

Audit, Pensions and Standards Committee

Supplementary Agenda

Tuesday 15 September 2015

7.00pm

COMMITTEE ROOM 1 - HAMMERSMITH TOWN HALL

MEMBERSHIP

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

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Date Issued: 14 September 2015

Audit, Pensions and Standards Committee Agenda

15 September 2015

Item

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4.1 ANNUAL GOVERNANCE STATEMENT

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	<p align="center">London Borough of Hammersmith & Fulham</p> <p align="center">AUDIT PENSIONS AND STANDARDS COMMITTEE</p> <p align="center">15 September 2015</p>
<p align="center">ANNUAL GOVERNANCE STATEMENT FOR THE PERIOD COVERING 2014-15</p>	
<p>Report of the Director for Finance</p>	
<p>Open Report</p>	
<p>For Review & Comment</p> <p>Key Decision: No</p>	
<p>Wards Affected: None</p>	
<p>Accountable Director: Hitesh Jolapara, Director for Finance</p>	
<p>Report Author: Michael Sloniowski, Shared Services Risk Manager</p>	<p>Contact Details: Tel: 020 8753 2587 E-mail: michael.sloniowski@lbhf.gov.uk</p>

1. EXECUTIVE SUMMARY

- 1.1 This report presents to the Committee the Council's Annual Governance Statement (AGS) covering the period 2014 - 2015 (**Appendix 1**). The Annual Governance Statement is a statutory document which explains the processes and procedures in place to enable the council to carry out its functions effectively.
- 1.2 The statement is produced following a review of the Council's governance arrangements and requires an action plan to address any significant governance issues identified.

2. RECOMMENDATIONS

- 2.1 The committee consider and approve the 2014 – 2015 Annual Governance Statement.
- 2.2 The committee are recommended to monitor and track an agreed action plan to address significant weaknesses and ensure continuous improvement of the system of internal control.

3. REASONS FOR DECISION

- 3.1 This report updates Members on the purpose of the Annual Governance Statement and the governance framework that comprises of the systems and

processes, and culture and values, by which the Council is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

- 3.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

4. INTRODUCTION AND BACKGROUND

- 4.1 The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Directors and Managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. A review of the main elements of the Council's governance framework is undertaken by Internal Audit and no significant issues concerning Corporate Governance were identified as necessary to be reported to Hammersmith & Fulham Business Board.

4.2 Review of effectiveness

- 4.3 The Council is required and has reviewed in detail the control assurances across the authority and of its significant delivery partners including Shared Services partners. The results of the review of the effectiveness of the Internal Control environment is reported to the Leader of the Council, Chief Executive and Audit, Pensions and Standards Committee along with a plan following completion of the process, to be monitored by Internal Audit and the Committee in order to address any weaknesses in the control environment and ensuring continuous improvement of the system is in place.

4.4 Assurance process

- 4.5 The process that has been applied across Shared and Sovereign Services in order to maintain and review the effectiveness of the governance framework over an extended enterprise that includes the following:

- The Council's internal management processes, such as performance monitoring and reporting; the staff performance appraisal framework; internal surveys of awareness of corporate policies; monitoring of policies, such as the corporate complaints and health and safety policies; and the corporate budget challenge process;

- the work of the corporate and departmental contract and procurement and commissioning review boards;
- an annual self-assessment of the adequacy of the governance arrangements in departments completed by each Management Team and verified by their Executive Director or Director Shared or Sovereign services;
- the Council's internal audit coverage, which is planned using a risk-based approach. The outcome from the internal audit coverage helps form the Head of Anti-fraud and Internal Audit's opinion on the overall adequacy of the Council's internal control framework, which is reported in their annual report;
- the Head of Anti-fraud and Internal Audit's annual report on anti-fraud and corruption activities;
- the annual review of the effectiveness of the internal audit function;
- external audit review of the work of the internal audit service and comment on corporate governance and performance management in the Annual Audit Letter and other reports;
- External assessment and accreditation;
- Ofsted annual children's services assessment;
- External audit of the Council's financial statements and the pension fund accounts;
- the work of the Audit, Pensions and Standards Committee, which reviews the outcomes from the annual audit plan and the reports of the Head of Anti-fraud and Chief Internal Auditor;
- the work of the Policy and Accountability Committees; and
- work of the Audit, Pensions and Standards Committee, which specifically includes monitoring the operation of the members' Code of Conduct and the Member and Officer Protocol.

5. PROPOSAL AND ISSUES

5.1 Significant governance issues

5.2 The review, as detailed above, provides good assurance of the effectiveness of the Council's system of internal control. There have been 3 governance issues closed from 2013 – 2014 and 1 identified during the year that is considered significant in relation to the Council's overall governance framework which include;

5.3 Items closed (Details outlined in the Statement, Appendix 1)

- Adult Social Care Risk Management

- Public Health, financial accounting and charging.
- Contract Management – Maintenance of the contracts register

5.4 New governance issues (Details outlined in the Statement, Appendix 1)

- Managed Services – This is a service contracted by Westminster City Council (WCC), The Royal Borough of Kensington and Chelsea (RBKC) and the London Borough of Hammersmith & Fulham. The Senior Responsible Officer (SRO) for this project is the chief executive of WCC. There were four audits of the programme undertaken during the year of which a limited assurance was determined of the control environment associated with systems readiness, change management and testing. A review of this project is being commissioned by LBHF for and on behalf of LBHF.

5.5 Specific opportunities for improvement in governance and internal controls identified as part of the assurance processes have been addressed or are being included in action plans for relevant management action.

5.6 In 2015/16, the Council's top level management structure underwent significant change to better align it to the Council's priorities and reducing the number of senior managers. During the period of change, senior managers ensured that responsibilities and reporting lines were properly defined and clearly communicated.

6. OPTIONS AND ANALYSIS OF OPTIONS

6.1 *Not applicable as the report is a representation of the overall Statement which has been discussed and agreed by the Chief Executive and Leader of the Councils whose roles are entitled 'those charged with Governance'.*

7. CONSULTATION

7.1 The H&F Chief Internal Auditor, Risk Management Officer, H&F Business Board by virtue of the Management Teams Assurance Statements, Corporate Safety, Corporate Anti-Fraud Service, Legal Services, All services whom have contributed through the year on risk management and the Internal Audit Services of The Royal Borough of Kensington and Chelsea and Westminster City Councils.

8. EQUALITY IMPLICATIONS

8.1 *Not applicable.*

9. LEGAL IMPLICATIONS

9.1 *Failure to manage risk effectively and maintain a reasonable control environment 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 *The Council has a Fiduciary Duty to limit exposure to unplanned risk which 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 and to maintain a reasonable system of internal control. Appropriate and proportionate mitigating actions to known risks will continue to be expressed in the Shared Services 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, Risk Manager. 020 8753 2587

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1 *Not applicable*

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
3.	Departmental Risk Registers, Tri-borough Portfolio risk logs	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith

LIST OF APPENDICES:

Appendix 1 - Annual Governance Statement 2014 2015

LONDON BOROUGH OF HAMMERSMITH AND FULHAM

ANNUAL GOVERNANCE STATEMENT 2014 - 15

Introduction and purpose of the Annual Governance Statement.

This statement summarises key governance mechanisms and records the significant governance issues that need to be addressed over the coming year.

The purpose of the statement is to enable the Council to meet the requirements of the Accounts & Audit (England) Regulations 2015 to prepare such a statement.

A governance framework has been in place for the year ended 31 March 2015 and remained up to the date of approval of the Statement of Accounts.

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

The Governance framework.

The governance framework and local code of corporate governance enables the Council to monitor the achievement of its strategic objectives. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. In order to support good governance, reliance is placed on the Council's governance framework. Further information about transparency and openness in the Council can be found on the Council internet page "Transparency".

The annual revenue and capital budgets will be prepared by the Cabinet, consulted upon, reflected in the Forward Plan and then considered and approved by the full Council at the Budget Council meeting in February each year. This sets the level of Council Tax for the forthcoming Municipal Year (April - March).

The Constitution.

The conduct of the Council is defined by formal procedures and rules, which are set out in the Constitution. The Constitution explains the roles and responsibilities of the executive, non-executive, scrutiny and officer functions and the delegation arrangements that are in place. It also contains the Codes of Financial Management and Procurement and the Codes of Conduct for Members and Employees.

How do we know our arrangements are working?

To monitor the effectiveness of the Council's corporate governance systems, a review is undertaken each year of the governance framework, the basis of which is shown in the diagram below:

Corporate Governance	Management Team	Services are delivered economically, efficiently & effectively
<ul style="list-style-type: none"> • Constitution (incl. statutory officers, scheme of delegation, financial management & procurement rules) • Local Code of Corporate Governance • Audit Pensions and Standards Committee • Internal & external audit • Independent external sources • Scrutiny function • Council, Cabinet & Panels • Medium Term Financial Strategy • Complaints system • HR policies & procedures • Whistleblowing & other countering fraud arrangements • Risk management framework • Performance management system • Codes of conduct 	<ul style="list-style-type: none"> • The role of Chief Officers • Delivery of Council's aims and objectives • Corporate Planning • Business, Financial and Commissioning Plans • Officer codes of conduct • Performance appraisal • The role of the Chief Financial Officer • The role of the Head of Internal Audit • Roles & responsibilities of Members & Officers • Timely production of a Statement of accounts • External and Internal audit reports recommendations • Review of Corporate Governance 	<ul style="list-style-type: none"> • Management of risk • Effectiveness of internal controls • Democratic engagement & public accountability • Budget & financial management arrangements • Standards of conduct & behaviour • Compliance with laws & regulations, internal policies & procedures • Action plans dealing with significant issues are approved, actioned & reported on • Local Government Ombudsman report • Electoral Commission report • Scrutiny reviews • Effectiveness reviews of Audit Pensions and Standards Committee & Scrutiny Committees, Internal Audit • Employee performance • Budgetary control • Compliance with the Code of Procurement • Stakeholder engagement • Evaluation of benefits gained from investments and projects

The Council.

The Council comprised 46 elected councillors representing 16 wards. The composition of the Council in 2014/15 was:

Labour 26 Conservative 20

How it works.

The 46 Councillors are elected every four years. All 46 Councillors meet to take the major decisions on the budgetary and policy framework. The Council is responsible for the administration of the election process at European, national and local level. No issues were raised about the conduct of those elections by either a candidate or an elector. All Councillors meet together as the Council. Meetings are normally open to the public. The conduct of the Council's business is defined by formal procedures and rules, which are set out in the Constitution.

Full Council meetings are scheduled to take place normally five times a year. Members of the public are welcome to ask public questions about Council business and policy at Council meetings. Further

information about public questions can be found on the Council internet page “Taking part in the democratic process”.

The Constitution requires the Council to appoint a Monitoring Officer who, in addition to leading an annual review of the Constitution to ensure it remains fit for purpose, also advises on compliance with the Constitution and ensures that decision making is lawful and fair. The Shared Services Director of Law has been appointed to this statutory post. The Shared Services Director of Law has been involved in the production of this statement from its early stages and is satisfied that the arrangements in place are working effectively and that no matters of significance have been omitted from this statement.

In October 2014, Nigel Pallace was appointed as the Interim Chief Executive taking over from Nicholas Holgate who was the Joint Chief Executive with Royal Borough of Kensington and Chelsea also on an interim basis.

Audit, Pensions and Standards Committee.

Seeking assurance.

The Audit, Pensions and Standards Committee has responsibility for receiving many reports that deal with issues that are key to good governance. It acts as the Council’s audit committee.

Improved arrangements for risk management were noted by the Committee including monitoring of Enterprise Wide risks. The background to this has been the development of more formal collaborative working arrangements on risk, including sharing a Risk Manager with the Royal Borough of Kensington and Chelsea.

Centralised reporting from departments own business, programme and project risks feed into regular reports to the Committee and has helped provide transparency. Risks are also examined in the areas of Finance, Information Management and Technology, Procurement, Counter Fraud, Health and Safety, Insurance and Business Continuity.

Other significant reviews were conducted by the Committee and included;

- noting continued performance improvements in responding to internal audit reports and recommendations across the Council, and delivery of the Internal Audit plans;
- scrutiny of the Council’s Annual Governance Statement;
- review of Internal Audit compliance with the Public Sector Internal Audit Standards;
- approval of the 2013/14 year annual accounts.

When considering governance issues, the Audit, Pensions and Standards Committee raised a number of concerns about shortcomings in control systems and processes.

The most significant of these were:

- The delivery of the Managed Services programme;
- H&F measures to mitigate the threat of cyber terrorism;

Action has been taken:

- The Managed Services Programme Board commissioned a review of alternative options to go live that would enable issues to be resolved with sufficient time for robust testing of the system and the managed service, with contingency built into the plan to enable unplanned issues to be resolved. The conclusion of this work was a recommendation that the go live date was reset as 1st April 2015.
- A report outlining the counter measures in place to mitigate the threat of cyber terrorism was presented to the Audit Pensions and Standards Committee. The Council takes all the appropriate and proportionate measures needed to meet the threats facing it. It constantly stays abreast of changes in the world of technology and participates in relevant groups like the Information Security Forum for London which means that it can foresee or at least respond quickly to changes which may potentially compromise the council's information or services.

Managing finances.

The Council has embedded the Medium Term Financial Strategy (MTFS) within its business planning framework. The MTFS will continue to be the vehicle for allocating resources to the Council's priorities, driving through efficiency savings and monitoring their delivery. It provides the Council with a robust 3-4 year financial plan and a forum for challenging budget and service proposals, identifying and developing savings and efficiencies; and dealing with significant financial risks. The scale of the funding reductions requires the Council to have delivered £53 million in savings over the period 2014/15 to 2016/17, including £17.9 million in savings for 2014/15. This continues to be more challenging than the savings plans the Council has faced in the recent past. The route for delivering this scale of savings has been both as an individual authority and through the delivery of shared services.

The net under-spend on the General Fund was £8.6 million reflecting a 1.5 per cent underspending by departments after agreed carry forwards of budgets to 2014/15 of £5.4 million

Audit, Pensions and Standards Committee: Key Audit Business

June 2014

- Consider the outstanding recommendations for External Audit report.
- Approve the Head of Internal Audit annual report 2013-2014.
- Approve the Internal Audit Charter and Strategy.
- Approve the Corporate Anti-Fraud Service annual report.
- Approve the quarterly risk management report.

September
2014

- Approve the Statement of Accounts including Pension Fund Accounts for 2013-2014.
- Consider the outstanding recommendations for External Audit report and fraud response plan.
- Approve the quarterly Internal Audit report.
- Approve the Annual Governance Statement for 2013-2014.
- Approve the quarterly risk management report.

December
2014

- Receive the Annual Audit letter report 2013-2014.
- Approve the Annual Governance Statement action plan and outstanding recommendations for External Audit report.
- Approve the quarterly Internal Audit report.
- Approve the Public Sector Internal Audit Standards appraisal of the h&f Internal Audit service.
- Approve the Corporate Anti-Fraud Service report.
- Approve the quarterly risk management report.

February
2015

- Approve the Annual Governance Statement action plan and outstanding recommendations for External Audit report.
- Approve the quarterly Internal Audit report.
- Approve the grants claims report for 2013-2014.
- Approve the Corporate Anti-Fraud Service report.
- Approve the quarterly risk management report.
- Internal Audit Plans 2015-2016.

Effectiveness review of Policy and Accountability Committees.

An effectiveness review of the Overview & Scrutiny Committees has been undertaken. It was important that Overview & Scrutiny Committees acted effectively as one of their key tasks was to review and challenge the policy decisions taken by Cabinet.

As part of the Council's commitment to public engagement and working with residents in the developing policy development and strengthening the council's decision-making process, in June 2014, five Policy and Accountability Committee (PAC) were established. The PACs work hand-in-hand with residents to shape the future of the borough.

At Hammersmith & Fulham, there were five main scrutiny committees during 2014/15:

- Children and Education Policy and Accountability Committee
- Community Safety, Environment and Residents Services Policy and Accountability Committee
- Economic Regeneration, Housing and the Arts Policy and Accountability Committee
- Finance & Delivery Policy & Accountability Committee
- Health, Adult Social Care and Social Inclusion Policy and Accountability Committee

The Committees had cross cutting remits designed to reflect the Council's key priorities and objectives. They each comprised five elected non-executive Members. Committees were also able to co-opt members who had a particular expertise or direct knowledge of the service user perspective to assist with their work. Co-optees were usually non-voting although the parent governor and diocesan representatives on the Education and Children's Services PAC are entitled to vote on education matters.

Each Committee received the list of Key Decisions (a rolling list of key decisions which the Cabinet planned to take in the coming months) at every meeting, which assists in the development of work programmes and the identification of forthcoming key executive decisions deserving closer scrutiny and input.

Policy and Accountability Committees also had a wider role in policy development, originating topics of interest and feeding views back to the Cabinet and individual Cabinet Members, Officers, external partners and service providers.

There is more information about scrutiny in Hammersmith & Fulham at www.lbhf.gov.uk/scrutiny

Managing key risks.

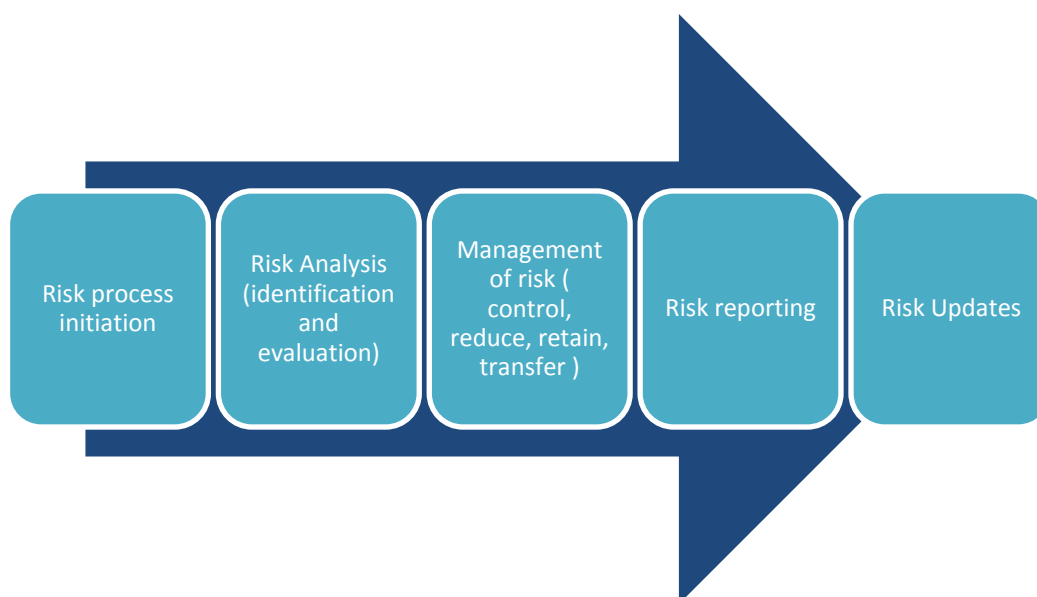
All Councillors and Managers are responsible for ensuring that risk implications are considered in the decisions they take.

Risk Management Strategy.

The Council has adopted a Shared Services risk management strategy. It was reviewed by the Audit, Pensions and Standards Committee and is independently audited annually to ensure it remains appropriate and reviewed to reflect the approach the Council wishes to take to the management of risk.

Risk analysis and management must follow a uniform process to ensure consistency and high quality.

The following diagram outlines the Council's approach to identifying and managing risk.



Risk review process.

It is recognised by the London Borough of Hammersmith & Fulham that risk management is an integral part of good governance. Services to whom substantial changes were made in 2015 resulted in a variety of business models being used across the three Councils.

The Risk Management Strategy Statement sets out the intended approach to risk management to be used for shared and sovereign services to respond to risk and opportunities in a consistent way to assist in the delivery of both strategic and operational objectives.

The aim of the Council is to ensure that:

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

This Strategy Statement is supported by a Risk Management Policy and its commitment to:

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

Corporate Anti-Fraud Service.

The Council has a Corporate Anti-Fraud Service (CAFS), which is a specialist investigative unit established to investigate allegations of fraud and irregularities, including:

- housing and council tax benefit fraud until the 1st February 2015 when it became the responsibility of the Department of Work and Pensions;
- council tax discount fraud;

- housing tenancy fraud;
- procurement fraud;
- payroll and pension fraud;
- other kinds of internal fraud, bribery, corruption or money laundering activity.

CAFS's role is to assist the council in protecting the public purse through the facilitation of sound strategies, procedures and controls in the prevention, detection, investigation and deterrence of fraud, corruption and bribery. The staff in CAFS are either qualified Fraud Investigators and/or Financial Investigators or hold other professional qualifications.

The Council has a range of controls in place to prevent, detect and investigate all types of fraud. We also rely on the vigilance of the local community to help us detect the fraudsters.

Anyone wanting to report a suspected benefit fraud can contact the Council. All information given will be in confidence. One can:

- Use the online form to report the fraud;
- call the anti-fraud hotline 020 8753 1273. Callers do not have to leave their names and all information will be treated confidentially;
- or write to the Corporate Anti-Fraud Service at Hammersmith Town Hall, King Street, Hammersmith W6.

Managing the risk of fraud.

A Whistleblowing policy entitled "Reporting Your Concerns at Work", is in place. The policy is reviewed annually and updated as and when required to bring it in line with best practice. The Council is committed to the highest standards of quality, probity, openness and accountability.

As part of that commitment it encourages employees and others with serious concerns about any aspects of the Council's work to come forward and make those concerns known. Full details of how concerns are dealt with can be found on the Council's web pages.

Contact by telephone:

Staff can report concerns to management or to a more senior manager or to the Council's Corporate Anti-Fraud Service on 020 8753 2551. However, if staff feel unable to do that, they can also phone the whistleblowing independent helpline, Public Concern at Work, on 020 7404 6609 or by completing an e-form:

All information received is treated in confidence:

In 2014/2015, over 350 allegations of fraud were investigated, resulting in 135 positive outcomes. These included, eleven housing benefit prosecutions, two tenancy fraud prosecutions, 42 housing properties recovered and £158,000 confiscated using powers in accordance with the Proceeds of Crime Act.

Bribery.

Gifts and hospitality need to be dealt with in the appropriate way so that the Council and its staff are and are seen to be honest, fair and open at all times. All members of staff have a responsibility to declare any offer of a gift, hospitality, benefit or service, even if the offer is not accepted. Each Council department has a Nominated Representative who is responsible for recording all of the

department's offers, both accepted and rejected. This process must take no longer than 28 days from the date the offer was received. When an offer is received, employees need to record this on a Declaration of Gifts and Hospitality form and submit this to their Line Manager. The manager and Department Executive Director need to authorise the declaration before you can accept it. It will then go to a Nominated representative for recording.

For more information about these revised procedures, please see the **Anti-Bribery Policy** and the **Codes of Conduct**.

Chief Financial Officer.

The Council has appointed a Chief Financial Officer. This is a statutory post, responsible for delivering and overseeing the financial management arrangements of the Council. The Executive Director of Finance and Corporate Governance was the Chief Financial Officer until 1st March 2015 when this role was transferred to the Bi-borough Director of Finance. The Bi-borough Director of Finance is the Chief Financial Officer, is a member of the Chief Officers' Management Team and also has the management responsibility for H&F Direct. Services provided by H&F Direct staff are council tax, parking permit issue and renewal, smart visitor permit issue, business rates, housing benefit, council tax benefit, collection of council property rents, free school meals, school clothing grants, recovery of debt, blue badges, freedom passes, taxi-cards, cashiering, and the contact centre. These have been brought together with a generic staff role to ensure that residents receive focused, joined up service delivery. Many of H&F Direct services are now online and accessible via 'My Account'. The Bi-borough Director of Finance also has management responsibility for Corporate Finance at the Council and with the Royal Borough of Kensington and Chelsea for one day a week.

The role conforms with the good practice requirements within the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

The Chief Financial Officer has been involved in reviewing our Corporate Governance arrangements and preparation of this Statement from its early stages. The Director is satisfied with the arrangements that are in place for managing finances.

Internal and External Audit assurance.

The Council receives a substantial amount of assurance from the work that is undertaken by the shared Internal Audit Service working in partnership with the Royal Borough of Kensington and Chelsea, Westminster City Council, Mazars and in 2014/15 Baker Tilley together with External Auditors KPMG.

Internal Audit.

The Audit Pensions and Standards Committee oversaw the introduction of the Public Sector Internal Audit Standards (PSIAS) in April 2013. These have been developed specifically for public sector organisations and should be followed. The Committee also approved an Internal Audit Charter – this sets out the internal audit role and its responsibilities and clarifies its independence.

Internal audit are required by regulation to review how they work each year. The Committee considered the review in June 2014 and decided that there were no significant issues of ‘non-conformance’ with the PSIAS that needed to be included in this statement.

An independent review conducted by one of the participating London Audit Group members is to be undertaken during 2015/16. This will identify any opportunities for further improving the service.

One of the key assurance statements the Council receives is the annual report and opinion of the Head of Internal Audit.

From the Internal Audit work undertaken in 2014/15, it is the opinion of Internal Audit that reasonable assurance can be provided that the system of internal control that has been in place at the London Borough of Hammersmith & Fulham for the year ended 31 March 2015 accords with proper practice, except for any details of significant internal control issues as documented in this Annual Governance Statement.

External Audit.

The External Auditor has concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

They issued an unqualified value for money (VFM) conclusion for 2013/14 on 19 September 2014. This means the External Auditor was satisfied that the Council has proper arrangements for securing financial resilience. To arrive at their conclusion KPMG looked at financial governance, financial planning and financial control processes, as well as how the Council are prioritising resources and improving efficiency and productivity.

Audit opinion.

An unqualified opinion was issued on the Council’s financial statements on 19 September 2014. The Auditor therefore believes the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements include those of the pension fund.

Financial statements audit.

KPMG’s audit of the financial statements identified two adjustments with a value of £137.9m which had a neutral effect on the income and expenditure accounts. The impact of these adjustments was to increase the net worth of the Authority as at 31 March 2014 by £137.9m. KPMG raised one recommendation in their ISA 260 report. These relate to the management of the Authority’s approach to the year-end valuation of Property, Plant and Equipment.

Annual Governance Statement.

KPMG reviewed the 2013/14 Annual Governance Statement and concluded that it was consistent with their understanding.

Significant Governance Issues 2013-14.

The progress made on dealing with governance issues previously identified is shown below;

Adult Social Care risk management.

Management of risk is intrinsically important to the successful delivery of objectives. The department recognises the importance of a risk management process that are now embedded and integrated into business processes. These include consideration of a departmental risk register comprising strategic, business as usual and change risks that are measured, allocated, categorised and reviewed.

Public Health, financial accounting and charging.

As of the 1st April 2013 local authorities took on 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 Business Partners, with the assistance of the Business Support Team, have been made significant progress throughout the year satisfactorily addressing the issues raised in the audit.

Contracts Register.

The Council is required under its contract standing orders to record its outsourced contracts through a register as a basis for the planning, preparation and oversight of contracts. Furthermore it is required to keep proper records of all contracts awarded. Previously the London Councils Contracts Database was being used to record contracts where these have a total value of £50,000 and over. It was apparent that the register was incomplete. Following a review of the procurement process and contracts record management a new system, CapitalESourcing, was introduced and made mandatory for the recording of all contracts.

Significant Governance Issues 2014-15.

While generally satisfied with the effectiveness of corporate governance arrangements and the internal control environment, as part of continuing efforts to improve governance arrangements the following issues, as highlighted in the statement, have been identified for improvement.

Managed Services.

The BT Managed Services Programme (MSP) is intended to standardise operations and reduce costs across Hammersmith and Fulham (LBHF), the Royal Borough of Kensington and Chelsea (RBKC) and Westminster City Council (WCC). The chief executive of WCC has been the Senior Responsible Officer (SRO) for the project throughout the programme. The programme aims to provide a standard system irrespective of the council or the service.

The system that was chosen provides a common transactional Human Resources, Payroll and Finance service. It was originally planned that it would provide a saving of over £6 million by 2015/16 across the three councils but there have been significant and costly problems with this project and that saving is no longer likely.

There were four audits of the programme undertaken during the year of which a limited assurance was determined of the control environment associated with systems readiness, change management and testing.

The 'Go Live' date was postponed from 1 April 2014 and then September 2014 with the majority of the system eventually going live on 1 April 2015. Since 'Go Live' there are problems that had not been foreseen and which are currently being worked through.

There are substantial concerns about this project. A review of the assurances given by the supplier, the effectiveness of the governance, commissioning, project management and auditing of this programme is being commissioned by LBHF for and on behalf of LBHF.

Signed:

Leader of the Council, Councillor Stephen Cowan

Signed:

Chief Executive, Nigel Pallace

On behalf of the London Borough of Hammersmith and Fulham.
14th September 2015