the bulk of the proceeds in the L&G Liquidity Fund as an interim measure.

## Ruffer

There were no changes to the team or process over the quarter. Ruffer continues to hold around 40% of the fund in inflation linked bonds.

**Deloitte view** – The Ruffer product is distinctive within the universe of diversified growth managers in that it is more concentrated than most of its peers.

## Goldman Sachs

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

**Deloitte view** – Goldman Sachs offers a risk-controlled product investing across a range of different categories of bonds and bond like investments.

## LGIM

LGIM continues to grow its business across both the passive management and investment solutions, with no significant changes to the team or processes over the quarter.

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

# 5 Majedie – UK Equity

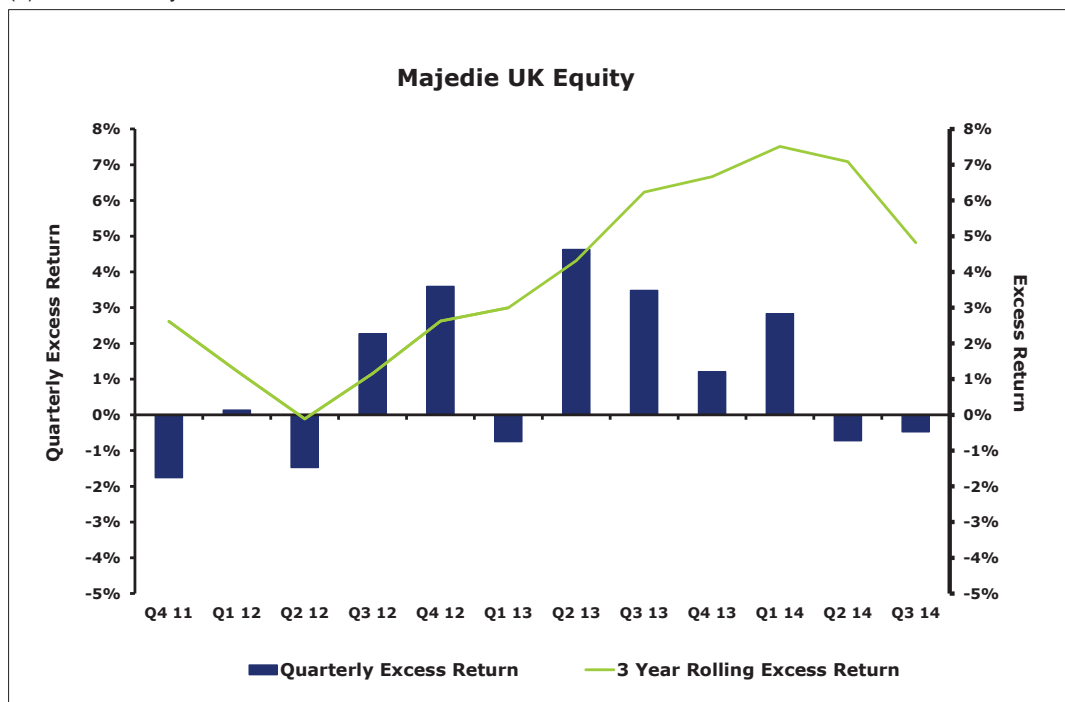
Majedie was appointed to manage an actively managed segregated UK equity portfolio. The manager’s remuneration is a combination of a tiered fixed fee, based on the value of assets and a performance related fee of 20% of the outperformance which is payable when the excess return over the FTSE All Share +2% p.a. target benchmark over a rolling three year period. The investment with Majedie comprises a combination of the UK Equity Fund (no more than 30%), the UK Focus Fund and a holding in Majedie’s long/short equity fund, Tortoise (no more than 10%).

## UK equity – Investment Performance to 30 September 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.) <sup>(1)</sup>	Three Years (% p.a.)	Five Years (% p.a.)
Majedie – Gross of fees	-1.5	9.1	20.1	18.8	13.4
Net of fees <sup>(1)</sup>	-1.5	8.7	19.7	18.4	13.0
Benchmark	-1.0	6.1	12.3	13.9	9.7
Target	-0.5	8.1	14.3	15.9	11.7
Gross performance relative to Benchmark	-0.5	3.0	7.7	4.8	3.7

Source: Northern Trust

(1) Estimated by Deloitte



The underperformance of the UK Equity Fund over the quarter was the main contributor to underperformance. The UK Focus Fund performed in line with benchmark, but the Tortoise Fund returned -3.0% over the quarter, detracting from total performance.

Majedie attributes the underperformance over the quarter within the UK Equity Fund to the poor performance of Tesco in which the Fund had an overweight position with respects to the benchmark, which saw a -34.5% return over the quarter due to a significant profit warning and the revelation of accounting irregularities. Additionally, the overweight position to BP and Glaxosmithkline and underweight position to HSBC and Shire detracted further from relative performance.

## 6 MFS – Overseas Equity

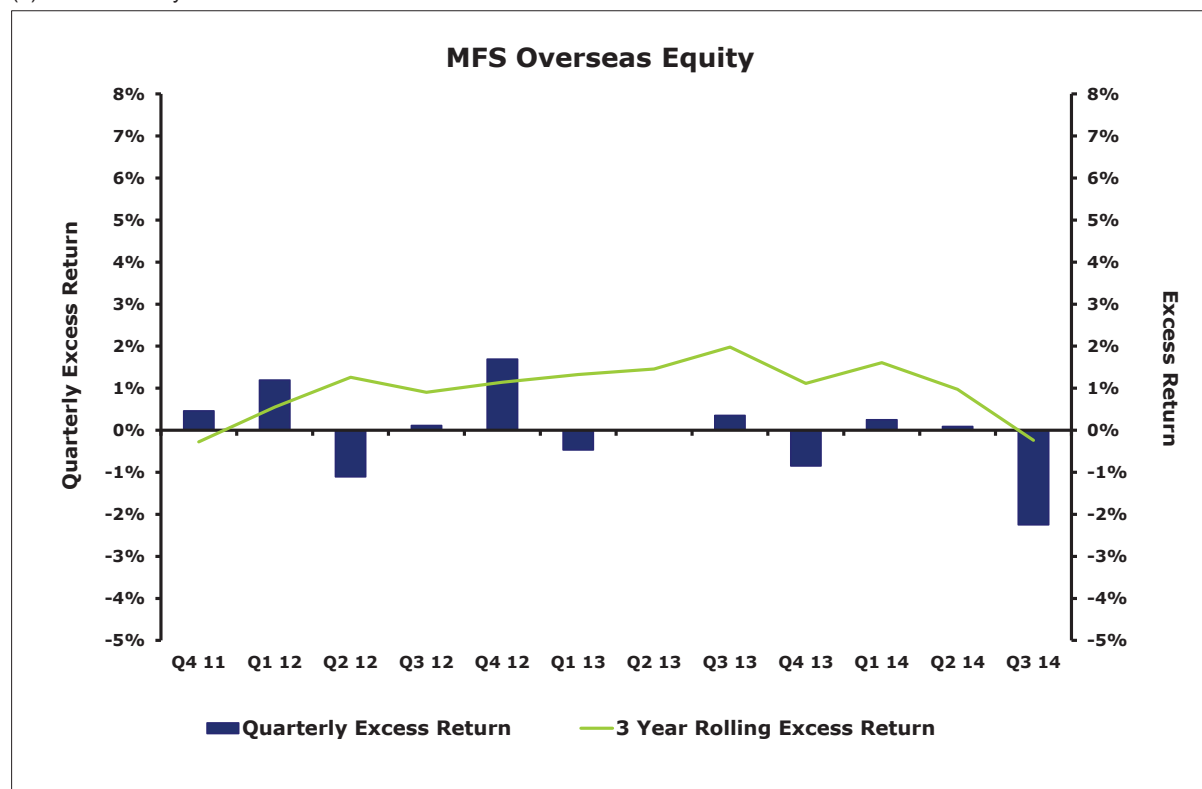
MFS was appointed to manage an overseas equity portfolio with the objective of delivering 2% outperformance on MSCI AC World Growth Ex UK Index benchmark over rolling three year period. The manager is remunerated on a tiered fixed fee based on the value of assets.

### Overseas Equity – Investment Performance to 30 September 2014

	Last Quarter (%)	One Year (%)	Two Years <sup>(1)</sup> (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
MFS – Gross of fees	1.9	9.1	14.0	15.9	11.1
Net of fees <sup>(1)</sup>	1.8	8.7	13.6	15.4	10.6
Benchmark	4.1	12.1	14.6	16.1	10.8
Target	4.6	14.1	16.6	18.1	12.8
Gross performance relative to Benchmark	-2.3	-2.9	-0.6	-0.2	0.3

Source: Northern Trust. Relative performance may not tie due to rounding.

(1) Estimated by Deloitte



The MFS fund underperformed its benchmark by 2.3% and 3.4% over the quarter and one year period respectively to 30 September 2014 net of fees. A third of the underperformance was attributed to sector allocation with overweight positions in industrials and retail, and an underweight position in technology. The remaining underperformance was attributable to being underweight specific Healthcare stocks such as Gilead Sciences Inc, which saw gains due to a new hepatitis C drug, and due to indirect emerging market exposure (estimated at 30% of total portfolio) through holding multinational stocks.

MFS has a growth bias and for the purposes of this analysis is measured against a growth index. While the fund has outperformed its benchmark over the longer term, it has not been able to meet its outperformance target by +2% p.a.

# 7 Barings – Dynamic Asset Allocation

Barings was appointed to manage a dynamic asset allocation portfolio with the aim of outperforming the 3 Month sterling LIBOR benchmark by 4% p.a. The manager has a fixed fee based on the value of assets.

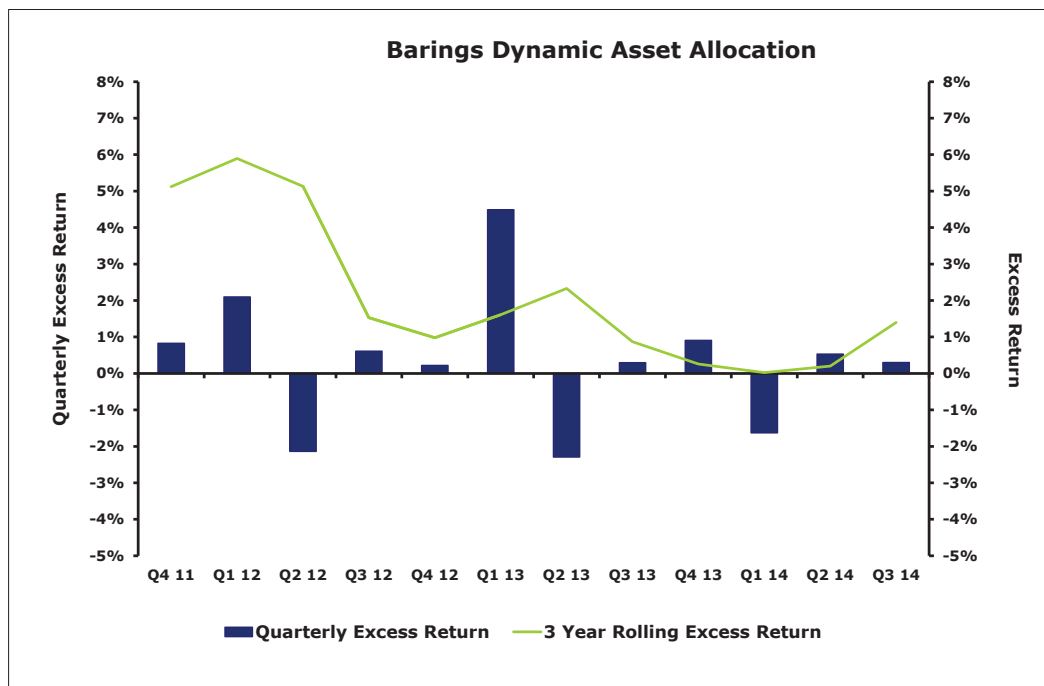
## Investment Performance to 30 September 2014

	Last Quarter* (%)	One Year* (%)	Two Years* (% p.a.)	Three Years* (% p.a.)	Five Years* (% p.a.)
Barings – Gross of base fees	1.0	4.2	5.7	5.9	6.1
Net of fee <sup>(1)</sup>	0.9	3.7	5.2	5.5	5.6
Benchmark	0.7	4.1	4.3	4.5	4.6
Target	0.7	4.1	4.3	4.5	4.6
Gross performance relative to Benchmark	0.3	0.1	1.4	1.4	1.5

Source: Barings. Relative performance may not tie due to rounding

\* Note all performance returns are to 29 August 2014 when assets were disinvested

(1) Estimated by Deloitte



Over the quarter, there were significant personnel changes at Barings, which led to large reductions in assets under management, outlined further in section 4. Due to concerns around future performance, and the possibility of future liquidity constraints from Barings to prevent outflows, the Fund disinvested from Barings with a transfer into the L&G Liquidity Fund on 29 August 2014. The Liquidity fund returned 0.01% in September, in line with the benchmark.

Barings outperformed over the period 30 June 2014 to 29 August 2014, returning 0.9% net of fees against a target return of 0.7%. Over longer periods of three and five years the fund has outperformed its target of LIBOR + 4% by 0.9% and 1.0% p.a. respectively net of fees, helped by the very strong performance in the first quarter of 2013.

# 8 Ruffer – Absolute Return

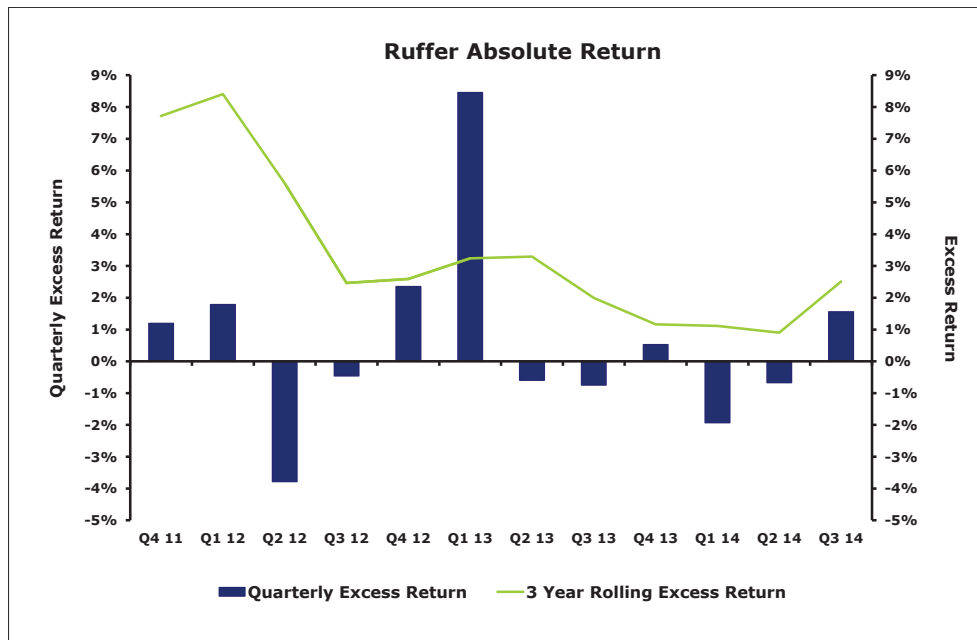
Ruffer was appointed to manage an absolute return mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. The manager has a fixed fee based on the value of assets.

## Investment Performance to 30 September 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.) <sup>(1)</sup>	Three Years (% p.a.)	Five Years (% p.a.)
Ruffer - Gross of fees	2.7	4.0	9.1	7.2	8.0
Net of fees <sup>(1)</sup>	2.5	3.2	8.2	6.4	7.2
Benchmark	1.1	4.6	4.5	4.7	4.7
Target	1.1	4.6	4.5	4.7	4.7
Gross performance relative to Benchmark	1.6	-0.6	4.5	2.5	3.3

Source: Northern Trust. Relative performance may not tie due to rounding.

(1) Estimated by Deloitte



Ruffer outperformed its target by 1.4% over the quarter and underperformed by 1.4% over the one year period to 30 September 2014 net of fees. However, over the longer periods Ruffer has comfortably outperformed its target, mainly due to exceptional performance around the turn of the year 2012/13.

Performance was positive over the quarter as a result of a reversal in the US dollar which more than offset losses incurred year to date, and from further gains from long-dated index linked bonds. Additionally, profits were taken from the long position in options as volatility rose over the quarter.

# 9 Goldman Sachs – Absolute Return Bonds

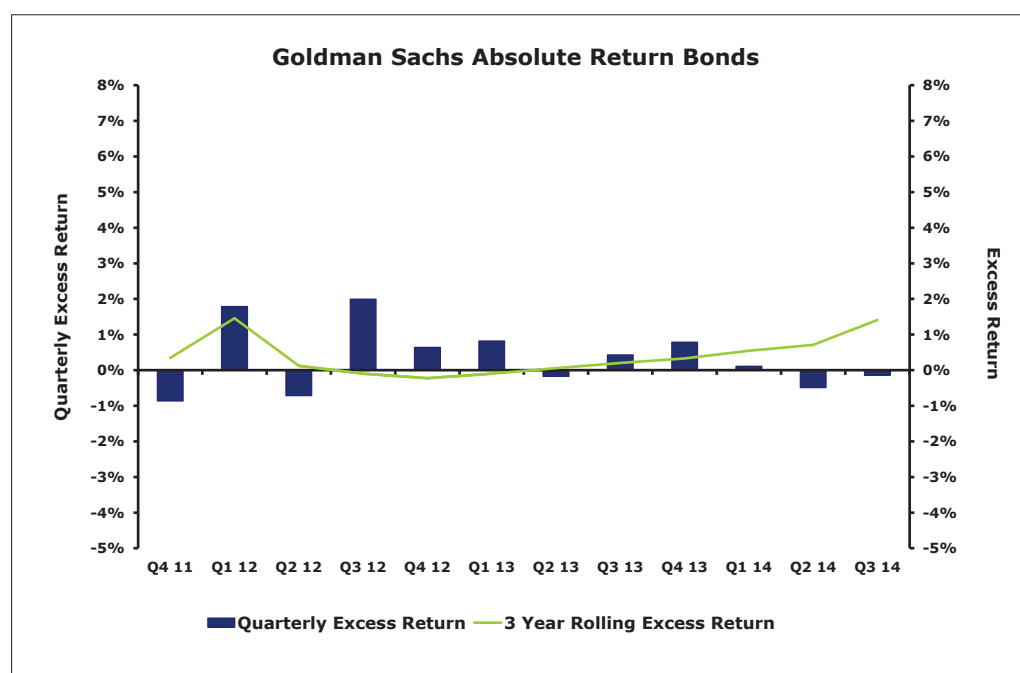
Goldman Sachs was appointed to manage an active bond portfolio with an aim of outperforming the 3 Month Sterling LIBOR by 2% over a rolling three year period. The fees are based on the value of assets invested in the fund.

## Investment Performance to 30 September 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Three Years (% p.a.)	Five Years (% p.a.)
Goldman Sachs – Gross of fees	0.5	2.8	3.5	4.1	3.1
Net of fees <sup>(1)</sup>	0.4	2.4	3.1	3.7	2.6
Benchmark	0.6	2.6	2.5	2.7	2.7
Target	0.6	2.6	2.5	2.7	2.7
Gross Performance relative to Benchmark	-0.1	0.3	1.0	1.4	0.3

Source: Northern Trust. Relative performance may not tie due to rounding.

(1) Estimated by Deloitte



Goldman Sachs underperformed its target by 0.2% over the quarter and year to 30 September net of fees. However, over the three year period, the Fund has performed ahead of its target by 1.0%.

During the quarter the main contributor to performance was the currency strategy where the Fund had a short position to the Swiss franc. The duration strategy remained a significant detractor from performance where Goldman Sachs maintained a short UK and US duration position, which hurt as rates moved lower.

Since the quarter end Goldman Sachs has experienced a difficult month over October with significant losses (-1.3%) mostly arising from the duration strategy. This has since been reduced, to reflect increased volatility in markets and a moderation in the conviction of their view.



# 10 LGIM – LDI Bonds

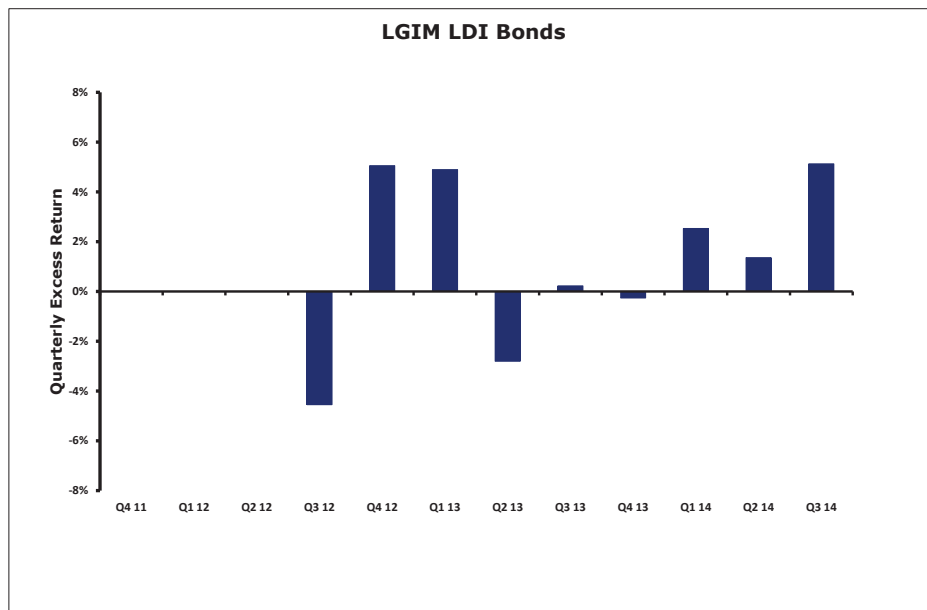
LGIM has a liability matching mandate with the aim of tracking the performance of a leveraged mixture of inflation-linked bonds. Fees are charged based on the value of assets, subject to a minimum fee each year.

## Investment Performance to 30 September 2014

	Last Quarter (%)	One Year (%)	Two Years (% p.a.)	Since Inception 31/03/12 (% p.a.)
LGIM – Gross of fees	12.4	21.3	19.2	11.2
Net of fees <sup>(1)</sup>	12.4	21.1	19.1	11.1
Benchmark	7.3	11.9	11.2	6.7
Gross performance relative to benchmark	5.1	9.5	8.0	4.5

Source: Northern Trust. Relative performance may not tie due to rounding.

(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.

Over the quarter, the portfolio outperformed its measurement benchmark by 5.1% net of fees.

It should be borne in mind that the portfolio has not been rebalanced since it was put in place. The initial structure of the mandate was based on cash flows from the 2010 valuation provided by the previous investment advisor. The current measurement benchmark may no longer be appropriate.

# 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%	MSCI AC World Growth Ex UK index	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
	<b>Total</b>	<b>100.0%</b>	Liability Benchmark + 2.2%	

\* Mandate with Barings was terminated and assets disinvested on 29 August 2014 and transferred to a cash fund with LGIM on a temporary basis.

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 2.2% 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 & Disclosures

- 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.

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Barnett Waddingham

# London Borough of Hammersmith and Fulham Pension Fund

Funding Update Report  
as at 30 September 2014

Graeme D Muir FFA  
Barnett Waddingham LLP

3 November 2014

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## 1. Introduction

- 1.1. We have carried out a quarterly monitoring assessment of the London Borough of Hammersmith and Fulham Pension Fund as at 30 September 2014. The purpose of this assessment is to provide an update on the funding position.
- 1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a 6 month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until 3 months after the reporting date. The smoothed results are indicative of the underlying trend.



## 2. Assets

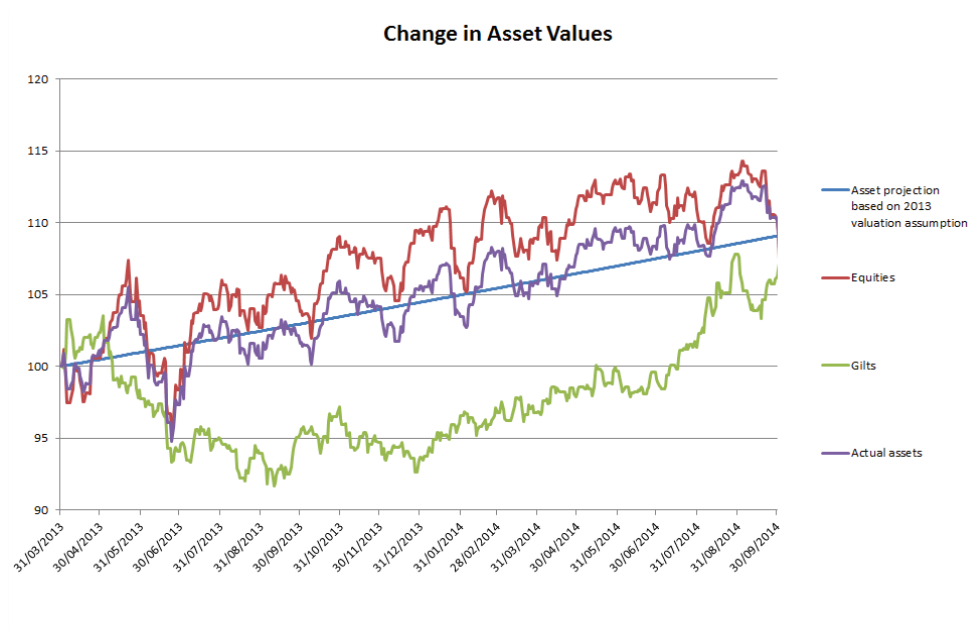
2.1. The estimated (unsmoothed) asset allocation of the London Borough of Hammersmith and Fulham Pension Fund as at 30 September 2014 is as follows:

Assets (Market Value)	30 September 2014		30 June 2014		31 March 2013	
	£000's	%	£000's	%	£000's	%
Absolute Return	68,314	8.6%	195,357	25.1%	191,468	26.4%
Commodities	2,823	0.4%	2,612	0.3%	4,615	0.6%
Hedge Funds	106,707	13.4%	94,918	12.2%	101,396	14.0%
UK and Overseas Equities	438,361	55.2%	440,023	56.4%	390,299	53.9%
Gilts	27,366	3.4%	26,097	3.3%	23,755	3.3%
Cash and Accruals	149,885	18.9%	20,603	2.6%	12,553	1.7%
<b>Total Assets</b>	<b>793,455</b>	<b>100%</b>	<b>779,610</b>	<b>100%</b>	<b>724,086</b>	<b>100%</b>

2.2. The increase in the cash allocation is due to the sale of some absolute return assets close to the valuation date. For the purposes of this interim review we have assumed that the cash proceeds will be reinvested in similar growth assets.

2.3. The investment return achieved by the Fund's assets in market value terms for the quarter to 30 September 2014 is estimated to be 1.9%. The return achieved since the previous valuation is estimated to be 10.2% (which is equivalent to 6.7% per annum).

2.4. The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



2.5. As we can see the asset value as at 30 September 2014 in market value terms is slightly more than where it was projected to be at the previous valuation.

### 3. Changes in Market Conditions – Market Yields and Discount Rates

- 3.1. The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities however is dependent on the assumptions used to value the future benefits payable. The following table shows how these assumptions have changed since the last triennial valuation:

Assumptions (Smoothed)	30 September 2014		30 June 2014		31 March 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	%p.a.		%p.a.		%p.a.	
Pension Increases	2.67%	-	2.74%	-	2.74%	-
Salary Increases	4.47%	1.80%	4.54%	1.80%	4.54%	1.80%
Discount Rate	5.87%	3.20%	5.95%	3.21%	5.96%	3.22%

- 3.2. The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rate is broadly similar as at the 2013 valuation, maintaining the value of liabilities used for funding purposes.

## 4. Summary of Results

4.1. The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 30 September 2014 is 85.6% and the average required employer contribution would be 21.8% of payroll assuming the deficit is to be paid by 2035.
- This compares with the reported (smoothed) funding level of 82.9% and average required employer contribution of 21.9% of payroll at the 2013 funding valuation.

4.2. The discount rate underlying the smoothed funding level as at 30 September 2014 is 5.9% per annum. The investment return required to restore the funding level to 100% by 2035, without the employers paying deficit contributions, would be 6.6% per annum.

4.3. The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

4.4. We would be pleased to answer any questions arising from this report.




**Graeme D Muir FFA**  
**Partner**

## Appendix 1 Financial position since previous valuation

Below we show the financial position on a smoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures for the previous 3 months are projected numbers and likely to change up until 3 months after the reporting date. The Ongoing Cost is the cost of the CARE benefits.

Smoothed									
Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Ongoing Cost (% of Payroll)	Past Service Ctbn	Total Ctbn (% of payroll)	Discount Rate	Return required to restore funding
March 2013	715,915	863,421	(147,506)	83%	13.6%	8.3%	21.9%	6.0%	6.8%
April 2013	723,791	867,688	(143,897)	83%	13.6%	8.1%	21.7%	6.0%	6.8%
May 2013	728,946	868,509	(139,564)	84%	13.6%	7.8%	21.4%	6.0%	6.8%
June 2013	731,739	867,699	(135,960)	84%	13.5%	7.7%	21.1%	6.0%	6.8%
July 2013	735,705	868,567	(132,861)	85%	13.4%	7.5%	20.9%	6.1%	6.8%
August 2013	737,087	868,857	(131,770)	85%	13.3%	7.5%	20.8%	6.1%	6.9%
September 2013	741,569	872,754	(131,185)	85%	13.3%	7.4%	20.8%	6.1%	6.9%
October 2013	746,859	877,215	(130,356)	85%	13.4%	7.4%	20.8%	6.1%	6.8%
November 2013	750,901	877,319	(126,419)	86%	13.3%	7.2%	20.5%	6.1%	6.8%
December 2013	755,725	881,184	(125,459)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
January 2014	760,194	884,185	(123,991)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
February 2014	763,200	887,025	(123,825)	86%	13.3%	7.1%	20.4%	6.1%	6.8%
March 2014	767,141	891,546	(124,405)	86%	13.4%	7.1%	20.5%	6.1%	6.8%
April 2014	774,710	898,649	(123,939)	86%	13.4%	7.3%	20.7%	6.0%	6.8%
May 2014	777,240	903,109	(125,869)	86%	13.5%	7.4%	20.9%	6.0%	6.8%
June 2014	779,486	910,536	(131,049)	86%	13.6%	7.7%	21.4%	6.0%	6.7%
July 2014	786,787	919,151	(132,364)	86%	13.7%	8.0%	21.6%	5.9%	6.7%
August 2014	790,518	923,582	(133,064)	86%	13.7%	8.0%	21.7%	5.9%	6.7%
September 2014	793,688	927,324	(133,636)	86%	13.7%	8.1%	21.8%	5.9%	6.6%

	<b>London Borough of Hammersmith &amp; Fulham</b>
	<b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b> <b>2<sup>nd</sup> December 2014</b>
<b>Treasury Mid-Year Review 2014-15</b>	
<b>Report of the Executive Director of Finance and Corporate Governance</b>	
<b>Open Report.</b>	
<b>Classification: For Information</b>	
<b>Key Decision: No</b>	
<b>Wards Affected: ALL</b>	
<b>Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Services</b>	
<b>Report Author: Halfield Jackman</b> <b>Treasury Management Officer</b>	<b>Contact Details:</b> Tel: 020 7641 4354 E-mail: <a href="mailto:hjackman@westminster.gov.uk">hjackman@westminster.gov.uk</a>

## 1. EXECUTIVE SUMMARY

- 1.1 This report presents the Council's Half Year Treasury Report for 2013/14 in accordance with the Council's Treasury Management Practices. It is a regulatory requirement for this Report to be presented to the Committee.
- 1.2 There are two aspects of Treasury performance – debt management and cash investments. Debt management relates to the Councils borrowing and cash investments to the investments of surplus cash balances. This report covers:
- The Treasury position as at 30<sup>th</sup> September 2014.
  - The Investment Strategy
  - The Borrowing Strategy
  - Compliance with the treasury limits and prudential indicators and
  - The UK economy and interest rates.

The borrowing amounts outstanding and cash investments for the 30<sup>th</sup> September period are as follows:

£million	30 <sup>th</sup> September 2014	31 <sup>st</sup> March 2014	31 <sup>st</sup> March 2013
Total Borrowing	250	251	262
Total Cash Balances	356	320	206

## 2. BACKGROUND

- 2.1 This report presents the Council's Treasury Management Mid Year Report to the 30<sup>th</sup> September 2014 in accordance with the Council's Treasury Management Practice.
- 2.2 The CIPFA Code of Practice on Treasury Management has been adopted by the Council. This Mid Year review has been prepared in compliance with the Code of Practice. The primary requirements of the Code are as follows:
- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
  - Receipt by the full Council of an Annual Treasury Management Strategy Statement, including the Annual Investment Strategy, for the year ahead, a Mid-Year Review Report (this report) and an Annual Report covering activities during the previous year.
- 2.3 Delegation by the Council of the role of scrutiny of Treasury Management Strategy and policies to a specific named body. For this Council the delegated body is the Audit, Pensions and Standards Committee.

## 3. RECOMMENDATIONS

- 3.1 To note the Council's debt, borrowing and investment activity up to the 30<sup>th</sup> September 2014.

#### 4. TREASURY POSITION AT 30<sup>TH</sup> SEPTEMBER 2014

##### Investment

4.1 The table below provides a schedule of the cash deposits, together with comparisons from the year end.

	30 <sup>th</sup> September 2014		31 <sup>st</sup> March 2014	
	Balance £m	Yield (%)	Balance £m	Yield (%)
<b>Overnight access</b>				
Term Deposit (Overnight) <sup>1</sup>	5	0.54	-	-
Money Market Funds (Constant NAV)	22	0.44	39	0.38
<b>Total Liquid Investments</b>	<b>27</b>	<b>0.46</b>	<b>39</b>	<b>0.38</b>
Notice Account	14	0.60	25	0.60
Term Deposit	70	0.64	67	0.78
Custodian Held Assets	245	0.46	189	0.40
<b>Total other Investments</b>	<b>323</b>	<b>0.49</b>	<b>281</b>	<b>0.50</b>
<b>Grand Total</b>	<b>356</b>	<b>0.49</b>	<b>320</b>	<b>0.49</b>

4.2 The Council has £22m invested in two money market funds run by Federated Investors and Goldman Sachs. The funds return between 0.42% to 0.44%, both are rated AAA by at least two of the three main credit rating agencies.

4.3 Custodian Held Assets are highly rated short term investments that are held by Northern Trust. Investments include UK Treasury Bills and bonds issued by Network Rail (Government guaranteed), Transport for London (TfL), European Investment Bank (EIB) and International Bank of Reconstruction and Development (IBRD).

4.4 The weighted average interest rate of return on the investments over the half year was 0.49% (on a per annum basis), with a total interest received of £0.4m.

##### Borrowing

4.5 The borrowing strategy for the year 2014/15 was not to incur any new borrowing and given the prevailing low levels of interest rates, consider voluntary early repayments of borrowing as a way of making more efficient use of funds in the short term.

4.6 The table below shows the Council's external borrowing (as at the 30th September 2014) is £250m split between General Fund and HRA at an average interest rate of 5.42%.

<sup>1</sup> On the 1<sup>st</sup> October a £5 million deposit (six month) with Barclays Bank matured which has been treated as an overnight investment.

	<b>General Fund (£m)</b>	<b>Average rate</b>	<b>HRA (£m)</b>	<b>Average rate</b>	<b>Total external borrowing (£m)</b>	<b>Average Rate</b>
PWLB loans maturity	42.31	5.42%	207.20	5.42%	249.51	5.42%

## **5. ANNUAL INVESTMENT STRATEGY**

- 5.1 Cash management remains in a cautious stance in current economic climate. The Investment strategy for 2014/15 is to place cash investments with institutions as set out in the Treasury Management Strategy, to focus on the security and liquidity of the investments rather than to seek yield. Where security and liquidity criteria are satisfied, investments would then be placed taking yield into account.
- 5.2 During the year to date, cash has been placed with the Barclays Bank, Lloyds, Royal Bank of Scotland and NatWest Bank (part of RBS Group). Four money market funds were also used: Federated Investor, Insight, Goldman Sachs and Blackrock.
- 5.3 The Council also invested in short term Gilts, Treasury Bills and highly rated bonds (such as Network Rail, Transport for London, EIB and IBRD) as allowed under the TMS.
- 5.4 In the current economic climate all new investments are kept short term, and are with high credit rated financial institutions. The Council policy has not changed this year.

## **6. PRUDENTIAL INDICATORS**

- 6.1 During the first six months of the financial year the Council operated within its treasury limits and Prudential Indicators as set out in the Council's Treasury Strategy Report.
- 6.2 As part of the strategy the Council sets a number of prudential limits for borrowing. This position against the prudential indicators for 2014/15 as agreed by the Council in February 2014 is set below.



	<b>2014/15 Limit (£m)</b>	<b>30 September 2014 Actual (£m)</b>
Authorised Limit for external debt <sup>2</sup>	335	249.5
Operational Limit for external debt <sup>3</sup>	290	249.5
Limit of fixed interest rate exposure based on gross debt	335	256.4
Limit of variable interest rate exposure based on gross debt	70	Nil
Principal sum invested >364 days	70	Nil

Maturity structure of borrowing as at 31<sup>st</sup> March 14 is shown below, is designed to be a control over an authority having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Actual as at 31<sup>st</sup> March 2014</b>
Under 12 months	15%	0%	4.41%
12 months and within 24 months	15%	0%	1.11%
24 months and within 5 years	60%	0%	11.52%
5 years and within 10 years	75%	0%	9.8%
10 years and above	100%	0%	73.16%

## **7. THE ECONOMY AND INTEREST RATES**

- 7.1 The International Monetary fund cut global growth forecasts in October but maintained previous forecasts for UK growth of 3.2% for 2014 and 2.7% for 2015.
- 7.2 The minutes for the July Monetary Policy Committee (MPC) showed a 7 – 2 voting pattern to keep rates on hold. This was the first time in three years that there has been a split in the voting pattern. Despite current low wage growth the dissenters felt that that rapidly falling unemployment made it more likely that salaries will rise in the coming months and a rise of 0.25% keeps monetary policy “extremely supportive”. The latest minutes for the September meeting showed a consistent 7-2 voting pattern.
- 7.3 The MPC has kept bank rate at 0.5 per cent throughout the period while quantitative easing has remained at £375 billion. Consumer price inflation has remained benign, ranging between 1.5% and 1.9% for the period.
- 7.4 The Federal Reserve (Fed) decreased the quantitative easing program throughout 2014. The program is due to end at the end of October. The Fed has kept benchmark federal funds rate at 0% since the end of 2008.

<sup>2</sup> Authorised limit for external debt is the limit above which external debt must not go without changing Council Policy.

<sup>3</sup> Operational boundary for external debt is the limit against which external debt will be constantly monitored.

- 7.5 The US unemployment rate fell to 5.9% in September, a six year low. Many economists see the job data as the key gauge of US economic health which could lead to the Fed increasing interest rates sooner rather than later.
- 7.6 In an attempt to spur economic growth, The European Central Bank (ECB) cut its benchmark rate to 0.05% from 0.25% and also became the first major central bank to introduce a negative interest rate on bank reserves. The benchmark rate determines what banks charge companies for credit and the reserve rate is what the ECB pays banks to keep deposits with them.
- 7.7 The ECB launched an asset purchase programme in September to buy debt products from banks. The move falls short of full scale quantitative easing and illustrates the difficulty of implementing policy across all European States.
- 7.8 The longer run trend for Public Works Loan Board (PWLB) borrowing rates is for them to eventually rise, primarily due to the need for a high volume of gilt issuance in the UK and the high volume of debt issuance in other major western countries. However, the current safe haven status of the UK may continue for some time, tempering any increase in yield.

## **8 CAPITAL FINANCING REQUIREMENT**

- 8.1 Appendix A reports the CFR projections for the General Fund for the first 2 quarters of 2014/15.

## **9. EQUALITY IMPLICATIONS**

- 9.1 There are no equality implications as a result of this report.

## **10. FINANCE AND RESOURCES IMPLICATIONS**

- 10.1 The comments of the Director of Finance and Corporate Services are contained within this report.

## **11. LEGAL IMPLICATIONS**

- 11.1 There are no direct legal implications for the purpose of this report.

## **12. RISK MANAGEMENT**

- 12.1 There are no direct risk management implications as a result of this report.

## **13. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

- 13.1 There are no procurement or IT strategy implications as a result of this report.

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

No.	Description of Background Papers	Name/Ext of File/Copy	Department/Location
1	Borrowings and Investment spread sheets	Halfield Jackman 0207 641 4354	Westminster City Hall, Treasury and Pensions, 16 <sup>th</sup> Floor

Appendix A

### **Capital Financing Requirement**

At as at Q2 2014/15, General Fund debt - as measured by **the Capital Financing Requirement (CFR)** - was forecast to be **£66.2m** by the end of the financial year. The four-year forecast indicates that the CFR will reduce to £43.2m by 2017/18.

There is no revenue incentive to reduce the CFR below £43.2m as Minimum Revenue Payments (MRP) are not payable below this point.


This forecast is based on an assumption that capital receipts continue to be generated via the asset disposal programme and that surplus receipts are used to pay-down debt.

### **Forecast Movement in the Capital Financing Requirement (CFR) at Q2 201415**

	2014/15 £m	2015/16 £m	2016/17 £m	2017/18 £m
Opening Capital Financing Requirement (CFR)	74.2	66.2	52.1	43.2
Revenue Repayment of Debt (MRP)	(1.2)	(0.9)	(0.4)	-
Annual (Surplus) in Capital Programme	(6.7)	(13.2)	(8.5)	-
<b>Closing CFR</b>	<b>66.2</b>	<b>52.1</b>	<b>43.2</b>	<b>43.2</b>
Associated Revenue Savings assumed in MTFS*	1.3	1.9	2.5	2.7

\*Savings arising from both the reduction of MRP and the external interest saved on loans maturing and not being refinanced.

# Agenda Item 6

 the low tax borough	<b>London Borough of Hammersmith &amp; Fulham</b>  <b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b>  <b>2<sup>nd</sup> December 2014</b>
<b>ANNUAL AUDIT LETTER 2013/14</b>	
<b>Report of the Executive Director of Finance and Corporate Governance</b>	
<b>Open Report</b>	
<b>Classification</b> - For Information	
<b>Key Decision:</b> - No	
<b>Wards Affected:</b> All	
<b>Accountable Executive Director:</b> Jane West, Executive Director of Finance and Corporate Governance	
<b>Report Author:</b> Christopher Harris, Head of Corporate Accountancy and Capital	<b>Contact Details:</b> Tel: 020 (8753 6440) E-mail: (christopher.harris@lbhf.gov.uk)

## 1. EXECUTIVE SUMMARY

- 1.1. KPMG, as the Council's external auditor, have issued their Annual Audit Letter. The letter – which is appended to this report - confirms that the Council's 2013/14 accounts received an unqualified opinion on 19<sup>th</sup> September. The 2013/14 audit is now certified as concluded. The letter also summarises the findings of the 2013/14 audit which were previously presented to the Committee in September 2014. It further reports that the audit fee for 2013/14 was £239,600, in line with the Audit Commission's scale fee.

## 2. RECOMMENDATIONS

- 2.1. To note the contents of auditor's letter.

## 3. REASONS FOR DECISION

- 3.1. Not applicable.

**4. EQUALITY IMPLICATIONS**

4.1. Not applicable.

**5. LEGAL IMPLICATIONS**

5.1. Not applicable.

**6. FINANCIAL AND RESOURCES IMPLICATIONS**

6.1. Not applicable.

**7. RISK MANAGEMENT**

7.1. Not applicable

**8. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

8.1. Not applicable.

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

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

**LIST OF APPENDICES:**

Appendix 1 – KPMG Annual Audit Letter 2013/14



*cutting through complexity™*

# Annual Audit Letter 2013/14

London Borough of Hammersmith and  
Fulham

October 2014



The contacts at KPMG  
in connection with this  
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- Headlines

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### Appendices

1. Summary of reports issued

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2. Audit fees

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the 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](mailto: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, 3<sup>rd</sup> Floor, Fry Building,

2 Marsham Street, London, SW1P 4DF or by email to [complaints@audit-commission.gsi.gov.uk](mailto:complaints@audit-commission.gsi.gov.uk). Their telephone number is 0303 4448 330.

This report summarises the key findings from our 2013/14 audit of the London Borough of Hammersmith and Fulham (the Council). Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Council's 2013/14 financial statements and the 2013/14 VFM conclusion.

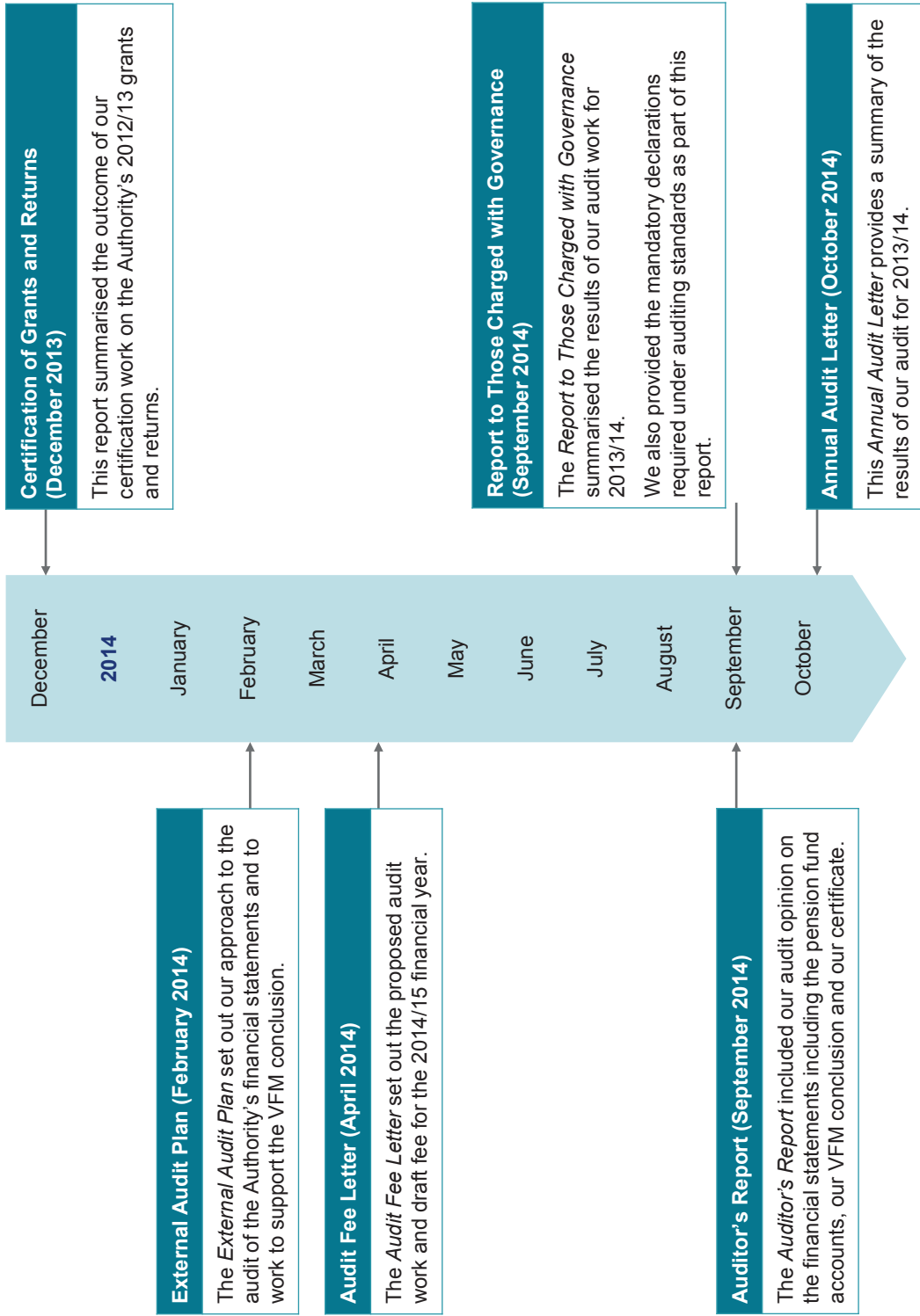
All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 1.

<b>Audit opinion</b>	We issued an unqualified opinion on your financial statements on 19 September 2014. This means that we believe the financial statements give a true and fair view of the financial position of the Council and of its expenditure and income for the year. The financial statements also include those of the pension fund.
<b>VFM conclusion</b>	We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2013/14 on 19 September 2014. 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.
<b>Financial statements audit</b>	Our audit identified two audit adjustments with a value of £137.9m. The impact of these adjustments was to increase the net worth of the Authority as at 31 March 2014 by £137.9m. There was no impact on the General Fund. The Council made a small number presentational changes.
<b>Annual Governance Statement</b>	We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.
<b>Pension fund audit</b>	There were no significant issues arising from our audit of the pension fund.
<b>Whole of Government Accounts</b>	We reviewed the consolidation pack which the Council 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.
<b>High priority recommendations</b>	We raised no high priority recommendations as a result of our 2013/14 audit work. We raised one medium priority recommendation for which implementation has been agreed with management.
<b>Certificate</b>	We issued our certificate on 19 September 2014. The certificate confirms that we have concluded the audit for 2013/14 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> .
<b>Audit fee</b>	Our fee for 2013/14 was £239,600 excluding VAT. This is in line with the Audit Commission's scale fee for the audit of the Council and Pension Fund financial statements. 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*.



This appendix provides information on our final fees for 2013/14.

To ensure openness between KPMG and your Audit, Pensions and Standards Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2013/14 planned audit fee.

**External audit**

Our final fee for the 2013/14 audit of the Council was £239,600 excluding VAT. This was an increase of £2,600 on the original planned fee because of an increase in the Audit Commission's Scale Fee. The reason for this increase was audit work in respect of information contained in the NNDR return which was previously undertaken as part of grant certification work. The requirement to certify the LA01 NNDR return was removed in 2013/14.

The total fee includes £21,000 in respect of the audit of the Pension Fund accounts.

**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 2013/14* which we are due to issue in January 2015.



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# Agenda Item 7

 hammersmith & fulham	<b>London Borough of Hammersmith &amp; Fulham</b>  <b>(AUDIT, PENSIONS AND STANDARDS COMMITTEE)</b>  <b>(2 December 2014)</b>
<b>TITLE OF REPORT</b>	
<b>Annual Governance Statement Action Plan and Outstanding Recommendations for External Audit.</b>	
<b>Open Report</b>	
<b>For Information</b>	
<b>Key Decision: No</b>	
<b>Wards Affected: None</b>	
<b>Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance</b>	
<b>Report Author: Geoff Drake – Senior Audit Manager</b>	<b>Contact Details:</b> Tel: 020 753 2529 E-mail: <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a>

## 1. EXECUTIVE SUMMARY

- 1.1. This report summarises Progress on implementing recommendations arising from the KPMG 'Report to those charged with governance (ISA 260) 2013/14' and the Annual Governance Statement.

## 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 2014 the Council's External Auditors (KPMG) issued their 'Report to those charged with governance (ISA 260) 2013/14'. The report contained one recommendation for implementation by management.
- 4.2. The Council's 2013/14 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 issue would increase the exposure of the council to risk. As these issues are considered to be significant, the action plans and the progress made in implementation will be periodically reported to the Audit, Pensions and Standards Committee to agree and then to monitor progress.

## **5. PROPOSAL AND ISSUES**

### **5.1. Update on External Audit recommendations**

- 5.1.1. The table attached as Appendix A shows the progress reported by the responsible managers in implementing the recommendation from the KPMG 'Report to those charged with governance (ISA 260) 2013/14'. 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. Update on Annual Governance Statement recommendations**

- 5.2.1. The table attached as Appendix B shows the progress reported by the responsible managers in implementing recommendations from the 2013/14 Annual Governance Statement. An action plan and progress update has been received from Public Health and reports that 7 out of 8 actions have been implemented and 1 is in progress. An action plan and progress update has been provided for ASC Risk Management and confirms that all 8 actions have been implemented.
- 5.2.2. 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.

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

- 6.1. Not applicable

**7. CONSULTATION**

7.1. Not applicable

**8. EQUALITY IMPLICATIONS**

8.1. Not applicable

**9. LEGAL IMPLICATIONS**

9.1. Not applicable

**10. FINANCIAL AND RESOURCES IMPLICATIONS**

10.1. Not applicable

**11. RISK MANAGEMENT**

11.1. Not applicable

**12. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

12.1. Not applicable

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

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
1.	External Audit and AGS recommendations progress updates	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	Annual Governance Statement Recommendations

**External Audit Recommendations Update**

Recommendation/Areas of Improvement	Initial response and timescale	Responsible Officer	Update to Audit, Pensions and Standards Committee
<i>Report to those charged with governance (ISA 260) 2013/14</i>			
<p><b>R1 - Valuation Methodology</b>            Three issues were identified in relation to the Authority's approach to the year end valuation of PPE. There are three points of improvement to be considered:</p> <ol style="list-style-type: none"> <li>1. The date at which the valuation is performed and need to ensure any subsequent movements are considered.</li> <li>2. The consistency of the valuation of a class of asset where the valuation methodology is updated.</li> <li>3. The inclusion of current year capital additions as part of the valuation programme.</li> </ol> <p>We recommend that the methodology in the above areas is revisited and changes adopted ahead of the next reporting period.</p>	<p>The recommendation is agreed.</p> <p>The methodology for valuing PPE will be reviewed and changes adopted, as appropriate, ahead of the next reporting period. Any change to the methodology will be developed in concert with the Council's internal and external valuers. The Council will also consult with External Audit concerning any change.</p>	<p>Bi-Borough Director of Finance</p>	<p>As per the original response, The methodology for valuing PPE will be reviewed and changes adopted by December 2014.</p>




**2013/14 Annual Governance Statement Action Plan**

Entry	Responsible Officer	Action Plan	Progress To date
<p><b>Public Health, financial accounting and charging.</b>                      As of the 1st April 2013 local authorities have a key role in improving the health and wellbeing of their local population and working in partnership with clinical commissioning groups and other health institutions. This involves commissioning and collaborating on a range of public health services. A review of the financial accounting and charging arrangements set out by the Department of Health (DoH) established a limited assurance on expenditure made in accordance with the DoH grant conditions. The conditions cover how the grant may be spent and the activities on which it may be spent. The current Business Partners, with the assistance of the Business Support Team, have been making significant progress with addressing these issues.</p>	<p>Business Partner - Public Health</p>	<ol style="list-style-type: none"> <li>1. Continue to review the processes in place to ensure that they are understood and clearly documented.</li> <li>2. Recharges calculated by the Business Partner subject to review by the Lead Business Partner.</li> <li>3. All recharge invoices raised and paid in a timely manner. Any disputed costs investigated with a clear audit trail maintained to support this. Where payment remains outstanding this will be escalated to the respective borough's chief executive officer</li> <li>4. Action plan put in place to ensure that any outstanding invoices can be processed in a timely manner and prior to the end of the financial year. To draw on expertise from other areas of the organisation to support this and to ensure that all staff with responsibility for processing payments are both competent and confident when undertaking their duties.</li> <li>5. Approval of virements in accordance with the respective Borough's Financial Regulations with a clear audit trail maintained.</li> <li>6. budget information packs and supporting data for LBHF and RBKC should be saved in a secured shared area on the network with access restricted.</li> <li>7. Management information reviewed in terms of format and content to ensure that adequate information is being provided.</li> <li>8. an estimated figure for unspent funding will be established which is not to be exceeded in order to ensure that the grant conditions for carrying forward any underspend are met.</li> </ol>	<ol style="list-style-type: none"> <li>1. Implemented</li> <li>2. Implemented</li> <li>3. Implemented</li> <li>4. In Progress. The total outstanding of outstanding invoices has reduced significantly.</li> <li>5. Implemented</li> <li>6. Implemented</li> <li>7. Implemented</li> <li>8. Implemented</li> </ol>

Entry	Responsible Officer	Action Plan	Progress To date
<p><b>Adult Social Care risk management.</b> Management of risk is intrinsically important to the successful delivery of objectives. The department recognises the importance of a risk management process that are embedded and integrated into business processes. Many elements of operational risk management are considered to be effective however these are not managed within a structure that is consistent with the Tri-borough risk management strategy. These include consideration of a departmental risk register comprising strategic, business as usual and change risks that are measured, allocated, categorised and reviewed. Departmental procedures have been reviewed and an action plan implemented to improve the issues identified.</p>	TBC	<p>Develop new ASC tri borough risk management and policy and guidance which meets the requirements of the:</p> <ul style="list-style-type: none"> <li>i) external audit and</li> <li>ii) Tri borough Risk management Guidelines.</li> </ul> <p>Implement the new approach by June 2014.</p> <p>Improve the culture of risk management in ASC tri borough and embed into routine business. Ensure all managers are aware of the new policy and their roles in relation to risk management.</p> <p>Ensure there are clear controls in place, that risks are identified and managed effectively, and that appropriate mitigating actions are identified and evaluated.</p> <p>Implement a common and robust system to enable risk to be rated for impact and likelihood of occurrence.</p> <p>Ensure a dynamic risk register is maintained using a common methodology and that new risks are identified and existing risks reviewed at an appropriate frequency.</p> <p>Ensure that risk register includes detail on independent assurance and controls relied on from third parties and other Council service lines, such as Health and Safety, Fraud, Procurement, and IT functions.</p> <p>Ensure that Management reporting requirements have been clearly identified in the new approach.</p>	<p>ASC tri borough risk management policy developed and agreed by ALTT (February 2014).</p> <p>Training and awareness raising programme delivered including Lunch and Learn sessions for all managers, practical presentations and exercises for all management boards. (Feb to Jun 2014),</p> <p>Policy fully implemented from (30 June 2014).</p> <p>A dedicated section of ASC TriB Net was launched including policy and guidance; copies of presentation; new Triborough Corporate Risk Policy (February 2014)</p> <p>ASC approach to risk management now ensures that from June 2014:</p> <ul style="list-style-type: none"> <li>• ALTT reviews and signs off the risk register on a quarterly basis.</li> <li>• All risks are 'owned' and reviewed by a named ASC management board.</li> <li>• All risks have a responsible ALTT lead and named risk manager.</li> <li>• Named ASC management boards have the responsibility to identify and rate new risks as they emerge.</li> <li>• Each ASC management board is responsible for maintaining and reviewing a dynamic live risk register. Reviews will occur as required but at a minimum on a quarterly basis.</li> <li>• Due to the complexity and inter related nature of the change programme in ASC, the change portfolio risks are reviewed on a c. monthly basis.</li> <li>• The risk manager is responsible for the dynamic update of information about the changing nature of the risk, including impact of mitigations etc</li> </ul>

# Agenda Item 8

	<b>London Borough of Hammersmith &amp; Fulham</b>  <b>(AUDIT, PENSIONS AND STANDARDS COMMITTEE)</b>  <b>(2 December 2014)</b>
<b>TITLE OF REPORT</b>	
<b>Internal Audit Quarterly report for the period 1 July to 30 September 2014</b>	
<b>Open Report</b>	
<b>For Information</b>	
<b>Key Decision: No</b>	
<b>Wards Affected: None</b>	
<b>Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance</b>	
<b>Report Author: Geoff Drake – Senior Audit Manager</b>	<b>Contact Details:</b> Tel: 0208 753 2529 E-mail: <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a>

## 1. EXECUTIVE SUMMARY

- 1.1. This report summarises internal audit activity in respect of audit reports issued during the period 1 July to 30 September 2014 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 July to 30 September 2014 as well as reporting on the performance of the Internal Audit service for the 2014/15 financial year.
- 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 limited or nil assurance reports have not been appended to this report. However, this information has been made available to all members separately. A précis of all limited assurance reports is also now provided at Appendix D for the information of members.

## **5. PROPOSAL AND ISSUES**

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

- 5.1.1. The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found internal audit will propose solutions to management to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner
- 5.1.2. A total of 17 audit reports were finalised in the second quarter of 2014/2015 from 1 July to 30 September. In addition two tri-borough audit reports delivered by the Westminster CC and RBKC audit services are being reported, both of which had a limited audit assurance opinion. One management letter was also issued.
- 5.1.3. A summary of each of the limited assurance reports is provided at Appendix D. Two of the limited audit reports were issued in this period: Jack Tizard School and Managed Services Programme (MSP) High Level Review of Controls.
  - 5.1.3.1. Jack Tizard School made 1 High and 6 medium priority recommendations, none of which are due at the time of writing.
  - 5.1.3.2. MSP High Level review was reported to the September Committee and made 4 high priority and 3 medium priority recommendations. 4 recommendations have been reported as implemented and 3 remain outstanding (1 high priority and 2 medium priority).
- 5.1.4. A review of the Managed Services Programme System and User Acceptance Testing was undertaken with the interim report being issued in October 2014. In order to provide timely information to Committee members we have included information in this report. A

Limited assurance opinion report was issued with 1 high priority and 4 medium priority recommendations being raised. While a total of 5 recommendations for potential improvement were identified and agreed with management in the course of this audit, the Limited Assurance status of the control environment reflects the normal condition of a complex business transformation change programme and system implementation at this stage of its development and delivery cycle.

- 5.1.5. The remaining 2 limited assurance audits, Public Health Governance and Total Facilities Management, had been issued previously and are now being reported to this Committee.
- 5.1.6. 4 Follow-ups were undertaken in the period: Health and Safety Risk Management; Housing Capital Management Programme; St Paul's CE Primary School; and Regeneration Governance. The majority of the 27 recommendations were found to be implemented with 5 recommendations found to be partly implemented. The results of our follow ups can be found in Appendix A
- 5.1.7. The Internal Audit department works with key departmental contacts to monitor the number of outstanding draft reports and the implementation of agreed recommendations.
- 5.1.8. 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 no reports outstanding at the time of writing.
- 5.1.9. There are now 8 audit recommendations made since 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 5 outstanding as reported at the end of the previous quarter and represents a slight deterioration. We continue to work with departments and HFBP to reduce the number of outstanding issues.
- 5.1.10. The breakdown of the 8 outstanding recommendations between departments are as follows:
  - Adult Social Care - 3
  - Children's Services (Non Schools) – 3
  - Corporate Services – 1
  - Corporate Services (IT) - 1
- 5.1.11. 3 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. Management have confirmed that two of the recommendations raised in the iWorld Application Audit will not be fully implemented. The risk of not implementing these recommendations is accepted by management. The recommendations can be found in appendix C.

5.1.13. The table below shows the number of audit recommendations raised each year that have been reported as implemented. This helps to demonstrate the role of Internal Audit as an agent of change for the council.

2012/13 year audit recommendations past their implementation date that have been implemented.	249 recommendations implemented
2013/14 year audit recommendations past their implementation date that have been implemented.	215 recommendations implemented
2014/15 year audit recommendations past their implementation date that have been implemented.	29 recommendations implemented

## 5.2. Internal Audit Service

5.2.1. Part of the CIA's function is to monitor the quality of Mazars' work. Formal monthly meetings are held with the Mazars 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 2014/15 financial year.

### Performance Indicators 2014/15

Ref	Performance Indicator	Target	Pro rata target	At 30 September 2014	Variance	Comments
1	% of deliverables completed	95%	48%	45%	-3%	38 deliverables issued out of a total plan of 85
2	% of planned audit days delivered	95%	48%	46%	-2%	441 days delivered out of a total plan of 957 days
3	% of audit briefs issued no less than 10 working days before the start of the audit	95%	95%	100%	0%	13 out of 13 briefs issued more than ten working days before the start of the audit.
4	% of Draft reports issued within 10 working days of exit meeting	95%	95%	92%	-3%	22 out of 24 draft reports issued within 10 working days of exit meeting
5	% of Final reports issued within 5 working days of the management responses	95%	95%	100%	0%	9 out of 9 final reports issued within 5 working days.

## 5.3. Audit Planning

5.3.1. Amendments to the 2014/15 year Internal Audit plan agreed by the Committee are shown at Appendix B.

## 6. OPTIONS AND ANALYSIS OF OPTIONS

6.1. Not applicable

## 7. CONSULTATION

7.1. Not applicable

## 8. EQUALITY IMPLICATIONS

8.1. Not applicable

## 9. LEGAL IMPLICATIONS

9.1. Not applicable

## 10. FINANCIAL AND RESOURCES IMPLICATIONS

10.1. Not applicable

## 11. RISK MANAGEMENT

11.1. Not applicable



## 12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. Not applicable

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

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

#### LIST OF APPENDICES:

Appendix A	Audit reports issued 1 July to 30 September 2014
Appendix B	Amendments to 2014/15 Internal Audit Plan
Appendix C	Recommendations Not Implemented By Management
Appendix D	Summary of Limited Assurance Reports

## APPENDIX A

### Audit reports Issued 1 July to 30 September 2014

We have finalised a total of 17 audit reports for the period to 1 July to 31 September 2014. In addition, we have issued a further 1 management letter and 4 follow ups were completed in the period.

In order to provide timely information for the Committee our review of Managed Services System and User Acceptance Testing has also been included in this quarterly report (No. 18).

#### 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	Executive Director	Audit Assurance
1	2013/14	Leasehold Service Charges	Mel Barrett	Satisfactory
2	2013/14	Adult Learning	Mel Barrett	Satisfactory
3	2013/14	HRD Risk Management	Mel Barrett	Satisfactory
4	2013/14	ASC Commissioning and Procurement	Liz Bruce	Satisfactory
5	2013/14	Waste Disposal	Lyn Carpenter	Satisfactory
6	2013/14	ELRS Programme and Project Management	Lyn Carpenter	Substantial
7	2014/15	SERCO Contract Management	Lyn Carpenter	Satisfactory
8	2013/14	Jack Tizard School	Andrew Christie	Limited
9	2014/15	Queens Manor Primary	Andrew Christie	Satisfactory
10	2014/15	St Peters CE Primary School	Andrew Christie	Satisfactory
11	2014/15	Normand Croft Community School	Andrew Christie	Satisfactory
12	2014/15	Randolph Beresford Early Years Centre	Andrew Christie	Satisfactory
13	2013/14	Property Disposals	Nigel Pallace	Satisfactory
14	2013/14	Section 106 Funding	Nigel Pallace	Satisfactory
15	2013/14	Information Management and Document Sharing	Jane West	Satisfactory
16	2013/14	Corporate Governance	Jane West	Satisfactory
17	2014/15	MSP High Level Review of Controls*	Jane West	Limited
18	2014/15	MSP System and User Acceptance Testing	Jane West	Limited
19	2013/14	Public Health Governance	Meradin Peachey	Limited
20	2013/14	Total Facilities Management	Nigel Pallace	Limited

\* Also reported to September 2014 Committee meeting.

#### **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**

Control is generally weak, leaving the system open to significant error or

**Assurance** 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
19	2014/15	Invoice Processing	Jane West

### Follow ups

No.	Audit Plan	Audit Title	Implemented	Partly Implemented	Not Implemented	Not Applicable
20	2014/15	Health and Safety Risk Management	7	2	0	0
21	2014/15	Housing Capital Management Programme	7	0	0	0
22	2014/15	St Pauls CE Primary School	6	0	0	0
23	2014/15	Regeneration Governance	1	3	0	1

## Amendments to 2014/15 Audit Plan

	<b>Department</b>	<b>Audit Name</b>	<b>Nature of Amendment</b>	<b>Reason for amendment</b>
1	Environment Leisure and Residents Services	Markets (Bi Borough)	Removed	Transferred to RBKC audit plan.

### Recommendations Not Implemented By Management

Management have advised that they will not be fully implementing the recommendation listed below and that they accept the risk of not doing so.

Ref	Audit year	Department	Audit Name	Assurance	Recommendation	Priority (1/2/3)	Responsible Officer	Reason for non-implementation
1	2013/14	Housing and Regeneration	iWorld Application	Satisfactory	Audit log reporting should be developed to report on unsuccessful attempts at user access and the reports periodically monitored.	2	Application Support Team Manager	<p>The software provider, Northgate, has confirmed that they will not be implementing an audit log facility for the iWorld Application in the near future.</p> <p>We have been advised that there a further control in that an audit log is maintained for network access and to gain access to iWorld someone would need to come in via that route and would appear on that log</p>
2	2013/14	Housing and Regeneration	iWorld Application	Satisfactory	Management should review input data validation and input controls on the application to ensure only valid data can be entered. For example, a range check on the 'Age' field should be implemented in order to restrict records being created for underage persons as well as parents being younger than their children.	2	Application Support Team Manager	<p>The software provider, Northgate, has confirmed that they will not be implementing further data validation controls in the iWorld Application in the near future.</p> <p>We have been advised that this risk is also managed by other means such as exception reporting.</p>

### Summary of Limited Assurance Reports

Ref	Audit and Scope	Details	Assurance Risk /
1	<p><b>Jack Tizard School</b></p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> <li>• Governance and Leadership;</li> <li>• Financial Management;</li> <li>• Procurement;</li> <li>• Staff Expenses and Petty Cash;</li> <li>• Income;</li> <li>• Payroll;</li> <li>• Head Teacher's Pay;</li> <li>• Assets and Inventory;</li> <li>• Leasing; and</li> <li>• Unofficial Funds.</li> </ul>	<p>Hammersmith &amp; Fulham standard schools audits are carried out using an established probity audit programme. Audits are currently undertaken on a three year cycle unless issues dictate a more frequent review. The programme is designed to audit the main areas of governance and financial control. The programme's standards are based on legislation, the Scheme for Financing Schools and accepted best practice. The purpose of the audit is to help schools establish and maintain robust financial systems.</p> <p>One High and six medium priority recommendations were raised. The Principle recommendations were as follows:</p> <ul style="list-style-type: none"> <li>• A purchase order should be raised and authorised by a senior officer prior to placing the order with the supplier. Goods and services received checks should be conducted and evidenced. Invoices should be authorised for payment by a senior officer and evidenced. Invoices should be paid within 30 days of receipt of the invoice unless there are valid reasons for non payment. Where applicable, these reasons should be noted on the invoice.</li> <li>• Before paying invoices to self-employed individuals, the School should confirm the status of the person by completing a tax questionnaire. If there is any doubt, the person must be paid through the payroll.</li> <li>• Payroll monitoring reports should be retained on file and signed as evidence of review. The error identified should be investigated to establish if there is an underlying issue with the payroll reports.</li> <li>• There should be a segregation of duties between the Officer maintaining the asset register and conducting the asset check.</li> <li>• Bank reconciliations of the School Fund Account should be undertaken on a monthly basis and be subject to review by a second senior officer. Reconciliations should be signed as evidence of review. At the end of the year, the School Fund accounts should be audited by an appropriate external auditor. A copy of the accounts, together with the auditor's report, should be presented to the Governor's meeting or the Finance Committee.</li> </ul> <p>All recommendations were accepted by management for implementation by February 2015.</p>	Limited

Ref	Audit and Scope	Details	Assurance Risk /
2	<p><b>Managed Services Programme - High Level Review of Controls</b></p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> <li>• Governance</li> <li>• Implementation Planning</li> <li>• Security</li> </ul>	<p>This audit was undertaken to assess the adequacy of the high level controls established and applied to the Managed Services Programme that involves implementing the Agresso Business World Enterprise Resource Planning (ERP) solution across the Tri-Borough estate. The internal audit assessment was completed in May 2014 during the Lot 1 delivery stage.</p> <p>Three high and four medium priority recommendations were raised. The Principle recommendations were as follows:</p> <ul style="list-style-type: none"> <li>• Cabinet should be updated for their approval of the new total MSP cost position. Accountability and transparency for reporting on the status and clarity of all issues that impact on the MSP financial management position should be improved by separating the responsibility for risk/issue ownership from the responsibility for risk/issue mitigation.</li> <li>• All MSP Delivery, Dependency and Assumptions Log records should be incorporated within a standard RAID reporting framework for the impact of work stream activity inter dependencies and to enable potential gaps to be clearly mapped and understood. (E.g. the impact of build delivery delays on all other MSP work streams) Once a standard RAID log is established, a high level and transparent KPI report on the achievement status and missed or met trends of all RAID records should be provided in conjunction with, and in support of, the MSP work stream board level status reports.</li> <li>• Governance board stakeholders should give formal consideration to incorporating the use and delivery achievement monitoring framework of the best practice Agresso Implementation Methodology (AIM).</li> <li>• The MSP implementation plan changes and revisions should be informed by the status of the RAID log records such as the high risk data migration and build work stream records to help appropriately focus and track achievements within the latest revisions to the MSP implementation plan.</li> <li>• Unambiguous Solution Assurance work stream activity KPIs should be established to help transparently map results. For example, quantify the: <ul style="list-style-type: none"> <li>○ Total number of actual PMO Standards compliance checks made in period by work stream and the number found compliant or delinquent;</li> <li>○ Number of previously delinquent checks now confirmed as remediated and resolved by work stream and criticality; and</li> <li>○ Number of delivery task and risk mitigation action dates checked as missed or met in period by work stream and criticality.</li> </ul> </li> </ul> <p>All recommendations were accepted by management for implementation by October 2014.</p>	Limited

Ref	Audit and Scope	Details	Assurance Risk /
3	<p><b>Managed Services Programme – System and User Acceptance Testing</b></p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> <li>• Test Strategy</li> <li>• Test Scripts</li> <li>• Test Staff and Logging</li> <li>• Test Results</li> <li>• Sign off</li> </ul>	<p>As part of the Tri-Borough initiative, there is a programme of managed services that is to be implemented across the three boroughs – Hammersmith &amp; Fulham, Kensington and Chelsea, and Westminster. Managed Services, which is provided by BT, is a critical programme within the overall convergence of services that is being undertaken across the three boroughs, with the overall objective being the realisation of the benefits offered from the pooling of services.</p> <p>Systems and user acceptance testing are critical steps to the success of the Managed Services Programme. Adequate systems and user testing of the Agresso solution will help to ensure that the system is operating in line with defined system requirements.</p> <p>The findings of this audit represent the position at the time the audit was undertaken. It should be noted that this work was undertaken at a time when discussions were underway regarding delaying the go live date.</p> <p>One high and four medium priority recommendations were raised. The Principle recommendations were as follows:</p> <ul style="list-style-type: none"> <li>• Timescales to address IST, Service Now and any future issues should be appropriately assessed ensuring that they are realistic and achievable. Consideration should also be given to producing a Critical Path Analysis where some critical activities are not delivered and the subsequent impact on Go-Live.</li> <li>• Timescales for completion of IST sign should be provided so that UAT and other activities can be planned to achievable timelines. Additionally, where delivery of key functionality is delayed, additional regression testing, IST and UAT will need to be planned and performed.</li> <li>• The re-planning exercise should take the issues experienced from earlier versions of the plan into consideration and items such as factoring in contingencies, are incorporated into future revisions of the plan.</li> </ul> <p>All recommendations were accepted by management for implementation by September 2014. A number of recommendations raised were implemented during the audit.</p>	Limited

Ref	Audit and Scope	Details	Assurance Risk /
4	<p><b>Public Health (PH) – Governance.</b></p> <p>The objectives of this review were to assess and evaluate the areas forming the <i>Good Governance Standard for Public Services</i>, namely the following:</p> <ul style="list-style-type: none"> <li>• Focusing on the organisation's</li> </ul>	<p>As of 1st April 2013 local authorities became responsible for Public Health and with it a key role in improving the health and wellbeing of their local population, working in partnership with clinical commissioning groups and other health institutions. This involves commissioning and collaborating on a range of public health services. Westminster City Council (WCC), the London Borough of Hammersmith &amp; Fulham (LBHF) and the Royal Borough of Kensington and Chelsea (RBKC) agreed to provide a public health service under a tri-borough arrangement. The bulk of the PH activity and the associated budgets transferred from the National Health Service from April 2013.</p>	Limited




Ref	Audit and Scope	Details	Assurance / Risk
	<p>purpose and on outcomes for citizens and service users;</p> <ul style="list-style-type: none"> <li>Performing effectively in clearly defined functions and roles;</li> <li>Promoting values for the whole organisation and demonstrating the values of good governance through behaviour;</li> <li>Taking informed, transparent decisions</li> <li>Risk Management;</li> <li>Developing the capacity and capability of the governing body to be effective; and</li> <li>Engaging stakeholders and making accountability real</li> </ul> <p><b>(Undertaken by WCC Internal Audit)</b></p>	<p>The public health function is led by the Tri-Borough Director of Public Health who reports directly to the Chief Executive of WCC and is also accountable to the Joint Chief Executive for LBHF and RBKC. Annual expenditure on Public Health across the Tri-borough is in excess of £75m.</p> <p>No High and six medium priority recommendations were raised as follows:</p> <ul style="list-style-type: none"> <li>Business Plans/Service Delivery Plans should have greater focus and detail on risk to ensure that Members receive sufficient information on matters that may impact on the achievement of the agreed objectives.</li> <li>The Annual Assurance Statement for 2013/14 should be formally approved by the Director of Public Health and evidence retained to demonstrate this.</li> <li>Robust systems should be implemented to monitor contracts and to monitor performance against the achievement of the objectives identified within the Business Plan with appropriate evidence retained to demonstrate this.</li> <li>Matters identified within the Public Health Transition Programme Board Lessons Learnt Report have been/are being addressed, and whether residual activities have been followed up and resolved where appropriate.</li> <li>As identified by the Public Health Senior Management Team (SMT), greater importance should be placed upon performance monitoring to ensure that the SMT are able to determine how well the service is performing in relation to identified targets/outcomes stated in the business and service delivery plans; and</li> <li>Meeting minutes should be in sufficient detail to demonstrate the review of the monitoring of the achievement of objectives identified within the business plan. This should include both the Public Health SMT and the Tri-borough Members Public Health Steering Group.</li> </ul> <p>All recommendations were accepted by management for implementation by July 2014.</p>	

Ref	Audit and Scope	Details	Assurance / Risk
5	<p><b>Total Facilities Management</b></p> <p>The objectives of this review were to assess and evaluate the controls in the following areas:</p> <ul style="list-style-type: none"> <li>Service Objectives;</li> <li>Performance Management;</li> <li>Change Control;</li> <li>Payment and Cost Allocations;</li> <li>Complaints Management;</li> </ul>	<p>The facilities management services for some 2023 building assets across the Tri-borough were outsourced through a contract with Amey from October 2013. The contract runs for 10 years with an option to extend it by a further three years. The first year cost of the contract is estimated to be £18.4m split as follows:-</p> <p>Hard and Soft Services £15.3m  Help Desk and Managed Service £2.8m  Other services and redundancy costs £0.3m</p> <p>The contract transferred the risk of providing the range of traditional facilities management services to Amey. The services provided under the contract range from building cleaning and maintenance to document storage and reprographics. Amey's 40 in-house staff and the 20 officers of the Tri-borough LINK team are responsible for</p>	Limited

	<ul style="list-style-type: none"> <li>• Management Information; and</li> <li>• Governance Arrangements</li> </ul> <p><b>(Undertaken by RBKC Internal Audit)</b></p>	<p>monitoring Amey's performance and share office space located in Kensington Town Hall.</p> <p>This review considered the adequacy of the controls in place in relation to contract management by the LINK team and the service's migration to a fully outsourced service during the initial 6-month mobilisation and transition period. Three High and seven Medium priority recommendations were raised as a result of the audit review, the principle recommendations were as follows:</p> <ul style="list-style-type: none"> <li>• A review of Amey's tender invitation processes relating to ad-hoc projects should be conducted. The review should also include the depth of Amey's select list of contractors as well as bench marking against the Royal Boroughs Tenders and Contracts Regulations;</li> <li>• Amey progress towards upgrading their IT system and ensuring that it is able to provide monitoring information in accordance with contractual requirement should be continually monitored;</li> <li>• The LINK team should determine whether the deadline given by Amey for upgrading their IT system will enable reliable information for the timely and accurate apportionment of costs of the service between the tri-borough Councils</li> <li>• The planned set of Performance Indicators (PIs) for the LINK team operations should be fully developed and should be appropriate and SMART. Bench marking should be introduced as part of the assessment process to ensure that the LINK team performance can be assessed against best practice in similar organisations;</li> <li>• LINK officers should ensure that the full set of PIs are introduced from July 2014 and are effectively monitored to ensure Amey's performance is at the required levels;</li> <li>• LINK management should ensure Amey take the appropriate actions to improve their process and the timeliness and accuracy of their claims. Link's Programme Operations Manager in conjunction with Amey's Project Consultant should agree and assign key milestone deadlines for project delivery. As part of monitoring Amey's management of the project, Link's Project Managers should review Amey's performance against the milestone deadlines;</li> <li>• LINK management should urgently devise formal risk management processes along with a suitable risk register for the contract and ensure the SPB receive regular updates on the risks and their management; and</li> <li>• LINK management should take the actions necessary to improve the performance of Amey in supporting claims for variable works under the contract. The Business Manager should define and agree with Amey the nature of the evidence that is deemed acceptable in support for an application for payment.</li> </ul> <p>All recommendations were accepted by management for implementation by April 2015.</p>	
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# Agenda Item 9

	<b>London Borough of Hammersmith &amp; Fulham</b>  <b>(AUDIT, PENSIONS AND STANDARDS COMMITTEE)</b>  <b>(2 December 2014)</b>
<b>TITLE OF REPORT</b>	
<b>Independent PSIAS Appraisal for LBHF Internal Audit</b>	
<b>Open Report</b>	
<b>For Information</b>	
<b>Key Decision: No</b>	
<b>Wards Affected: None</b>	
<b>Accountable Executive Director: Jane West – Executive Director of Finance and Corporate Governance</b>	
<b>Report Author: Geoff Drake – Senior Audit Manager</b>	<b>Contact Details:</b> Tel: 0208 753 2529 E-mail: <a href="mailto:geoff.drake@lbhf.gov.uk">geoff.drake@lbhf.gov.uk</a>

## 1. EXECUTIVE SUMMARY

- 1.1. This is a report on the independent review of the LBHF Internal Audit service against the Public Sector Internal Audit Standards. The report conclusion is that the LBHF Internal Audit service generally conforms to the requirements of the Public Sector Internal audit Standards.

## 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 review was undertaken by the Senior Internal Audit Manager for RBKC against the Public Sector Internal Audit standards that came into force from 1 April 2013. The review forms part of an ongoing strategy to review the service independently against these professional standards.
- 4.2. The PSIAS (Public Sector Internal Audit Standards) were introduced from 1 April 2013 and are the standards that all Local Government Internal Audit services must comply with. This review was undertaken at the direction of the Tri-Borough Director of Audit as an independent assessment of the compliance of the audit service provided to the London Borough of Hammersmith and Fulham (LBHF) against the PSIAS.
- 4.3. The Internal Audit service for LBHF is currently provided under a contract with LB Croydon for delivery by Mazars. The Head of Internal Audit is the Tri-borough Director for Audit, Fraud, Risk & Insurance.
- 4.4. The review was based on the LBHF Self-Assessment, with each point reviewed against available evidence to confirm whether the feature was in place or not.

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

- 5.1. A copy of the full report is attached as Appendix A. This shows that the LBHF Internal Audit service generally conforms to the requirements of the Public Sector Internal Audit Standards.

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

- 6.1. Not applicable

#### **7. CONSULTATION**

- 7.1. Not applicable

#### **8. EQUALITY IMPLICATIONS**

- 8.1. Not applicable

#### **9. LEGAL IMPLICATIONS**

- 9.1. Not applicable

#### **10. FINANCIAL AND RESOURCES IMPLICATIONS**

- 10.1. Not applicable

#### **11. RISK MANAGEMENT**

- 11.1. Not applicable

#### **12. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

- 12.1. Not applicable

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

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
1.	Original review report	Geoff Drake Ext. 2529	Corporate Services, Internal Audit Town Hall King Street Hammersmith W6 9JU

**LIST OF APPENDICES:**

Appendix A            Independent PSIAS Appraisal for LBHF Internal Audit

Independent PSIAS Appraisal for LBHF Internal Audit

**Contents**

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	Introduction
Chapter 1	Purpose and positioning
Chapter 2	Structure & resources
Chapter 3	Audit execution
Appendix A	Summary Assessment

## Introduction

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1. The Quality Assurance and Improvement Programme (QAIP) is a requirement of the new Public Sector Internal Audit Standards (PSIAS) which came into force on 1<sup>st</sup> April 2013. It is intended to raise standards across the public sector. This programme is intended to:
  - Facilitate identification of actions for continuous improvement;
  - Facilitate evaluation of progress with improvement plans; and
  - Provide an approach to both internal reviews and external Quality Assurance reviews which is not “tick box” and which goes beyond compliance with the Standards alone.
2. The QAIP is intended to apply to all internal audit services where compliance with the PSIAS is required. The definition of an internal audit service will vary depending on the arrangements in place for the particular organisation.
3. The internal audit service and therefore the scope of any review should be clearly defined before the review is carried out and agreed by the reviewer and the CAE.
4. Where an internal audit service includes work procured from a third party supplier, this should form part of the overall assessment. Where this is precluded within existing third party contracts this limitation should be noted in the report.
5. The term Chief Audit Executive (CAE) is used throughout the PSIAS to refer to the head of the internal audit service.

### The Approach

6. This Framework has four sections reflecting four questions that the evaluation should seek to address:
  - Purpose and positioning - Does the internal audit service have the appropriate status, clarity of role and independence to fulfil its professional remit?
  - Structure and resources - Does the internal audit service have the appropriate structure and resources to deliver the expected service?
  - Audit execution - Does the internal audit service have the processes to deliver an effective and efficient internal audit service?
  - Impact - Has the internal audit service had a positive impact on the governance, risk and control environment within the organisation?
7. Each section is divided into several sub-sections covering key elements of an effective internal audit service as follows:

Purpose & positioning	Structure & resources	Audit execution	Impact
<ul style="list-style-type: none"> <li>• Remit</li> <li>• Reporting lines</li> <li>• Independence</li> <li>• Risk based plan</li> <li>• Assurance strategy</li> <li>• Other assurance providers</li> </ul>	<ul style="list-style-type: none"> <li>• Competencies</li> <li>• Technical training &amp; development</li> <li>• Resourcing</li> <li>• Performance management</li> <li>• Knowledge management</li> </ul>	<ul style="list-style-type: none"> <li>• Management of the IA function</li> <li>• Engagement planning</li> <li>• Engagement delivery</li> <li>• Reporting</li> </ul>	<ul style="list-style-type: none"> <li>• Standing and reputation of internal audit</li> <li>• Impact on organisational delivery</li> <li>• Impact on governance, risk, and control</li> </ul>

8. For each sub-section a series of statements of good practice are provided as a guide in determining the performance of the service. Against this an assessment should be made as to the degree of conformance using the following scale, aligned with the Public Sector Internal Audit Standards:
- **Fully Conforms** the reviewer concludes that the internal audit service fully complies with each of the statements of good practice.
  - **Generally Conforms** means the reviewer has concluded that the relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects. For the sections and sub-sections, this means that there is general conformance to a majority of the individual statements of good practice, and at least partial conformance to the others, within the sub-section. As indicated above, general conformance does not require complete/perfect conformance.
  - **Partially Conforms** means the reviewer has concluded that the internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit. Some deficiencies may be beyond the control of the service and may result in recommendations to senior management or the audit committee of the organisation.
  - **Does Not Conform** means the reviewer has concluded that the internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the objectives and good practice statements within the section or sub-section. These deficiencies will usually have a significant negative impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the audit committee.



9. An overall assessment of the performance of the internal audit service in conforming to good practice should be made using the same scale.

#### **Performance of the evaluation**

10. The framework for the review is premised on the assessment being performed by individuals with considerable recent experience of internal audit. It is expected that anyone involved in performing the evaluation will have operated at a senior level within an internal audit function and be professionally qualified (CCAB, CMIIA or equivalent).
11. The PSIAS require that a self-assessment evaluation be performed internally at least annually to provide on-going feedback on the quality of the internal audit service.
12. In addition a formal external assessment should be independently carried out at least once every five years as set out in the Public Sector Internal Audit Standards. The chief audit executive must agree the scope of external assessments with an appropriate sponsor, e.g. the Chief Executive, The Section 151 Officer or chair of the audit committee as well as with the external assessor or assessment team. The framework set out below should provide an adequate scope in most cases. Where any external assessment is likely to be subject to moderation, as in the case of peer review, then the less that the assessment differs from this framework the better.
13. In the case of peer review, it is recommended that an internal self-assessment is carried out in advance of the external review and that the external review will seek to validate the findings of the internal review.
14. In performing the evaluation, the individuals completing the external assessment need to consider the evidence that exists to support the assessment as to whether the internal audit service being reviewed conforms to the statements of best practice. This evidence needs to be documented and space is provided for this on the following pages. Sufficient evidence should be documented such that another competent reviewer considering the same evidence would come to the same conclusion.
15. In each case a judgment call is required keeping in mind the definitions above, based on evidence collected during the course of the assessment undertaken. The existence of opportunities for improvement, or better alternatives does not in itself reduce a Generally Conforms rating.
16. It is expected that the evidence gathered will be a combination of:
  - Interviews with stakeholders such as Chief Executive and/or Section 151 Officer and/or chair of the audit committee;
  - A review of a sample of completed audit files;
  - A questionnaire to be completed by the 'customers' and staff of the internal audit service (see section 4); and
  - Review of any other supporting evidence, Including Audit Committee minutes, Head of Internal Audit Report and Annual Governance Statement and any audit policies and procedures.

- 17.** The individuals interviewed, the number of files selected and the number of questionnaire participants (both invites and responses) should be clearly set out in the report.
- 18.** Where there is insufficient evidence to demonstrate the application of statements of best practice, actions should be identified which will help address the deficiencies. These should be documented as per the template below with each action being given a target date for completion and an identified individual with responsibility for ensuring its completion.
- 19.** The assessment rating for each sub-section should be summarised in the Summary Assessment.
- 20.** The reviewer should provide an overall assessment based on the ratings for each section and their judgement as to the extent to which the internal audit service addresses the four questions set out in paragraph 6 above. The rationale for the overall assessment should also be documented.

**Does the internal audit service have the appropriate status, clarity of role and independence to fulfil its professional remit?**

Remit		
Statements of good practice	Assessment	Evidence
<ul style="list-style-type: none"> <li>An internal audit Charter defines the purpose, authority and responsibility, within the organisation, consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards, including a definition of the Board.</li> <li>The internal audit Charter is approved by the Board and is regularly reviewed, and communicated to all senior management and other relevant people</li> <li>The Charter defines the nature and scope of the assurance and consulting services provided to the organisation (including any assurances provided to parties outside of the organisation) and is such that it can provide independent and objective assurance and is not part of the direct control framework</li> <li>The Charter clearly defines internal audit's role in evaluating and</li> </ul>	<input type="checkbox"/> <b>Fully conforms</b>	<ul style="list-style-type: none"> <li>Yes. LBHF IA Charter</li> <li>Yes. Reported to the Audit, Pensions and Standards Committee (APS) on 30<sup>th</sup> June 2014 (minutes seen)</li> <li>Yes. Within the Charter's Objectives.</li> <li>Yes. Within the Charter's Objectives</li> </ul>
	<input type="checkbox"/> <b>Generally conforms</b>	
	<input type="checkbox"/> <b>Partially conforms</b>	
	<input type="checkbox"/> <b>Does not conform</b>	
	Associated references PSIAS: Code of Ethics 1000 Purpose, Authority and Responsibility 1110 Organisational Independence 1210 Proficiency 2110 Governance 2120 Risk Management 2130 Control	

<p>contributing to the development of risk management, control and governance processes. Internal audit's role in relation to any fraud-related / investigations work is clearly defined within the Charter.</p>		
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Remedial actions	Target date	Responsibility
None identified		

Reporting lines			
Statements of good practice	Assessment	Evidence	
<ul style="list-style-type: none"> <li>The Board reviews and approves the appointment of the Chief Audit Executive (CAE)</li> <li>The CEO and the Chair of the Audit Committee contribute to the CAE's appraisal</li> <li>Reporting lines for the CAE support independence, with functional reporting to the Board</li> <li>The Board agrees the strategy/plans of the internal audit service</li> <li>The CAE or their representative attend all Board and/or senior management meetings, particularly where key issues are discussed relating to governance, risk management or control across the organisation</li> <li>The CAE meets regularly with the Section 151 Officer</li> <li>The Board routinely see and considers the outputs of the internal audit service</li> <li>The Board is routinely updated with internal audit status and activity reports</li> </ul>	<input type="checkbox"/>	<ul style="list-style-type: none"> <li>As per the Charter, the Joint Chief Exec &amp; Chair of RBKC's ATS (as employing authority), are involved in the CAE's appraisal. (In reality the Chair's involvement is informal)</li> <li>Reporting lines as per the Charter support independence. Verified from reviewing reports to the APS.</li> <li>Annual audit plan reported to 13<sup>th</sup> Feb APS. Strategy forms part of Charter and reported to 30<sup>th</sup> June APS. Evidence of consideration in minutes</li> <li>Evidence of attendance at APS meetings &amp; FIB meetings.</li> <li>The CAE attends FIB (includes tri-b Section 151 officers) – confirmed from minutes of FIB meetings.</li> <li>Quarterly reports to APS.</li> <li>Reports to APS</li> </ul>	
	<input type="checkbox"/>		<b>Fully conforms</b>
	<input type="checkbox"/>		<b>Generally conforms</b>
	<input type="checkbox"/>		<b>Partially conforms</b>
	<input type="checkbox"/>	<b>Does not conform</b>	
	Associated references PSIAS: 1100 Independence and Objectivity 1110 Organisational Independence 1111 Direct Interaction with the Board 2010 Planning 2060 Reporting to Senior Management and the Board		

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Remedial actions	Target date	Responsibility
None identified		

Independence			
Statements of good practice	Assessment	Evidence	
<ul style="list-style-type: none"> <li>Internal audit's position within the organisation is clearly established including authorisation for access to records, personnel and physical properties relevant to the performance of engagements</li> </ul>		<ul style="list-style-type: none"> <li>Yes. IA Charter.</li> <li>The CAE has executive responsibility for the insurance service across</li> </ul>	
			<b>Fully conforms</b>
			<b>Generally conforms</b>
			<b>Partially conforms</b>
		<b>Does not conform</b>	

<ul style="list-style-type: none"> <li>• The internal audit service is free of executive responsibilities such that it can provide independent and objective assurance</li> <li>• Conflict of interests are identified, appropriately managed and avoided including those transferring to internal audit from elsewhere in the organisation</li> <li>• Audit personnel are routinely rotated on assignments</li> <li>• Audit personnel do not have any conflicting operating responsibilities or interests</li> <li>• All internal audit staff are aware of and comply with the Code of Ethics and the Nolan principles</li> <li>• Consultancy work that internal audit may undertake is clearly defined and agreed in advance by the Audit Committee when required by the PSIAS</li> <li>• Areas which have been the recipient of internal audit 'consultancy' work are subject to audit review by personnel independent of the consultancy work</li> <li>• The CAE, at least annually, confirms to the Board the organisational independence of the internal audit activity</li> <li>• The CAE notifies the appropriate parties if independence or objectivity is compromised</li> </ul>	<p>Associated references PSIAS: Code of Ethics 1100 Independence and Objectivity 1110 Organisational Independence 1120 Individual Objectivity 1130 Impairment to Independence or Objectivity</p> <p>Page 92</p>	<p>the Tri-borough. However this relationship was effectively managed during the recent audit of this service.</p> <ul style="list-style-type: none"> <li>• The CAE has a declarable interest in relation to the contractor Mazars. The relationship has been formally declared to the Joint Chief Executive as direct Line Manager. The interest and mitigating controls have historically been declared to the Chair of RBKC's Audit and Transparency Committee when the Director was Head of Audit. There is sufficient evidence at the time of this review that the mitigation of this interest is managed effectively at both Councils.</li> <li>• N/A fully outsourced contract. Senior Audit Manager And Director are required to make any declarations as part of the Annual Appraisal process.</li> <li>• N/A Out sourced. The nature of outsourcing is such that rotation will be a common feature of the work allocation.</li> <li>• See above.</li> <li>• Charter: "All staff and contractors are required to sign an annual statement confirming their compliance with the IIA Code of Ethics."</li> <li>• Outsourced service. Different staff would undertake any proposed</li> </ul>
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Remedial actions	Target date	Responsibility

Risk based plan			
Statements of good practice	Assessment	Evidence	
<p>A risk based internal audit plan has been developed which:</p> <ul style="list-style-type: none"> <li>• considers the relative risk maturity of the organisation</li> <li>• considers the risk appetite as defined by management</li> </ul>	<input type="checkbox"/>	<ul style="list-style-type: none"> <li>• Yes – tri-borough and sovereign plan as submitted in draft to the APS in February 2014.</li> <li>• Risk Appetite not formally specified. Officers continue work to determine the levels at which risk is unacceptable.</li> <li>• Yes – plan takes into account specialisms to undertake these reviews.</li> <li>• Yes. Audit coverage and governance assurance from senior officers are the basis of the annual opinion.</li> <li>• Yes. APS meeting February 2014.</li> <li>• Yes – reported to FIB, Business Board and Senior Management.</li> <li>• The plan (sovereign &amp; tri-b) review is ongoing and changes approved by the Tri-b Director for Audit.</li> <li>• Yes. The plan presented to APS is shown to be a “living” document and the</li> </ul>	
	<input type="checkbox"/>		<b>Fully conforms</b>
	<input type="checkbox"/>		<b>Generally conforms</b>
	<input type="checkbox"/>		<b>Partially conforms</b>
<ul style="list-style-type: none"> <li>• includes an assessment of optimal resources and skills required to deliver both the audit assurance and consultancy work, including identification of specialist skills, which may be required</li> <li>• is clearly designed to enable the CAE to deliver an annual opinion on the effective of Governance, risk management and the system of control</li> <li>• has been approved by the Board</li> <li>• has been promulgated to all relevant parties</li> <li>• is subject to regular review to ensure that it remains appropriate and current</li> </ul> <p>Either the audit plan or a separate audit strategy document should:</p> <ul style="list-style-type: none"> <li>• include an</li> </ul>	<p>Associated references</p> <p>PSIAS: 2010 Planning 2020 Communication and Approval 2030 Resource Management</p>		

<p>assessment of risks that the audit service itself faces in delivering the plan and plans for controlling and mitigating the risks identified</p> <ul style="list-style-type: none"> <li>include consideration of if, and how, internal audit will rely on the assurance provided by other assurance providers.</li> <li>include an assessment of the range of audit techniques that have been selected as the most effective for delivering the audit objectives</li> <li>set out how the internal audit service will measure its performance, quality assure itself and seek continuous improvement</li> </ul>		<p>strategy identifies how the service will deliver the plan.</p> <ul style="list-style-type: none"> <li>Takes into account any agreed collaboration with or reliance on the work of External Audit.</li> <li>The resources and techniques available to fulfil the audit plan are considered across the external provider, tri-b and includes specialisms.</li> <li>Performance and non-compliance with PSIAS will be reported to APS quarterly. Annual self-assessment and independent QA every 5 years. Current peer review across tri-b.</li> </ul>
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Remedial actions	Target date	Responsibility

Integration with other assurance providers										
Statements of good practice	Assessment	Evidence								
<ul style="list-style-type: none"> <li>The internal audit service effectively co-ordinates with appropriate assurance providers to reduce the duplication and minimise gaps in the</li> </ul>	<table border="1"> <tr> <td data-bbox="684 1641 788 1704"></td> <td data-bbox="788 1641 928 1704"><b>Fully conforms</b></td> </tr> <tr> <td data-bbox="684 1704 788 1769"></td> <td data-bbox="788 1704 928 1769"><b>Generally conforms</b></td> </tr> <tr> <td data-bbox="684 1769 788 1856"></td> <td data-bbox="788 1769 928 1856"><b>Partially conforms</b></td> </tr> <tr> <td data-bbox="684 1856 788 1926"></td> <td data-bbox="788 1856 928 1926"><b>Does not conform</b></td> </tr> </table>		<b>Fully conforms</b>		<b>Generally conforms</b>		<b>Partially conforms</b>		<b>Does not conform</b>	<p>Yes. Only 3<sup>rd</sup> party assurances relate to tri-borough audits, which is coordinated between services.</p> <p>Yes. Audit Strategy.</p>
	<b>Fully conforms</b>									
	<b>Generally conforms</b>									
	<b>Partially conforms</b>									
	<b>Does not conform</b>									

<p>assurance framework</p> <ul style="list-style-type: none"> <li>Internal audit promote co-operation between internal and external audit</li> <li>When auditing shared service functions consideration is given to audit work being performed by other audit services such that duplication is minimised</li> <li>When internal audit needs to work with other internal auditors from another organisation, the respective roles and responsibilities of the involved parties have been clearly defined and agreed in advance</li> </ul>	<p>Associated references PSIAS: 2050 Coordination</p>	<p>Yes. Tri-borough &amp; Bi-borough audit plans</p> <p>Yes. Tri-borough plans are based on audits being undertaken by the separate audit services so that responsibility and roles are very clear.</p>
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Remedial actions	Target date	Responsibility
None identified		

**Does the internal audit service have the appropriate structure and resources to effectively deliver the internal audit remit?**

Competencies to deliver IA remit		
Statements of good practice	Assessment	Evidence
<ul style="list-style-type: none"> <li>The CAE holds a professional qualification (i.e. CMIIA, CCAB or equivalent professional membership) and is suitably experienced</li> </ul>	<input type="checkbox"/>	<ul style="list-style-type: none"> <li>The CAE and Senior Manager are both professionally qualified with suitable levels of experience.</li> <li>Fraud resources are</li> </ul>
	<input type="checkbox"/>	
	<input type="checkbox"/>	
	<input type="checkbox"/>	
	<b>Fully conforms</b> <b>Generally conforms</b> <b>Partially conforms</b> <b>Does not conform</b>	

<ul style="list-style-type: none"> <li>• The audit function has access to the appropriate skills (technical expertise, qualifications, experience) required to ensure assurance can be provided in all areas of the business, for example in relation to fraud and knowledge of IT risks and controls</li> <li>• Where there is a contracted out or partnership arrangement there is ongoing monitoring to ensure that contractors have the skills required for designated audit assignments</li> </ul>	<p>Associated references PSIAS: Code of Ethics 1210 Proficiency 1220 Due Professional Care</p>	<p>managed by the Tri-Borough Director with a good working relationship between the teams. Other specialisms are resourced through the out-sourced contract.</p> <ul style="list-style-type: none"> <li>• The CAE and Senior Manager rely on the terms of the contract to ensure that appropriate staff with the requisite levels of skills and specialisms are employed on the contract. Not independently verified.</li> <li>• The Senior Manager does a sample check of audit files to provide an independent QA process to confirm the self assessment QA processes of the contractor are compliant. The current level has been endorsed by the CAE.</li> <li>• A full review of all IT audit files is undertaken by the RBKC's Senior Auditor responsible.</li> </ul>
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Remedial actions	Target date	Responsibility

**Technical training & development<sup>1</sup>**

Statements of good practice	Assessment	Evidence				
<ul style="list-style-type: none"> <li>All new staff receive induction training including both into the internal audit service and induction into the organisation</li> </ul>	<table border="1"> <tr> <td data-bbox="719 311 887 416"></td> <td data-bbox="892 311 1034 416"><b>Fully conforms</b></td> </tr> <tr> <td data-bbox="719 423 887 562">N/A outsourced service</td> <td data-bbox="892 423 1034 562"><b>Generally conforms</b></td> </tr> </table>		<b>Fully conforms</b>	N/A outsourced service	<b>Generally conforms</b>	<ul style="list-style-type: none"> <li>N/A outsourced contract and within the terms of the contract.</li> </ul>
	<b>Fully conforms</b>					
N/A outsourced service	<b>Generally conforms</b>					
<ul style="list-style-type: none"> <li>Arrangements are in place to ensure that new staff receive an early assessment of their development needs and appropriate guidance, and training to address these needs</li> </ul>	<table border="1"> <tr> <td data-bbox="719 568 887 712"></td> <td data-bbox="892 568 1034 712"><b>Partially conforms</b></td> </tr> <tr> <td data-bbox="719 719 887 864"></td> <td data-bbox="892 719 1034 864"><b>Does not conform</b></td> </tr> </table>		<b>Partially conforms</b>		<b>Does not conform</b>	<ul style="list-style-type: none"> <li>N/A outsourced contract and within the terms of the contract.</li> </ul>
	<b>Partially conforms</b>					
	<b>Does not conform</b>					
<ul style="list-style-type: none"> <li>All internal auditors undertake Continuing Professional Development (CPD) and have a training and development plan approved by their line manager</li> </ul>	<p>Associated references PSIAS: Code of Ethics 1230 Continuing Professional Development</p>	<ul style="list-style-type: none"> <li>N/A outsourced contract and within the terms of the contract.</li> </ul>				
<ul style="list-style-type: none"> <li>Audit planning includes a sufficient time provision for training (including CPD) for all staff</li> </ul>		<ul style="list-style-type: none"> <li>N/A outsourced contract and within the terms of the contract.</li> </ul>				

Remedial actions	Target date	Responsibility
None identified		

Resourcing			
Statements of good practice	Assessment	Evidence	
<ul style="list-style-type: none"> <li>Internal audit is sufficiently resourced (in terms of staff and budget available) and deployed effectively to deliver the approved plan</li> <li>There is a recruitment strategy that sets out the recruitment standard to ensure that all staff have the appropriate intellectual qualities, personal attributes, skills, knowledge and qualifications</li> <li>A succession plan exists to ensure that senior vacancies are filled promptly by appropriately qualified staff</li> </ul>		<ul style="list-style-type: none"> <li>N/A outsourced contract.</li> <li>N/A outsourced contract</li> <li>N/A outsourced contract. Succession planning not appropriate to the single in-house post. Any short term issues would be covered from the contractor or the Bi-borough service management hierarchy followed by recruitment. Not verified as the occasion has not arisen for a number of years.</li> </ul>	
			<b>Fully conforms</b>
			<b>Generally conforms</b>
			<b>Partially conforms</b>
			<b>Does not conform</b>
	Associated references PSIAS: 2030 Resource Management		
Remedial actions	Target date	Responsibility	
None identified			



Performance management			
Statements of good practice	Assessment	Evidence	
Appropriate personnel management and development procedures are in place within internal audit including: <ul style="list-style-type: none"> <li>• Written job descriptions</li> <li>• Required competency frameworks</li> <li>• Recruitment procedures</li> <li>• Training and continuing education arrangements</li> <li>• Personal objectives setting and performance appraisal</li> </ul>	N/A	<ul style="list-style-type: none"> <li>• N/A outsourced contract.</li> </ul>	
			<b>Fully conforms</b>
			<b>Generally conforms</b>
			<b>Partially conforms</b>
			<b>Does not conform</b>

Remedial actions	Target date	Responsibility

**Knowledge management**

Statements of good practice	Assessment	Evidence
<ul style="list-style-type: none"> <li>The internal audit service has systems in place to facilitate knowledge and sharing of best practice/organisational learning</li> <li>All staff attend regular team meetings to ensure that they remain up to date on knowledge of the organisation, the internal audit service and audit practices</li> </ul>	<input type="checkbox"/>	N/A Outsourced service.
	<input type="checkbox"/>	
	<input type="checkbox"/>	
	<input type="checkbox"/>	
	<input type="checkbox"/>	
	<p><b>Fully conforms</b></p> <p><b>Generally conforms</b></p> <p><b>Partially conforms</b></p> <p><b>Does not conform</b></p>	

Remedial actions	Target date	Responsibility

**Does the internal audit service have the processes to deliver an effective and efficient internal audit service?**

Management of the internal audit service			
Statements of good practice	Assessment	Evidence	
<ul style="list-style-type: none"> <li>The CAE has established policies and procedures (typically in the form of a manual) to guide the internal audit activity</li> <li>Audit methodologies</li> </ul>		<ul style="list-style-type: none"> <li>Deloitte/Mazars Audit Manual covers this. Review of Manual confirms appropriate coverage.</li> <li>Appropriate</li> </ul>	
			<b>Fully conforms</b>
			<b>Generally conforms</b>
			<b>Partially conforms</b>
		<b>Does not conform</b>	

<p>have been developed and are regularly reviewed and updated to ensure they are in line with current practice</p> <ul style="list-style-type: none"> <li>• Policies in respect of document confidentiality, retention requirements and the release to internal and external parties have been developed and are consistent with the organisation's guidelines and any pertinent regulatory or other requirements</li> <li>• Quality assurance procedures are defined and cover all aspects of the internal audit activity including: <ul style="list-style-type: none"> <li>• Supervision and review</li> <li>• QA procedures and checklists including periodic internal quality reviews</li> <li>• Compliance with applicable laws, regulations and government or industry standards</li> </ul> </li> <li>• Auditee / customer satisfaction surveys</li> <li>• Periodic self-assessments against the PSIAS are performed and actions taken to address weaknesses.</li> </ul>	<p>Associated references PSIAS: 1310 Requirements of the Quality Assurance and Improvement Programme 1311 Internal Assessments 2040 Policies and Procedures 2330 Documenting Information</p>	<p>methodologies are in place with the contractor and were recently reviewed in 2014.</p> <ul style="list-style-type: none"> <li>• N/A external audit.</li> <li>• Audit work planned &amp; undertaken in accordance with relevant laws, regulations and standards – Audit Charter &amp; Strategy</li> <li>• Surveys issued with all final reports. Reported monthly to FAIR &amp; reviewed by the Tri-b Director for IA with weaknesses identified and addressed.</li> <li>• Self- assessment undertaken on overall compliance annually with peer review.</li> </ul>
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Remedial actions	Target date	Responsibility
None identified.		

**Engagement planning**

Statements of good practice	Assessment	Evidence
<ul style="list-style-type: none"> <li>Detailed plans are developed and documented setting out the scope, limitations, objectives, resources, timing and reporting lines for each engagement</li> <li>Engagement plans are agreed with relevant management prior to the start of the fieldwork</li> <li>Engagement plans include consideration of the relevant systems, records, personnel, and physical properties including those under the control of third parties</li> <li>Plans include consideration of the risks to the area under review and the organisation's risk management and controls processes</li> <li>Time budgets are developed for each engagement plan and are appropriate to the review scope and degree of associated risk</li> <li>Where areas require, particular specialist knowledge subject matter experts are identified and included as part of the audit team</li> </ul>	<input type="checkbox"/>	<ul style="list-style-type: none"> <li>Yes. Sovereign and Tri-borough (and now master) plans.</li> <li>Yes. Part of agreed contract approach, Briefs issued to operational management</li> <li>Yes. Part of agreed contract approach</li> <li>Yes. Part of agreed contract approach</li> <li>Yes. Part of agreed contract approach</li> <li>Yes. Examples will include allocation of IT experts for IT audits</li> </ul>
	<input type="checkbox"/>	
	<input type="checkbox"/>	
	<input type="checkbox"/>	
	<input type="checkbox"/>	
	Associated references PSIAS: 2200 Engagement Planning 2210 Engagement Objectives 2220 Engagement Scope 2230 Engagement Resource Allocation	

Remedial actions	Target date	Responsibility
None identified		

**Performance of Audit work / audit delivery**

Statements of good practice	Assessment	Evidence
<ul style="list-style-type: none"> <li>Work programmes that</li> </ul>	<input type="checkbox"/>	<ul style="list-style-type: none"> <li>Yes. Use of proprietary</li> </ul>
	<b>Fully conforms</b>	

Performance of Audit work / audit delivery		
Statements of good practice	Assessment	Evidence
<p>will achieve the engagement objectives are developed and approved prior to use and include procedures for identifying, analysing, evaluating and documenting information during the engagement</p> <ul style="list-style-type: none"> <li>Internal auditors use standard documentation to ensure that evidence and findings are adequately documented</li> <li>Work papers are clear, concise, and appropriately cross-referenced to work programmes so as to enable independent review and comprehension.</li> <li>There is evidence that internal auditors are identifying, analysing, evaluating and documenting sufficient information to support the audit conclusions and opinions</li> <li>There is evidence to confirm that all engagements are led or supervised by suitably competent individuals</li> <li>Audit findings are discussed and confirmed with auditees prior to report drafting</li> <li>Automated tools (e.g. data interrogation) are used appropriately to undertake testing as efficiently as possible</li> </ul>	<p><b>Generally conforms</b></p>	IA software.
	<p><b>Partially conforms</b></p>	
	<p><b>Does not conform</b></p>	
	<p>Associated references PSIAS: 2240 Engagement Work Programme 2310 Identifying Information 2320 Analysis and Evaluation 2330 Documenting Information 2340 Engagement Supervision</p>	<ul style="list-style-type: none"> <li>Yes. Sample file review indicated good cross-referencing, evidence of testing and review.</li> <li>Yes – from sample files reviewed (standard documentation)</li> <li>Yes. From audit file reviews</li> <li>Evidence of supervision and file review by appropriate senior contractor’s staff.</li> <li>Evidence of debrief meeting date as shown on reports reviewed.</li> </ul> <p>Not verified as these processes were not appropriate to the audits reviewed.</p>
<p>Remedial actions None identified</p>	<p>Target date</p>	<p>Responsibility</p>

## Reporting

Statements of good practice	Assessment	Evidence
<ul style="list-style-type: none"> <li>• Communications are accurate, objective, clear, concise, constructive and timely</li> <li>• Audit reports convey appropriate audit scopes, limitations of scope, results, recommendations and an opinion on the adequacy of controls</li> <li>• Audit evidence is reviewed by a senior member of the audit function to ensure that the audit has been carried out in sufficient depth and to the function's quality standards prior to the audit findings being distributed to the auditees</li> <li>• internal audit recommendations help the organisation address the risk in a way that does not create unnecessary control and the recommendations are practical</li> <li>• Draft audit reports are issued for consideration by the auditees within a reasonable, pre-agreed, timescale before they are finalised</li> <li>• Audit issues are reported to appropriate levels of management and to the Audit Committee</li> <li>• The CAE informs the Audit Committee if he/she believes that senior management has accepted a level of residual risk that may be unacceptable to the organisation</li> <li>• There is a procedure for</li> </ul>	<div style="border: 1px solid black; width: 40px; height: 20px; margin-bottom: 2px;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin-bottom: 2px;"></div> <div style="border: 1px solid black; width: 40px; height: 20px; margin-bottom: 2px;"></div> <div style="border: 1px solid black; width: 40px; height: 20px;"></div>	<ul style="list-style-type: none"> <li>• Yes. Audit file reviews</li> <li>• Yes. Audit file reviews</li> <li>• Yes. Audit file reviews</li> </ul>
	<p>Associated references PSIAS:</p> <ul style="list-style-type: none"> <li>2410 Criteria for Communicating</li> <li>2420 Quality of Communications</li> <li>2440 Disseminating Results</li> <li>2500 Monitoring Progress</li> <li>2600 Communicating the Acceptance of Risks</li> </ul>	<ul style="list-style-type: none"> <li>• Yes. Audit file reviews</li> <li>• Yes. Audit file reviews</li> <li>• Yes. Audit file reviews &amp; Progress Report to APS</li> <li>• Would be reported in Progress Report or specific communication to APS but not verified as minutes for 2014 not showing this has occurred.</li> <li>• Yes appropriate procedure in place to either follow up or obtain assurance on implementation of the recommendations. Validated in reports to APS.</li> <li>• Yes but not reviewed in the sample as not relevant.</li> </ul>




Reporting		
Statements of good practice	Assessment	Evidence
<p>follow-up that ensures agreed recommendations are implemented effectively or that senior management has accepted the risk of not taking action</p> <ul style="list-style-type: none"> <li>Unresolved or outstanding audit issues are reported to senior management in accordance with pre-agreed timescales and escalation procedures <ul style="list-style-type: none"> <li>The CAE presents to the Board at least annually, a report of internal audit activity containing an opinion of the overall adequacy and effectiveness of the organisation's governance, risk management, and control processes</li> <li>The annual report also states if the function conforms to the PSIAS and report any results of the QAIP</li> </ul> </li> </ul>		<ul style="list-style-type: none"> <li>Yes – Annual report to APS</li> <li>Yes – Annual report to APS</li> </ul>
Remedial actions	Target date	Responsibility
None identified		

## APPENDIX A

### Summary assessment

	Does not conform	Partially conforms	Generally	Fully conforms	Comments
<b>Purpose &amp; positioning</b>					
• Remit			X		
• Reporting lines				X	
• Independence			X		
• Other assurance providers				X	
• Risk based plan			X		
<b>Structure &amp; resources</b>					
• Competencies			X		
• Technical training & development					N/A. Outsourced contract.
• Resourcing					N/A. Outsourced contract.
• Performance management					N/A. Outsourced contract.
• Knowledge management					N/A. Outsourced contract.
<b>Audit execution</b>					
• Management of the IA function			X		
• Engagement planning				X	
• Engagement delivery				X	
• Reporting				X	

	London Borough of Hammersmith & Fulham Audit Standards and Pensions committee December 2014
<b>TITLE OF REPORT</b> Corporate Anti Fraud Service Report 1 April 2014 to 30 September 2014	
<b>Open Report.</b>	
<b>For Information</b>	
<b>Wards Affected:</b> None	
<b>Accountable Executive Director:</b> Jane West	
<b>Report Author:</b> Andrew Hyatt Tri-borough Head of Fraud	<b>Contact Details:</b> Tel: 0208 361 3795 E-mail: <a href="mailto:andrew.hyatt@rbkc.gov.uk">andrew.hyatt@rbkc.gov.uk</a>

## 1. EXECUTIVE SUMMARY

- 1.1 This report provides an account of anti-fraud related activity undertaken from 1 April 2014 to 30 September 2014.
- 1.2 Performance for the Corporate Anti Fraud Service (CAFS) is measured in numbers of sanctions and positive outcomes delivered (i.e. prosecutions, penalties, formal cautions or other action taken directly).
- 1.3 Since April 2014 CAFS have identified 65 positive outcomes including seven prosecutions and Proceeds of Crime (POCA) recoveries totalling £150,605.
- 1.4 Of the 168 cases referred to CAFS for potential investigation 72 were accepted although 96 were rejected due to lack of information or lower risk scoring.
- 1.5 The total value of fraud identified is £2.8 million. Full details are reported at Appendix A, for information

## 2. RECOMMENDATIONS

- 2.1 Note the fraud work undertaken during the year 1 April 2013 to 30 September 2014.
- 2.2 Note the latest information about the Single Fraud Investigation Service.

### **3. REASONS FOR DECISIONS**

- 3.1 To inform the committee of the actions of the Council's counter fraud response.

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

- 4.1 CAFS continues to provide Hammersmith & Fulham with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council.
- 4.2 In March 2015 the responsibility to investigate welfare benefit will transfer to the Department for Work and Pension under a new Single Fraud Investigation Service (SFIS).
- 4.3 In line with the transfer of work, Council staff and contractors will also transfer to DWP, maintaining their current terms and conditions akin to a TUPE transfer.
- 4.4 The implementation of SFIS will have a substantial impact on the manner in which the Fraud Service operates and will result in a reduction in staffing levels, together with a re-focussing of fraud work.
- 4.5 In response to the change CAFS has begun to re-align its service in order to address the new and emerging risks, some of which are mentioned in the Audit Commission's publication, *Protecting the public purse 2014*.

*[<http://www.audit-commission.gov.uk/counter-fraud/protecting-the-public-purse-reports/>]*

### **5 HOUSING AND TENANCY FRAUD**

- 5.1 CAFS continues to improve its links with all partners responsible for Social Housing including the dedicated investigation and intelligence resource employed within H&F Housing and Regeneration Department.
- 5.2 CAFS deal with any reactive allegation received and seek to recover misused tenancies and prosecute where there is believed to be criminal activity. CAFS continue to receive referrals about a variety of housing elements including;
- Housing applications
  - Under and over occupancy
  - Assignment and succession
  - Right to Buy
  - Sub-letting
  - Abandonment
- 5.3 A summary of the Housing/Tenancy Fraud cases identified by CAFS and H&F Housing and Regeneration Department for the period 1 April 2014 to

31 September 2014 are shown in the table below, along with an attributed value to the Council of the identified fraud.

Details	Totals	Attributed value to the Council
Properties recovered unopposed	14	742,000
Properties recovered following court proceedings	19	855,000
Succession refusals	2	98,000
Right to Buy	8	800,000
<b>TOTALS</b>	<b>35</b>	<b>£2,495,000</b>

Figures based upon Audit Commission measurements

On-going cases		
Notice To Quits issued or recommended	12	N/A
On-going investigations (North 16: South 14)	30	N/A

- 5.4 In addition to the financial value placed upon the recovery of fraudulently misused social housing there are also social and non-financial benefits which do not hold an intrinsic value.

## 6 BENEFIT FRAUD

- 6.1 Since April 2013 CAFS have applied sanctions against fraudulent benefit claimants totalling £173,756 including prosecution action and fines of £2,685.
- 6.2 A summary of the Housing Benefit cases investigated by CAFS during the year is shown in the table below.

Details	2013/2014 (full year)	Overpaid £'s	2014/2015 (half year)	Overpaid £'s
Referrals	183	-		-
Accepted for investigation	83	-		-
Successful Prosecutions	12	242,944	7	113,700
Unsuccessful prosecutions	0	-	0	-
Formal Cautions	2	3972	0	-
Administrative Penalties	4	13,363	2	8,494
<b>Total fraud identified</b>		<b>260,281</b>		<b>122,194</b>
40% subsidy		104,112		48,877
Ad pen fines administered		4,009		2,685
<b>Total recoverable</b>		<b>368,403</b>		<b>173,756</b>

- 6.3 Details of significant individual investigations resulting in successful prosecutions are reported at Appendix B, for information.

### Single Fraud Investigation Service

- 6.4 The Fraud & Error Strategy: *Tackling fraud and error in the benefit and tax credits systems* contained a commitment to establish a Single Fraud Investigation Service (SFIS) to investigate Social Security welfare benefit and Tax Credit fraud across local authorities, HM Revenue and Customs, and DWP.
- 6.5 On 1 May 2014 the DWP wrote to the Chief Executive to confirm that the implementation date for the Council is 1 March 2015 when the responsibility for the investigation of Housing Benefit fraud will transfer to the DWP.
- 6.6 The implementation of SFIS in March 2015 will remove this authority's powers to investigate any welfare benefit fraud and will therefore reduce the current levels of fraud work.
- 6.7 In addition, the DWP will also be reducing each Council's Benefit Administration Grant, based upon a caseload formula, for the next two years. The reductions for the three partnership Councils are detailed below.

Council	Year 1 (2015/2016)	Year 2 (2016/2017) *
WCC	£156,608	£195,000
RBKC	£104,231	£129,000
LBHF	£125,553	£153,000

\*Projected amount

- 6.8 Therefore with the reduction in work and a reduction to the Council's grant funding it is clear that the resources to effectively tackle the remaining level of fraud risk will need to change.
- 6.9 Faced with these enormous challenges it is crucial that each Council applies its limited resources in the most effective way possible. This has been the key driver of Bi and Tri-borough as a concept.
- 6.10 To achieve this the fraud service will need to ensure skills and experience are pooled, providing a more balanced, proactive and focused approach to fraud prevention, detection and investigation.
- 6.11 Staffing levels of the new service will be much reduced compared to the existing resources required to investigate fraud, including benefit fraud. However, the DWP will require skilled officers to resource their own newly formed SFIS and therefore all Councils have been advised that staff and contractors can transfer to DWP, and that any officers transferring will maintain their current terms and conditions akin to a TUPE transfer.
- 6.12 In view of the above, there will be a reduction in the number of staff employed by the Councils to undertake fraud work; however no job losses are planned, as officers who do not take up a post within the new fraud service structure will still be able to transfer to the DWP on existing terms and conditions.
- 6.13 Consultation has taken place with staff affected by the change, in conjunction with both Human Resources and the unions, and a selection process is currently on-going.

## **7 PROCEEDS OF CRIME**

7.1 The use of dedicated Financial Investigators continues to provide rewards with almost £150k recovered in the year.

7.2 Financial investigators have been actively pursuing opportunities to assist other departments across the Council and a summary of the work undertaken by the Financial Investigators is detailed in the table below.

<b>Total loss identified</b>	<b>Confiscation awarded by Court (including costs &amp; profit)</b>	<b>Recovered to date</b>	<b>Recovery on-going 14/15</b>
<b>£137,733</b>	<b>£12,872</b>	<b>£150,605</b>	<b>Nil</b>

## **8. OPTIONS AND ANALYSIS OF OPTIONS**

8.1 Not applicable

## **9. CONSULTATION**

9.1 Not applicable

## **10. EQUALITY IMPLICATIONS**

10.1 Not applicable

## **11. LEGAL IMPLICATIONS**

11.1 Not applicable.

## **12. FINANCIAL AND RESOURCES IMPLICATIONS**

12.1 Not applicable.

## **13. RISK MANAGEMENT**

13.1 Not applicable.

## **14. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

14.1 Not applicable.

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

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



## APPENDIX A

Financial Value of Counter Fraud Work for the period 1 April 14 to 30 September 14

<b><u>RECOVERABLE LOSSES (£)</u></b>	
HB overpayments (sanctioned)	122,194
HB overpayments (non-sanctioned)	23,375
Direct Payments	-
Internal (claims)	-
	<b>£145,569</b>
<b><u>SAVINGS (£)</u></b>	
<b>Cash savings</b>	
HB reduced/prevent/stopped	35,293
Local Taxation - NNDR, CT	19,081
Accessible Transport	2,475
Parking - business/residential	400
	<b>£57,249</b>
<b>Notional savings</b>	
Housing	898,000
Tenancy	1,597,000
Internal (staff/contractor)	110,226
	<b>£2,605,226</b>
<b>Preventative</b>	
Attributed savings	-

<b><u>POCA (£)</u></b>	
POCA recovered	137,733
Confiscation	-
Compensation loss+	8,451
POCA costs awarded	4,421
POCA orders outstanding	-
	<b>£150,605</b>
<b><u>MISC. INCOME (£)</u></b>	
Court Costs	1,400
Administrative Penalty	2,685
40% HB subsidy	48,877
Fraud recovery	31,865
	<b>£84,827</b>

**Fraud identified**

**£2,808,044**

**Income generated**

**£235,432**

### **Tenancy and Housing fraud notional values**

Tenancy and Housing fraud has been valued using notional values quoted by the Audit Commission.

- **Tenancy fraud:** £45,000 per property based upon the average cost of temporary accommodation (£18,000 p.a.) multiplied by the average length of re-housing an average sized family (2.5 years). An additional £8,000 saving is also claimed when keys are returned based upon average cost of legal action and bailiff intervention to recover property via the court.
- **Succession or assignment fraud:** each time a fraudulent assignment or succession is stopped it frees up an additional unit and therefore this is valued at £45,000 for the reasons above.
- **Housing fraud (false applications):** £18,000 based upon the annual cost of housing a family in temporary accommodation.

## **Benefits cheat must repay £91k**

Friday April 4, 2014

A fraudster has been ordered to repay more than £91,000 that he pocketed through illegal benefit claims.

, of Willow Vale, Shepherds Bush, was taken to court following a joint investigation by Hammersmith & Fulham (H&F) Council and the Department for Work and Pensions (DWP), which discovered that he had been claiming benefits for years despite having assets and savings totaling more than £150,000.

began claiming housing benefit and council tax benefit in 2004, as well as income support following an injury at work. However, he failed to declare savings in excess of the allowed £16,000.

The 59-year-old was found to have sold a property before he began claiming benefits – putting the money he made in various savings and investment accounts.

Over the years he claimed £45,859 in housing benefit, pocketed 7,629 in council tax benefit and cheated the DWP out of 37,993.

However, he has now been ordered to repay all of the money after pleading guilty to three charges of false representation under Social Security Administration Act at Isleworth Crown Court on April 2.

was sentenced to 18 months custody suspended for two years and handed a six month supervision order.

In addition to the £91,481 repayment, he must also pay a further £11,868 – relating to the change in value of the money he received – along with £2,500 in costs.

His savings were traced during the investigation and frozen using powers under the Proceeds of Crime Act.

## **Fraudster claimed benefits despite six figure inheritance**

Monday May 12, 2014

A benefits cheat who failed to declare a £100,000-plus inheritance has been sentenced to a 12 month community order.

, of Roseford Court, Shepherds Bush Green, dishonestly received £9,931.42 in benefit claims over an 18 month period – and at one point used undeclared savings to pay for an £11,000 BMW whilst on benefits.

His actions were uncovered during a joint investigation by Hammersmith & Fulham (H&F) Council and the Department for Work and Pensions (DWP), which led to Lewis pleading guilty to two benefits offences.

The 49-year-old, who had been claiming housing and council tax benefits since April, 2001, was found to have had access to a number of joint accounts and sole named accounts that had not been declared to the council. He also failed to declare them to the DWP for periods in which he claimed Job Seekers Allowance.

Investigating officers discovered that, in November 2009, inheritance from his late mother's estate totaling £103,682.64 was credited to one of the undeclared accounts.

After pleading guilty in March to two charges of failure to declare a change in circumstances that would affect benefits, Lewis was sentenced at Hammersmith Magistrates' Court on April 22 to a 12 month community order with 150 hours of unpaid work. He was ordered to pay £400 costs and a victim surcharge of £60.

## **Benefit cheats sentenced**

Monday May 19, 2014

Two benefit cheats, who illegally claimed £28,346 between them, have been sentenced.

Rather than face the music at court of St Albans Terrace, Hammersmith, flew off to the Caribbean paid out of the £12,712 she stole off the taxpayer, while -, who now lives in Ludlow Drive in Thame, forged a letter from his employer to illegally claim more than £15,000 in benefits.

Having both pleaded guilty to all offences on March 25, they were sentenced at Hammersmith Magistrates Court on April 22.

, 32, was sentenced to a 12-month community order, a 12-month supervision order and told to attend 16 sessions of structured supervision for women. She was also ordered to pay costs of £1,000 to H&F Council and a victim surcharge of £60.

falsely received £1,562 in council tax benefit and £6,857 in housing benefit from Hammersmith & Fulham Council (H&F Council), along with £4,291 in income support from the Department for Work and Pensions (DWP). She had been receiving benefits since October 2004 on the basis that she was a single parent on Income Support.

However, joint working between DWP and H&F Council found that had continued to claim for benefits for two years despite working for three different companies – Millenium Personnel Ltd (correct spelling), Liberty PLC and Estee Lauder – since March 2010.

She repeatedly refused to attend interviews with investigators and when the case was brought before court, initially attended the hearings. However at her hearing in February this year, she failed to turn up as she had gone on holiday to Barbados, and warrant for her arrest was issued.

On her return to London, she gave herself up and pleaded guilty to all six offences of failing to declare changes in circumstances under the Social Security Administration Act.

was sentenced on the same day as to a three-month long curfew order, between 7pm and 7am, and ordered to wear an electronic tag. He was also ordered to pay costs of £1,405 to Hammersmith & Fulham Council and a £60 victim surcharge.

received £15,634 in overpaid council tax and housing benefits after failing to declare to Hammersmith & Fulham Council the full truth about his income.

In February 2009 the 64-year-old, who was living in Lily Close, West Kensington, claimed to have begun working part-time at a Barnes furniture company called Karavan at a rate of £6.50 an hour. He said that he remained in that job until December of the same year.

In fact, following a tip-off that was carrying out benefit fraud, investigators from Hammersmith & Fulham Council found he had been working as a self-employed interior design consultant for three years, earning £250 more a month than he had stated.


When the council's fraud team spoke to the owner of Karavan, they discovered he had not sent a hand-delivered letter to the council to confirm 's employment and nor had

anyone from his team. Instead the owner said that the signature on the letter, claiming to have been sent on his behalf under 'pp', looked like that of one of Karavan's employees.

initially denied sending the letter, saying he could not type, but in court pleaded guilty to two counts of false accounting to conceal his true income.

He also pleaded guilty to three offences. They were making a false representation in his benefit form by not stating the correct date that his employment ended; dishonestly failing to give prompt notification of a change in circumstance, in that he was employed as a freelancer with Karavan; and that he had a letter from Karavan in his possession for use in the course of a fraud.

# Agenda Item 11

	<p align="center"><b>London Borough of Hammersmith &amp; Fulham</b></p> <p align="center"><b>AUDIT PENSIONS AND STANDARDS COMMITTEE</b></p> <p align="center"><b>( December 2014 )</b></p>	
<p><b>TITLE OF REPORT</b> Risk management highlight report</p>		
<p><b>Report of the Executive Director of Finance and Corporate Governance</b></p>		
<p><b>Open Report</b></p>		
<p><b>For Review &amp; Comment</b></p> <p><b>Key Decision: No</b></p>		
<p><b>Wards Affected: None</b></p>		
<p><b>Accountable Executive Director:</b> Jane West, Executive Director of Finance and Corporate Governance</p>		
<p><b>Report Author:</b> Michael Sloniowski, Bi-borough Risk Manager</p>	<p><b>Contact Details:</b>            Tel: 020 8753 2587            E-mail:            michael.sloniowski@lbhf.gov.uk</p>	

## 1. EXECUTIVE SUMMARY

- 1.1. The Audit Pensions and Standards Committee is responsible for reviewing the arrangements in place for identifying and managing key risks. Following the move towards the delivery of both Bi-borough and Tri-borough services this has necessitated the development of a Tri-borough risk register and Enterprise Wide Risk Management framework to enable the information to be shared across all three Councils. Good risk management is an enabler that helps the Council in pursuit of its vision and is a significant contributor to the production of Audit Plans and the Annual Governance Statement.

## 2. RECOMMENDATIONS

- 2.1. The committee are asked to note that a fundamental review of risks faced by the Council has been undertaken by Hammersmith and Fulham Business Board in the last quarter. The committee are invited to consider these risks and corresponding mitigations in the register, attached as Appendix 1.

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

- 3.1. The risk management arrangements continue to be integral to the overall internal control arrangements of the Council and contribute to the Annual Governance Statement. The Audit Pensions and Standards Committee's role is to provide an oversight of the authority's processes to facilitate the identification and management of key risks. By ensuring that effective management of risk is undertaken services can benefit by reducing their significance; either by reducing the level of impact or likelihood.

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

- 4.1. 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.
- 4.2. Regulation 4 of the Accounts and Audit Regulations 2011 sets out the Council's responsibility for ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of the Council's functions, and which includes arrangements for the management of risk.
- 4.3. Good risk management supports the achievement of objectives and has a vital role to play in ensuring that the Council is well run. The key action for Hammersmith and Fulham Business Board each quarter is to identify and keep under review the strategic risks while also taking the operational controls that deal with the risks on a day-to-day basis into account.
- 4.4. The Council will be well placed to benefit from improved management of risk after reviewing its strategic risks given the pace of change under the modernising agenda and the range of existing and new risks that it faces due to their diverse and complex responsibilities.

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

- 5.1. Risk identification is the process of locating those risks and opportunities that may affect positively or negatively the achievement of agreed objectives of the Council or its partnerships. Best practice suggests that the number of risks must be kept to a manageable level. Business Board were required to consider formally which risks remain significant. Experience from other sectors shows that even in the biggest authority there are unlikely to be more than 30 significant risks, in the context of the Council as a whole, and that any more than 30 may cause risk overload.

- 5.2. **Appendix 1** illustrates the Council's current key Strategic Risks as identified and reviewed by Hammersmith and Fulham Business Board. Progress in managing risks is monitored and reported to the Board so that losses are minimised and intended actions are achieved. Reporting upwards is necessary on the whole spectrum of risks in the Council's risk profile, not just on those being controlled. This is needed to ensure that the process does not become a narrowly focused bureaucratic arrangement and that Members have an opportunity to scrutinise risk management performance in departments.
- 5.3. Good risk management relies on a system of current and planned controls and services rely on those controls to manage and reduce their risks. The Committee needs to be sure that current controls are in place and that planned controls are being implemented; in other words, assurance is required on those actions being undertaken.
- 5.4. **The review.**
- 5.5. Some time ago the Council adopted an Enterprise risk management (ERM) structured approach to managing risk exposures across the entire organisation. This differs from the traditional risk management approach, which analysed risk in narrow silos for example per department and did not typically consider the broader consequences of risk exposures across the services.
- 5.6. More recently there has been a growing focus on low-probability/high-impact events, colloquially known as "black swan" risks, and the Council's departments are concentrating on measures to improve resilience and contingency planning in response. Continuation of the ERM approach can therefore be used to facilitate the identification of critical and potentially vulnerable areas of the Council.
- 5.7. Successful ERM allows for the collection and evaluation of timely and complete information on the Council's risk exposures (for example changing legislation/government policy and ageing infrastructure). This information can be useful in developing strategy, managing performance, budgeting and planning.
- 5.8. By embedding these risk principles and practices into routine business processes, management can continue to proactively manage risk exposures and make risk-aware decisions. Enhanced risk awareness also allows the Council to develop contingency plans that reflect analysis of plausible risk scenarios. Better visibility of the Council's risk profile through the risk register helps ensure that emerging sources of risk are taken into account in emergency response, crisis management and continuity plans.



- 5.9. Through the analysis of potential risks facing the Council, ERM can identify strategies to protect the balance sheet from unexpected losses or to capitalise on opportunities.

The Chartered Institute of Finance and Public Accountancy (CIFPA) acknowledge the key benefits of the value from ERM in two dimensions:

1. Internal value is created by helping managers to better understand their risk profile, better anticipate financial performance, mitigate risks, make better-informed decisions, and leverage opportunities.
  2. External value, in that ERM enables an organisation to satisfy policymakers and external stakeholders' (auditors, regulators, partners, public users and local communities) expectations on internal control and risk management.
- 5.10. Whilst there are no particular capital or revenue financial implications arising as a result of this report, the council has a number of significant strategic risks that it is managing. These have been identified in the attached Strategic Risk Register. Should any of these risks materialise there may be an associated financial burden for the council, therefore there is an onus for all Council staff and Members to ensure that risk management remains a proactive tool and that mitigating actions are identified, managed, monitored and delivered to ensure that risks do not materialise.
- 5.11. Improved management of council risks could result in financial savings across the council by reducing the number of incidents that occur through unmanaged risks and help us to achieve objectives through managed (opportunity) risks.

## **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 Bi-borough 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 Bi-borough 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	Tri-borough Internal Audit, Town Hall, Kensington
2.	The Orange Book, Management of Risk Principles	Michael Sloniowski 2587	Tri-borough Internal Audit, Town Hall,

	& Concepts – HM Treasury		Kensington
3.	Departmental Risk Registers, Tri borough Portfolio risk logs	Michael Sloniowski 2587	Tri-borough Internal Audit, Town Hall, Kensington
4.	Tri-borough Programme report updates	Michael Sloniowski 2587	TriBnet
5.	BS 31100 Code of Practice for risk management	Michael Sloniowski 2587	Tri-borough Internal Audit, Town Hall, Kensington




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

**LIST OF APPENDICES:**




*Appendix 1  
Strategic Tri-borough risk register.*

**APPENDIX 1 Strategic Tri-borough Risk Register**



Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer/Group	Review date
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<b>1</b>	<p><b>Managing budgets, finance risks.</b> Managing reductions in local, regional and national (capital and revenue) income streams.</p>	<ul style="list-style-type: none"> <li>Budget proposals, growth and reductions are projected and monitored.</li> <li>Central contingency for in-year budget risks and earmarked reserves.</li> <li>Tri-borough Business and Financial Planning.</li> <li>Medium Term Financial Strategy.</li> <li>Monthly corporate revenue and capital monitoring.</li> <li>Move to Managed Services for financial transactional services.</li> <li>Critical Friends Board review and recommendations to increase the potential of Tri-borough.</li> </ul>	3	4	<p>Medium</p>  <p>12</p> 	<p>Jane West, Executive Director of Finance and Corporate Governance, h&amp;f Council.</p> <p>Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.</p>	November 2014
<b>2 New</b>	<p><b>Loss of Government Grant.</b> Increase in difficulty to respond to reductions in grants allocated by Central Government. in particular to specific grants affecting residents and stakeholders.</p>	<ul style="list-style-type: none"> <li>Tri-borough Business and Financial Planning.</li> <li>Doing more with procurement and use of technology to protect front-line services.</li> <li>New proposals for h&amp;f Strategic Procurement following the Critical Friends Board review.</li> <li>Organisational review of management spans and layers.</li> <li>Leadership development scheme in order to streamline management structures.</li> </ul>	5	4	<p>High</p>  <p>20</p>	<p>Jane West, Executive Director of Finance and Corporate Governance, h&amp;f Council.</p> <p>Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.</p>	November 2014

## APPENDIX 1 Tri-borough Strategic Risk Register



Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
<b>3 New</b>	<b>Management of the Better Care Fund</b>	<ul style="list-style-type: none"> <li>The first draft of the Better Care Fund Plan, developed by Tri-borough in partnership with the corresponding 3 Clinical Commissioning Groups with assistance provided by the Integrating Care team at PPL Consulting and the Local Government Association.</li> <li>Further consultation is being planned with key stakeholders across the 3 localities including our residents, voluntary and community sector, primary, acute and community health providers, and our social service teams.</li> <li>The vision is being realised through the North West London's Whole System Integrated Care Programme, as a part of the successful Living Longer and Living Well Pioneer application, through Shaping a Healthier Future and our supporting Out of Hospital Strategies.</li> </ul>	3	4	Medium  12	Liz Bruce Tri-borough Executive Director of Adult Social Care.	November 2014
<b>4</b>	<p><b>Market Testing risks.</b> Failure to deliver high quality commissioned services at the best cost to the taxpayer.</p> <p>Tri-borough or Bi-borough procurement risk appetite may vary and procurement procedures may become unclear across Tri-borough.</p> <p>Social value in procurement</p>	<ul style="list-style-type: none"> <li>A Tri-borough procurement code has been established.</li> <li>A Tri-borough contracts approval board has been established.</li> <li>A Tri-borough forward plan of procurement has been produced.</li> <li>Tri-borough Adult Social Care and Childrens Services departments have established contract and commissioning boards.</li> <li>A review of the three boroughs Procurement service provision is to be conducted as part of the Corporate Services Programme and following the Critical Friends Board report.</li> <li>Harmonising of the Royal Borough Contract</li> </ul>	4	3	Medium  12 	All Executive Directors.  Bi-borough Procurement Strategy Board.  Adult Social Care and Childrens Services Procurement Contracts and Commissioning	November 2014

## APPENDIX 1 Tri-borough Strategic Risk Register




Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
	Contracts records management	<p>Regulations and Hammersmith and Fulham Contract Standing Orders and simplification of Governance processes as an outcome of the review of Procurement.</p> <ul style="list-style-type: none"> <li>Contracts registers are now managed through the CapitalESourcing Westminster City Council hosted system.</li> <li>A Tri-borough Procurement Risk Advisory Group, PRAG, has been established to identify and improve risks in the procurement process.</li> </ul>				Boards.	
5	<b>Failure to manage Public Health Service risks.</b>	<ul style="list-style-type: none"> <li>Tri-borough Public Health strategic business plan and associated aims, deliverables and risks.</li> <li>The Public Health Outcomes framework (The three boroughs will be measured against public health outcomes.)</li> <li>Strategic direction is derived from a number of sources including:                             <ul style="list-style-type: none"> <li>RBKC 2014/15 Budget proposals, six ambitions for the Council.</li> <li>Tri-borough Joint Strategic Needs Assessments</li> <li>The Public Health grant is ring-fenced and must be spent in line with clear grant conditions.</li> </ul> </li> <li>Grant conditions set out six prescribed functions;</li> <li>Sexual Health STI and treatment, contraception, NHS health check programme, health protection, public health advice, national child measurement programme.</li> </ul>	3	4	Medium  	Nigel Pallace, Interim Chief Executive, h&f Council.  Meradin Peachey, Director of Public Health.	November 2014

**APPENDIX 1 Tri-borough Strategic Risk Register**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
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6	<p><b>Business Resilience.</b></p> <p><b>Sub-risks</b> Systems that are not joined up and connected in the event of a Royal Borough or Tri-Bi Borough event.</p> <p>Failure of Information Governance during the development of major programmes.</p> <p>Supply chain resilience.</p>	<ul style="list-style-type: none"> <li>• Managed Services Programme. Testing, Disaster Recovery and Business Continuity Planning.</li> <li>• The Councils' generic Business Impact Analysis and Contingency/Business Continuity Plans are designed to be 'scalable' in response to any size of incident, and linkages with neighbouring local authorities ensure that central government and local government mutual aid assistance will be forthcoming in the event of a large-scale incident.</li> <li>• Corporate Incident Management Procedures incorporate Business Continuity.</li> <li>• Corporate Finance and Departmental (RBKC Brookes Bates, h&amp;f Creditsafe) credit checking. This is potentially moving to a Tri-borough solution with a newly procured supplier.</li> <li>• Contractor Business Continuity Planning.</li> <li>• Terrorism insurance cover.</li> <li>• Tri-borough Councils are working together to prevent terrorism offering free interactive workshops to raise awareness of the Prevent Strategy.</li> <li>• Prevent aims to stop people from becoming terrorists or supporting terrorism by focusing on supporting and protecting those who might be vulnerable to radicalisation.</li> </ul>	4	3	<p>Medium</p> <p></p> <p>12</p> <p></p>	<p>Lyn Carpenter Bi-borough Executive Director for Environment, Leisure and Resident Services.</p> <p>Tony Redpath, Director of Strategy and Local Services, the Royal Borough of Kensington and Chelsea.</p>	November 2014
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## APPENDIX 1 Tri-borough Strategic Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
<b>7 New</b>	<b>Information Management and digital continuity.</b>	<ul style="list-style-type: none"> <li>• Critical Friends Board report.</li> <li>• Senior Information Risk Officers.</li> <li>• Draft Tri-borough Information Management Strategy.</li> <li>• Tri-borough Information Management Board.</li> <li>• Tri-borough Information Management work programme.</li> <li>• Development of a Tri-borough approach to training, guidance and policies.</li> <li>• Service Resilience Group review of key Information Technology systems and the Service Continuity Plans.</li> </ul>	4	3	Medium  12	Jane West, Executive Director of Finance and Corporate Governance, h&f Council.  Ed Garcez Tri-borough Chief Information Officer.	November 2014
<b>8</b>	<b>Managing statutory duty.</b>  Non-compliance with laws and regulations.  Breach of duty of care.  Equalities (public sector equality duty or 'PSED') and Human Rights.	<ul style="list-style-type: none"> <li>• A Bi-borough Health and Safety Service commenced in January 2014 and Bi-borough Officers appointed to posts commencing September 2014.</li> <li>• A Bi-borough Health and Safety Committee was established in October for the Royal Borough and h&amp;f Councils.</li> <li>• A Bi-borough Health and Safety training package, Workrite was implemented across the Royal Borough and h&amp;f Councils.</li> <li>• Pro-active Health, Safety and Welfare culture across the Councils.</li> <li>• Tri-borough - The Total FM contractor AMEY now manages a number of statutory and regulatory Health and Safety procedural, record and management processes.</li> <li>• Legislative changes are adopted and reflected in amendment to the Councils' constitutions, budgets are</li> </ul>	4	3	Medium  12 	Nigel Pallace, Interim Chief Executive, h&f Council.  Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.  Charlie Parker Chief Executive Westminster City Council.	November 2014





## APPENDIX 1 Tri-borough Strategic Risk Register



Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
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		allocated through a unified business and financial planning process. <ul style="list-style-type: none"> <li>EIA's and Equality Statements address Human Rights where applicable.</li> <li>The Royal Borough Stock Conditions Surveys.</li> <li>Capital Programme.</li> <li>.</li> </ul>					
9	<b>Standards and delivery of care.</b> <ul style="list-style-type: none"> <li>Breach in standard and delivery of care – caring and care homes, schools.</li> <li>A breach of information security protocols in relation to an individual.</li> <li>Corporate Parenting.</li> </ul>	<ul style="list-style-type: none"> <li>Insurance cover is in place in the event of a claim for a breach of duty of care and in respect of financial claims.</li> <li>Legislative changes are adopted and reflected in amendment to the Councils' constitutions. Budget allocation are made through a unified Tri-borough business and financial planning process. All child protection cases have remained allocated to a social worker despite the high demand.</li> <li>A detailed action plan has been implemented in response to the increased numbers of children with child protection plans, to safely manage the demand and reduce activity in line with that of our statistical neighbours.</li> <li>The number of qualified social workers delivering a child protection service has increased by two over the past year.</li> </ul>	4	3	Medium  12 	Liz Bruce Tri-borough Executive Director of Adult Social Care.  Andrew Christie Tri-borough Executive Director of Childrens Services.	November 2014



## APPENDIX 1 Tri-borough Strategic Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
10	<b>Failure of partnerships and major contracts.</b>	<ul style="list-style-type: none"> <li>• The Link is an Intelligent Client function (ICF) that manages the AMEY Total Facilities Management (TFM) contract for Tri-borough. The LINK is a team of Council employees formed to manage the performance of services and govern the TFM contract. They work with AMEY to ensure services are kept to a high standard. The team is hosted by the Royal Borough of Kensington and Chelsea. They are responsible for:                             <ul style="list-style-type: none"> <li>• monitoring and auditing of Amey's performance.</li> <li>• general service improvement and innovation.</li> <li>• long term facilities management strategy.</li> </ul> </li> <li>• Information and Communications Technology (ICT) Programme Board.</li> <li>• Setting up of an ICT Intelligent Client Function.</li> <li>• The key provisions of the Tri-Borough working agreement are based on a 'high trust model' and the key principle underpinning the agreement is the sharing of staff using s.113 of the Local Government Act 1972.</li> <li>• New proposals to be developed for Strategic Procurement following the Critical Friends Board report.</li> </ul>	4	3	Medium  12 	Nigel Pallace, Interim Chief Executive, h&f Council.  Charlie Parker Chief Executive Westminster City Council.  Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.	November 2014



**APPENDIX 1 Tri-borough Strategic Risk Register**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
11 New	<p><b>Increase in complexity of working with partners.</b></p> <p>NHS, Clinical Commissioning Groups, Police</p>	<ul style="list-style-type: none"> <li>• Governance.</li> <li>• Information sharing protocols.</li> <li>• The role of Members scrutiny of partners risk management undertaken by the Scrutiny Committees at the Royal Borough of Kensington and Chelsea and Policy and Accountability Committees at h&amp;f.</li> </ul>	4	3	<p>Medium</p>  <p>12</p> 	<p>Nigel Pallace, Interim Chief Executive, h&amp;f Council.</p> <p>Charlie Parker Chief Executive Westminster City Council.</p> <p>Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.</p>	November 2014


**APPENDIX 1 Tri-borough Strategic Risk Register**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
12	<p><b>Decision making and maintaining reputation and service standards.</b></p> <ul style="list-style-type: none"> <li>• Pre-determination ( policies, contract reviews).</li> <li>• Breach of Officer or Member code of conduct</li> <li>• Information Management and Governance</li> <li>• Inappropriate Data released</li> <li>• Poor data quality internally or from third parties, breaches of information protocols, information erroneously sent to third parties.</li> </ul>	<ul style="list-style-type: none"> <li>• Feasibility studies and options appraisals.</li> <li>• Members induction.</li> <li>• Capacity building (I.T., Staff)</li> <li>• Development of Ward Panels.</li> <li>• Annual Audit letters produced by External Audit provide assurance to Members and Chief Officers.</li> <li>• A review of the corporate governance arrangements has been conducted by Internal Audit.</li> <li>• Directors Assurance Statements are completed as part of the Annual Governance Statement process.</li> <li>• Annual Complaints review report produced to Committees.</li> <li>• Combined Tri-borough Finance and Service Planning processes.</li> <li>• Information governance forms part of the Tri-borough ICT Programme.</li> </ul>	4	3	<p>Medium</p>  <p>12</p> 	<p>Jane West, Executive Director of Finance and Corporate Governance</p> <p>Steven Mair City, Treasurer Westminster City Council.</p> <p>Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.</p>	November 2014


**APPENDIX 1 Tri-borough Strategic Risk Register**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
13	<p><b>Failure to identify and address internal and external fraud.</b></p> <p>Introduction of a single fraud investigation service (SFIS) by the Department of Work and Pensions</p>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• CAFS teams use a risk assessment to assist in targeting and workload prioritisation.</li> <li>• A review of the whistleblowing policy has been undertaken and a revised Bi-borough policy is now in place and being communicated via the Intranet.</li> </ul>	4	3	<p>Medium</p> <p></p> <p>12</p> <p></p>	<p>Jane West, Executive Director of Finance and Corporate Governance h&amp;f Council.</p> <p>Nicholas Holgate, Town Clerk, The Royal Borough of Kensington and Chelsea.</p> <p>All Executive Directors</p> <p>Tri-borough Director of Internal Audit, Risk, Fraud and Insurance</p>	November 2014


## APPENDIX 1 Tri-borough Strategic Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
14 New	<p><b>Change in management of schools.</b></p> <ul style="list-style-type: none"> <li>• Relationships and accountabilities of academies.</li> <li>• Managing the potential of fraud in schools.</li> <li>• Managing the schools responsibilities under statute.</li> <li>• Safeguarding responsibilities.</li> </ul>	<ul style="list-style-type: none"> <li>• Amey/Link now provide some statutory compliance services for schools.</li> <li>• The role of 3 Borough Mutual in management of capital works.</li> <li>• Child and adolescent mental health services report.</li> <li>• (CAMHS) in Hammersmith and Fulham and particularly services for young people aged 13 years and above. It includes information on the current CAMHS initiatives. CAMHS Task and Finish Group report to the H&amp;F Health and Wellbeing Board. Support aimed at preventing mental ill health include resources for self-help and early stage interventions provided in universal settings such as schools, youth groups, early years groups, sports and leisure and in community settings.</li> </ul>	4	3	<p>Medium</p>  <p>12</p>	<p>Andrew Christie Tri-borough Executive Director of Childrens Services</p>	<p>November 2014</p>

**APPENDIX 1 Tri-borough Strategic Risk Register**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
15	<b>Management of environmental waste risk.</b>	<ul style="list-style-type: none"> <li>Working closely with the contractors Serco and SITA to ensure that contracts are delivered to the required standards. KPIs have been set and are closely monitored. There are regular meetings where issues are addressed.</li> <li>Regular monitoring of resident satisfaction followed up with action plans to maintain high levels of resident satisfactions. Members across boroughs are being kept informed to mitigate the political impact.</li> <li>Key risks are high levels of contaminations and low recycling rates. Mitigating actions include the set up of a Bi-borough officer level Waste Innovation group, regular sampling of waste, vigorous enforcement activities.</li> <li>The drop in recycling rate is a issue amongst many authorities across the country and work is being undertaken by Waste and Resources Action Programme (WRAP) at a national level to establish the reasons for this.</li> <li>Accessible Smart banks, small electrical items recycling and other recycling facilities across the boroughs</li> </ul>	3	3	Low  9	Lyn Carpenter Bi-borough Executive Director for Environment, Leisure and Resident Services.	November 2014

**APPENDIX 1 Tri-borough Strategic Risk Register**

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
15	<b>Management of Climate Change risk.</b>	<ul style="list-style-type: none"> <li>• Green champions established across both councils.</li> <li>• Tri-B Green Newsletter.</li> <li>• Office recycle and waste disposal schemes.</li> <li>• Campaigns during recycle week, climate week, energy saving week, reuse my pc.</li> <li>• h&amp;f Environmental Protection Service (noise and nuisance, construction site noise dust and pollution)</li> <li>• Carbon Reduction Team, h&amp;f.</li> <li>• Climate Change Team, the Royal Borough of Kensington and Chelsea.</li> <li>• Close monitoring of the RBKC Climate Change Programme</li> <li>• Go Green Programme, City Planning, Built Environment, WCC .</li> <li>• Flood management and risk assessment, Sustainable Drainage Systems (SuDS).</li> <li>• Working with the community eg. Petit Miracle Interiors is a charitable social enterprise teaching furniture restoration, interior design and basic DIY, to vulnerable adults and long-term unemployed in the Shepherds Bush area.</li> <li>• Recycle cartridge schools toner recycling, schools composting scheme, schools Battery Back battery recycling.</li> <li>• Materials Recycling Facility (MRF) school trips.</li> </ul>	3	3	Low  9	Lyn Carpenter Bi-borough Executive Director for Environment, Leisure and Resident Services.  Nigel Pallace, Interim Chief Executive, h&f Council.	November 2014



## APPENDIX 1 Tri-borough Strategic Risk Register

Ref	Risk	Mitigating Action	Likelihood	Impact	Risk rating /exposure	Officer Group	Review date
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**Risk movement.**



Risk exposure increased since last review.



Risk exposure decreased since last review.




No movement of risk since last review.

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Score	Key
16-25	<div style="display: inline-block; width: 20px; height: 20px; background-color: red; margin-right: 5px;"></div> <b>RED</b> - High and very high risk - immediate management action required
11-15	<div style="display: inline-block; width: 20px; height: 20px; background-color: orange; border: 1px dotted orange; margin-right: 5px;"></div> <b>AMBER</b> - Medium risk - review of controls
6-10	<div style="display: inline-block; width: 20px; height: 20px; background-color: lightgreen; border: 1px dotted green; margin-right: 5px;"></div> <b>GREEN</b> - Low risk - monitor and if escalates quickly check controls
1-5	<div style="display: inline-block; width: 20px; height: 20px; background-color: yellow; border: 1px dotted yellow; margin-right: 5px;"></div> <b>YELLOW</b> - Very low risk - monitor periodically



 <p><b>h&amp;f</b> the low tax borough</p>	<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p> <p>2<sup>nd</sup> December 2014</p>
<b>PENSION FUND GOVERNANCE – PENSION FUND SUB COMMITTEE</b>	
<b>Report of the Executive Director of Finance and Corporate Governance</b>	
<b>Open Report</b>	
<b>Classification:</b> For Decision	
<b>Key Decision:</b> No	
<b>Wards Affected:</b> All	
<b>Accountable Executive Director:</b> Jane West, Executive Director of Finance and Corporate Governance	
<b>Report Authors:</b> Jonathan Hunt, Tri-Borough Director of Treasury and Pensions and Nicola Webb, Tri-Borough Pension Fund Officer	<b>Contact Details:</b> Tel: 020 7641 4331 E-mail: nwebb@westminster.gov.uk

## 1. EXECUTIVE SUMMARY

- 1.1. The Committee is being requested to consider a proposal for a separate Pension Fund Sub Committee to be established to better enable the Council discharge its responsibility for the management of the Pension Fund effectively.

## 2. RECOMMENDATIONS

- 2.1. The Committee is asked for its views on a proposal to establish a Pension Sub Committee and its terms of reference or agree for the Committee to meet more frequently to consider Pension Fund matters.

## 3. REASONS FOR DECISION

- 3.1. To enable the views of the members currently responsible for Pension Fund decisions to be included in the proposals put to full Council on this matter.

## 4. INTRODUCTION AND BACKGROUND

- 4.1. The Audit, Pensions and Standards Committee was set up by Full Council on 26<sup>th</sup> May 2010. It was created as part of an exercise to reduce the

number of committees operated by the Council and streamline decision making.

- 4.2. In the time since that decision was made, the Pension Fund has grown to £800m and the range and complexity of the pensions arena has grown to the extent that it is difficult to afford sufficient time and attention to the Fund within the current committee structure. Scrutiny of Local Government Pension Funds and their governance arrangements has also been growing, particularly with the recent extension of the Pensions Regulator's remit to include local government pensions. It is therefore increasingly important that the Council is able to demonstrate effective governance of the Fund.
- 4.3. In addition it has also become difficult for the committee to give sufficient attention to the audit responsibilities.

## **5. PROPOSAL AND ISSUES**

- 5.1. In order that Members can focus sufficient attention on the £800m Pension Fund, it is proposed that a separate Pension Fund Sub Committee is established. The decision whether to do this is reserved for full Council.
- 5.2. Subject to Council's approval a Committee may have a Sub Committee whose membership is drawn from the parent Committee. It may delegate any, or all, of its functions to such Sub Committees or to an Officer, subject to any statutory restrictions.
- 5.3. The proposal for discussion is that the Audit, Pensions and Standards Committee would seek the establishment of a Sub Committee with delegated authority on all pension matters as outlined in the draft terms of reference.
- 5.4. Appendix 1 sets out the proposed terms of reference for the new Sub-Committee. The pension elements of the Audit, Pensions & Standards Committee were last reviewed in 2010 and so it is timely to review them for a proposed Sub Committee. The changes proposed to the current terms of reference reflect more accurately the matters the Sub Committee will cover in the wider pensions area and enable any successor Committees or Officers to have a better understanding of their respective remits. It would also foster a greater degree of alignment across Hammersmith and Fulham, Kensington and Chelsea and Westminster. This last point should enable a greater degree of discussion between the three Committee Chairmen where it is appropriate and relevant – given the degree of commonality in some areas between the three funds.
- 5.5. The Committee's views on this are sought on the terms of reference attached which outlines the membership, operational matters, and decision powers.
- 5.6. An alternative would be that the current Committee would meet more frequently perhaps with a set schedule of the types of items to cover at each meeting. This would provide more time to consider the breadth of

pensions and audit items to ensure they get sufficient attention. It would also ensure the whole Committee continues to deal with pension matters.

- 5.7. However increasing the number of meetings would not necessarily address the issue faced by the Committee as there would be times when both key Pensions and Audit issues need to be discussed at the same time clogging up the agenda. A Sub Committee structure would also enable the Committee to have a more focused group of members to develop expertise and detailed knowledge of pension matters to make effective decisions in this complex area.
- 5.8. It is the officers' view that the current committee structure does not sufficiently support the governance needs of the Pension Fund and that a separate Sub Committee is the best option for changing this.

## **6. CONSULTATION**

- 7.1 This committee's views are being sought on the proposal.

## **7. EQUALITY IMPLICATIONS**

- 7.1. Not applicable.

## **8. LEGAL IMPLICATIONS**

- 8.1. The establishment of a Pension Fund Sub Committee will continue to promote timely, effective, transparent and lawful decision making reflecting the arrangements Members have put in place for the running of the Council.

## **9. FINANCIAL AND RESOURCES IMPLICATIONS**

- 10.1 All costs arising from the operation of the Pension Fund Sub Committee will be met by the Pension Fund.

## **10. RISK MANAGEMENT**

- 10.1. Not applicable.

## **11. PROCUREMENT AND IT STRATEGY IMPLICATIONS**

- 11.1. Not applicable.

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

**LIST OF APPENDICES: - Appendix 1: Proposed Terms of Reference for the Pension Fund Sub Committee**

**PENSION FUND SUB COMMITTEE**  
**TERMS OF REFERENCE**

**1. Membership**

- 1.1 The Membership will consist of 3 members drawn from the parent Committee.
- 1.2 The Sub Committee will have the following membership:  
2 Administration Councillors  
1 Opposition Councillors
- 1.3 The Chairman will be drawn from one of the Administration Councillors; the Vice-Chairman will be an Opposition Councillor.
- 1.4 The Sub Committee may co-opt non-voting independent members, including Trade Union representatives, as appropriate.

**2. Quorum**

- 2.1 The quorum of the Sub Committee shall be 2 members.

**3. Voting**

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

**4. Procedures**

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

**5. Meetings**

- 5.1 The Pensions Fund Sub Committee will meet at least four times a year.
- 5.2 The Chairman of the Committee may convene additional meetings as necessary.
- 5.3 The Chief Executive may ask the Committee to convene further meetings to discuss particular issues on which the Committee's advice is sought.

## 6. **Reporting**

- 6.1 The Pension Fund Sub Committee will formally report back in writing to the full Council at least annually.

## 7. **Responsibilities**

To have responsibility for all aspects of the investment and other management activity of the Council's Pension Fund, including, but not limited to, the following matters:

1. To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
2. To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve the final statement of accounts of the Pension Fund and to approve the Annual Report.
6. To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
7. To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
8. To make and review an admission policy relating to admission agreements generally with any admission body.
9. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
10. To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
11. To receive and consider the Auditor's report on the governance of the Pension Fund.
12. To determine any other investment or pension fund policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies.

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

Document is Restricted



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

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