

	London Borough of Hammersmith & Fulham AUDIT PENSIONS AND STANDARDS COMMITTEE (26th September 2013)
TITLE OF REPORT Annual Governance Statement 2012 2013	
Report of the Executive Director of Finance and Corporate Governance	
Open Report	
For Review & Comment	
Key Decision:No	
Wards Affected: None	
Accountable Executive Director: Jane West, Executive Director of Finance and Corporate Governance	
Report Author: Michael Sloniowski, BiBorough Risk Manager	Contact Details: Tel: 020 8753 2587 E-mail: michael.sloniowski@lbhf.gov.uk

1. EXECUTIVE SUMMARY

1.1. This report presents to the Committee the Council's Annual Governance Statement (AGS) covering the period 2012 - 2013 (**Appendix 1**). The Annual Governance Statement is a statutory document which affirms the control processes and procedures are 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 includes an action plan to address any significant governance issues identified.

2. RECOMMENDATIONS

2.1. The committee consider and approve the 2012 – 2013 Annual Governance Statement.

2.2. The committee are recommended 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.

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 Executive, 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 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 its Tri and Bi Borough 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 to address weaknesses and ensure continuous improvement of the system is in place.

4.4. Assurance process

4.5. The process that has been applied across TriBorough in order to maintain and review the effectiveness of the governance framework over an extended enterprise includes the following but is not limited to:

- **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 Director and verified by their Executive Director for TriBorough, BiBorough 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 and includes monitoring the operation of the Members' Code of Conduct and the Member and Officer Protocol.
- **the work of the Overview & Scrutiny Board**

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 2011 – 2012 and 3 identified during the year that are considered significant in relation to the Council's overall governance framework which include;

5.3. Items closed (Details outlined in Appendix 1)

- Theft of metals
- Local Taxation
- Housing repairs and maintenance charging

5.4. New governance issues (Details outlined in Appendix 1)

- Business Continuity – Supply chain resilience
- Contract Management – Maintenance of the contracts register
- Health and Safety – Contractors property risk assessment plans

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 the relevant management action.

5.6. In 2012/13, the Council's top level management structure underwent significant change to better align it to the Council's priorities and reduce the number of senior managers, thereby achieving estimated savings of £1million. These changes presented challenges in maintaining the Council's good level of governance and internal control. During the period of change, senior managers needed to continue to ensure 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 at Hammersmith and Fulham Business Board.*

7. CONSULTATION

The H&F Chief Internal Auditor, Risk Management Consultant, H&F Business Board, Financial Strategy Board, Corporate Safety, Corporate Anti Fraud Service Legal Services Division, The Procurement and IT Strategy Team including Information Governance, all departments 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 Enterprise Wide Risk and Assurance Register and subject to review as part of planned Audit work and the Annual Governance Statement.*

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

12. PROCUREMENT AND IT STRATEGY IMPLICATIONS

12.1. *Not applicable*

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

No.	Description of Background Papers	Name/Ext of holder of file/copy	Department/ Location
1.	Association of Local Authority Risk Managers & Institute of Risk Management, 2002, A Risk Management Standard	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
2.	The Orange Book, Management of Risk Principles & Concepts – HM Treasury	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
3.	Departmental Risk Registers, Tri borough Portfolio risk logs	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith
4.	CIPFA Finance Advisory Network The Annual Governance Statement	Michael Sloniowski 2587	Corporate Finance Division, Internal Audit, Town Hall, Hammersmith

[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

Annual Governance Statement 2012 2013

Scope of responsibility

Hammersmith & Fulham Council (“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 and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has reviewed its code of corporate governance, now implemented as a shadow document, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This statement explains how the Council complies with the principles of corporate governance and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) [England] Regulations 2011 in relation to the publication of a statement of internal control.

The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values, by which the authority is directed and controlled and its 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.

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 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.

The governance framework has been in place at the Council for the year ended 31st March 2013 and up to the date of approval of the annual report and statement of accounts.

The governance framework

The key elements of the systems and processes that comprise the authority's governance arrangements are:

- ◆ Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users

The Council approves its objectives and strategy through its executive (known as the Cabinet) and through decisions of the full Council in respect of certain defined matters such as the Council's budget. The meetings are open to the public except where personal, confidential or exempt matters (within a limited number of categories set out in legislation) are being discussed.

The principal publicly available documents setting out the Council's key objectives are the Borough's Community Strategy and the Council's Corporate Plan, and these can be accessed via the Council website.

- ◆ reviewing the authority's vision and its implications for the authority's governance arrangements

A review of the Council's constitution takes place each year at the Annual Council meeting. Amendments that arise in-year based on any change in focus to the Council's vision or where change in legislation affects existing governance arrangements, including where mandates are agreed for the purpose of TriBorough or BiBorough working, are presented to Hammersmith & Fulham Business Board, Cabinet, and Full Council for approval as required.

- ◆ measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources

The authority continues to produce a range of local, national and operational performance indicators. These are reported to senior management as well as appropriate Member committees for review, which makes the information available to the general public.

- ◆ defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

The Council's constitution clearly documents the roles, functions, responsibilities and delegated powers of the Cabinet and Cabinet Members, Chief Officers, the scrutiny process, and of its "Key" decisions process (those which involve significant savings or expenditure or which have a significant impact). Key decisions are set out in a Forward Plan, which documents decisions likely to be taken in the next four months, and decisions are taken in public unless certain statutory 'exempt' items are

taken to members for decision. Occasionally a situation will arise where a decision will need to be taken quickly, in which case it will form a Leader's Urgent Decision, reported at the next Cabinet meeting. Decisions, which are not classified as key, are taken either by Cabinet members or by officers using the delegated powers set out in the constitution. Cabinet Members' decisions are set out in a report signed by the relevant Cabinet Member and are available to the public. Certain matters e.g. planning, licensing and senior appointments must be dealt with by either a Committee that reflects the political balance of the council or officers as set out in the Constitution. All Key Decisions are accompanied by an Equality Impact Analysis and/or Equality Statement.

Policies other than those decided by the full Council under the Budget and Policy Framework are decided by the Cabinet. The Cabinet is responsible for all executive functions. Non-executive functions which are set out in regulations must be dealt with by committees of members or individual officers e.g. planning applications.

- ◆ developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

As required under the Local Government Act 2000, the Council has adopted a constitution, which is reviewed and re-published every year at the end of May. This sets out how the Council operates, how decisions are made, and contains procedures which ensure that these are efficient, transparent and accountable to local people. The Constitution includes a code of conduct for members. In line with the Localism Act 2012, from July 2012 the Council's Standards Committee was abolished and integrated into the Audit, Pensions and Standards Committee. A new process for dealing with complaints received against Councillors and co-opted members was introduced. A new Members Code of Conduct promoting high standards of behaviour in the public life based upon the Seven Principles of Public Life was also being adopted. Members and officers will continue to be governed by the various additional local protocols contained within the Constitution.

The Council has an approved Anti-Fraud and Corruption Strategy and Bribery Policy that is incorporated in the Code of Conduct for Members and Officers. The strategy incorporates appropriate reporting procedures. Staff are provided with a copy of the officers' code of conduct upon taking up post with the council.

- ◆ reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

Standing Orders and Standing Financial Instructions form part of the Constitution. As such they are reviewed and approved annually. There is a framework of regular financial management information and reporting to

all levels of management and to Members. In addition there are Financial Regulations and financial procedures in place, which are regularly reviewed, including the Contracts Standing Orders and a structure of Financial Delegations. These include appropriate checks and management monitoring to help ensure compliance.

- ◆ undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities

The Council has an established Audit, Pension and Standards Committee for the purposes of approving its accounts and considering audit and risk management matters generally. Its terms of reference form part of the Council's overall constitution. These are fully compliant with the CIPFA guidance.

- ◆ ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

Regular reports are produced by the authority in compliance with current initiatives and external requirements

Services are delivered by suitably experienced staff. All posts have a detailed job description, and professionally qualified finance staff are employed in key roles throughout the organisation. There is an internal audit service that undertakes reviews of and reports on the adequacy and effectiveness of systems of internal control. This includes an annual, independent assurance statement by the Chief Internal Auditor giving their opinion on the authority's overall system of internal control. The Internal Audit Service has been subject to an independent annual review since financial year 2006/7 and has been assessed this year against the new combined Public Sector Internal Audit Standards.

All Cabinet reports are cleared by the Executive Director of Finance & Corporate Governance and by the Director of Law or a Lawyer in the Legal Services Department. The council has corporate boards, including scrutiny committees and partnership boards, whose role is to approve plans and monitor performance.

- ◆ whistle-blowing and for receiving and investigating complaints from the public

The Council has a whistle blowing (confidential reporting) procedure in place and this has been communicated to all staff via the corporate Intranet. It has recently been reviewed, revised and republished.

Complaints procedures are clearly signposted on the Council's internet site. This 3 step protocol is managed by the Corporate Complaints Officer based in the Finance and Corporate Services Department.

The Council also has a Monitoring Officer whose role and responsibilities are clearly defined in legislation and in the Council's constitution. This officer is ably supported by the authority's Legal Services Division.

- ◆ identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

Members who are to sit on the planning and licensing committees are required to undertake specialist training before they are allowed to sit. Additional directed training is provided to Cabinet and Committee members as needed, as an example the Audit, Pensions and Standards Committee receives regular training eg in interpreting accounts and different pension investment fund vehicles. The Leader undertakes appraisal meetings with Cabinet Members annually from which additional training programmes may arise.

- ◆ establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

Many forms of consultation take place across the Council, as appropriate to the circumstances, aims of the exercise, and need to consult. For example, consultation exercises may be conducted when revisiting or determining new policy, or reconfiguring or ending service provision. For these kinds of exercises, the Council uses a variety of methods such as open sessions for the public, sessions for service users and groups with an interest in our proposals, and a web based consultation package, Citizen Space. Each year a Borough Residents' Survey takes place that acts as a test of satisfaction in relation to the council's overall performance and that of individual services. The Council uses an internal challenge process for budget setting, and conducts Equality Impact Assessments when changes are to be implemented. The Council produces performance and finance related material that is available in both hard copy and electronic format available either centrally, on request or through release at local libraries.

Where services have been delivered through significant partners such as the National Health Service, Inner North West London NHS, Central London Community Healthcare, G.P. Consortia, H & F Bridge Partnership for Information and communication technology, or through other Councils particularly the Royal Borough of Kensington and Chelsea and the City of Westminster, performance monitoring, and mandates (where applicable) are in place and assurances of their internal governance arrangements have been reviewed.

The authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and Role of the Head of Internal Audit (2010).

Review of effectiveness

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 executive 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 entire governance framework has been completed and no significant issues found which is to be reported to the Council's Hammersmith & Fulham Business Board.

Control Assurances

The Council has reviewed in detail the control assurances across the authority and of its significant delivery partners including its Tri and Bi Borough partners. The results of the review of the effectiveness of the Internal Control environment has been reported to the Audit, Pension and Standards Committee along with a plan to address weaknesses and ensure continuous improvement of the system is in place.

Closed items

In completing this review the following governance issues identified in 2011-2012 were successfully closed;

1. *Theft of materials*

Metal theft increased when worldwide prices for scrap metal rose. The instances in 2011/12 of theft of metals in the White City Estate area affected 24 properties. The Housing and Regeneration Department explored the idea of using technology to mark valuable metals which would allow them to be identified as Council property but this was considered not cost-effective.

A stock condition survey and validation has been undertaken and details recorded. The Asset Management Plan and investment plan was agreed at Cabinet for future capital works which satisfactorily resolves this issue.

2. *Housing repairs and maintenance.*

Following investigations undertaken by Internal Audit in 2011/12, it had been established that there are some historic control weaknesses relating to the financial administration of council housing repairs and maintenance function. During 2012/13 the position was monitored by the Audit, Pensions and Standards Committee where it was established that a package of measures had been implemented including training, commitment accounting, and a weekly review process. This issue is now considered resolved.

3. *Local taxation*

A significant internal control issue was identified in the council's system for business rates collection. Arrangements were subsequently agreed with

the Royal Borough of Kensington and Chelsea to undertake a series of management checks. A new proposal to combine NNDR and some Council Tax matters (under a new Taxation manager post) is being implemented. Work is progressing on the recovery of outstanding debt and, following an independent disciplinary panel hearing, a prosecution is being progressed by the Council.

Following an internal audit of the NNDR system a number of control improvements were recommended that have been successfully implemented.

The following governance issues were identified in 2012-2013;

1. *Business Continuity* - Supply Chain Resilience

Following an increase in the number of outsourced services and the continuing broad economic uncertainty it has been identified that the council is exposed to an increased supply chain risk. Following a recent collapse of a significant sub-contractor an internal audit of Supply Chain Resilience has been approved to establish the effectiveness of the system of internal control.

Whilst the council remains resilient to its main contractors it remains at risk of service interruption in responding to the failure of a critical subcontractor and business continuity plans do not always allow for this risk.

Any proportionate systems or process improvements identified following on completion of the audit will be adopted to improve the control environment in this area.

2. *Contract Management*

Chief Officers are responsible for all contracts tendered and let by their Department. They are accountable to the Cabinet for the performance in relation to contract letting and management, which are to ensure compliance with English and EU legislation and Council Policy; to ensure value for money in all procurement matters.

The council is required under its contract standing orders to record its contracts through a register as a basis for the planning, preparation and oversight of contracts. Furthermore it is required to keep proper records of all contracts awarded (using the London Councils Contracts Database where these have a total value of £50,000 and over);

It is apparent that the register is incomplete. A review of contract management is being undertaken by Internal Audit. Any evidence of non compliance with contract standing orders and Financial Regulations may result in recommendations to improve the system of internal control.

3. Health and Safety

There has been substantial progress in delivering a reasonable Health & Safety environment throughout 2012/13 following a prosecution by the Health and Safety Executive. This has included enhanced training, support, resource and guidance. A map of Health and Safety risks has been compiled and is reviewed quarterly. Safety Committees exist for TriBorough departments.

There is some evidence that health & safety contractors property risk assessment plans are not being effectively monitored resulting in breaches of statutory Health & Safety legislation. One notifiable incident has been made to the Health and Safety Executive in this regard.

While proposals, including an appointed person in post for the management of Asbestos, to improve the controls, have been agreed and will be monitored by Hammersmith and Fulham Business Board, these arrangements are not fully established at this time. Action Plans have been modified to improve the system of internal control in this area.

The Council propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:.....

Chief Executive

Signed:.....

Leading Member
On behalf of Hammersmith & Fulham Council