



London Borough of Hammersmith & Fulham

COUNCIL

23 OCTOBER 2013

ANNUAL REPORT OF THE AUDIT, PENSIONS AND STANDARDS COMMITTEE 2012/13

Report of the Leader of the Council: Councillor Nicholas Botterill

Open Report

Classification - For Decision
Key Decision: No

Wards Affected: All

Accountable Executive Director: Jane West Executive Director of Finance & Corporate Governance

Report Author: Geoff Drake, Chief Internal Auditor

Contact Details:

Tel: 020 8753 2529

E-mail:

Geoff.Drake@lbhf.gov.uk

1. EXECUTIVE SUMMARY

- 1.1 The following report relates to the period 1 April 2012 to 31 March 2013. As there is separate reporting arrangements in relation to the Pensions element of the Audit, Pensions and Standards Committee's work this report excludes all matter relating to pensions. It also excludes matters relating to standards; there is another report on the Council agenda which covers this area.
- 1.2 The Audit, Pensions and Standards Committee (the Committee) has a wide ranging 'audit committee' brief that underpins the Council's governance processes by providing independent challenge and assurance of the adequacy of governance, risk management, and internal control. This includes audit, anti-fraud and the financial reporting framework; the Committee is also the Council's Approval of Accounts Committee.
- 1.3 The Terms of Reference for the Committee for 2012/13 are reproduced at Appendix 1 for information.

2. RECOMMENDATIONS

- 2.1 That the annual report be approved.

Audit, Pensions and Standards Committee

Annual Report 2012/13

Introduction

- 1 This report relates to the period 1 April 2012 to 31 March 2013. As there is separate reporting arrangements in relation to the Pensions element of this Committee's work this report excludes all matter relating to pensions. The Audit, Pensions and Standards Committee (the Committee) has a wide ranging 'audit committee' brief that underpins the Council's governance processes by providing independent challenge and assurance of the adequacy of governance, risk management, and internal control. This includes audit, anti-fraud and the financial reporting framework; the Committee is also the Council's Approval of Accounts Committee. The Terms of Reference for the Committee for 2012/13 are reproduced at Appendix 1 for information.
- 2 The table below details last year's Committee members. I would like to thank all members for their positive contributions throughout the year. The members have a wide range of skills and bring both technical and professional experience to the role. Within the Committee all members have some experience or have received development training in relation to the governance processes they challenge.

Members of the Audit Committee

Member	Role
Councillor Mike Adam	Chairman
Councillor Michael Cartwright	Vice Chairman
Councillor Robert Iggulden	Member
Councillor Lucy Ivimy	Member
Councillor PJ Murphy	Member
Councillor Marcus Ginn	Member
Eugenie White	Co-opted Member

- 3 To further support the Committee members, officers have been offered development training.
- 4 This report details the key successes and work of the Committee in relation to its role as an audit committee in 2012/13. The Committee has overseen transformation in all areas of its responsibilities and has actively contributed to leading and shaping those changes. Key achievements include:
 - Improved arrangements for risk management including monitoring of the Bi-Borough Enterprise Wide risks and a Tri-borough risk management

strategy. The background to this has been the development of more formal Bi-borough working on risk, including sharing a Bi-borough 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.

- Continued performance improvements in responding to internal audit reports and recommendations across the Council, and delivery of the Internal Audit plans;
- Oversight of a number of key issues including the employment of consultants and interims, a significant fraud in relation to business rates, and allegations made in respect of a regeneration project;
- Scrutiny of the Council's Annual Governance Statement;
- Review of compliance with the new Public Sector Internal Audit Standards;
- Approval of the 2011/12 year annual accounts.

Governance

- 5 The Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk. The governance framework comprises the systems, processes, culture, and values by which the authority is directed and controlled and it 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.
- 6 The Council has reviewed its code of corporate governance and found them to be consistent with the principles of the CIPFA/SOLACE *Framework Delivering Good Governance in Local Government*.
- 7 The Committee has a responsibility to assess the adequacy and effectiveness of the corporate governance arrangements that have been put in place. This is achieved in a number of ways. The Committee reviews in detail the Annual Governance Statement (AGS) that accompanies the annual accounts, to ensure it properly identifies the Council's governance arrangements, and that it accurately identifies significant control weaknesses. The process for producing the statement is outlined at Appendix 2. The statement in the 2012/13 draft accounts demonstrates evidence of responding to issues by monitoring the clearance of 3 significant control weaknesses.
- 8 The Committee also considers the work of Internal Audit and risk management in identifying and evaluating risks and ensuring arrangements are put in place to manage them. The Audit, Pensions and Standards Committee's view of governance is reflected in the Annual Governance Statement. The supporting review of governance states that the Council is compliant with the CIPFA/SOLACE governance guidance issued in 2007.

- 9 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).

Internal Control

- 10 A pivotal role of the Committee is its work in overseeing the Council's internal control and assurances processes culminating in the Annual Governance Statement (AGS). Part 2 of section 4 of the Accounts and Audit (A&A) Regulations 2011 require the Council to review the effectiveness of its governance arrangements including the system of internal control and to publish an AGS each year to accompany the financial statements. The information for the AGS is generated through the Council's Assurance framework which is outlined in Appendix 2, encompassing:

- Risk management; Tri-borough and Bi-borough issues
- Internal Audit;
- Anti-Fraud programme;
- External Audit;
- Third party assurances such as other inspection and review agencies;
- Annual assurance statements from departmental heads and specialist interest areas such as IT and procurement.

The Committee leads this review by receiving reports at every meeting from most of these areas.

Risk Management

- 11 Risk Management is a business discipline that public and private sector organisations use to maximise the potential for successful delivery of business opportunities and at the same time control costs and mitigate against potential threats that may impact on the achievement of corporate objectives. It also forms a key part of the Council's corporate governance arrangements, strategic management, project, financial and performance management process and aids the scrutiny process by providing transparency of decision making of officers plus policy and agenda setting of Members.
- 12 Operationally the engagement, ownership, management and delivery of risk management, including TriBorough risk management, as part of daily business practice has been maintained throughout the year. The process has been particularly effective in raising Members' and officers' awareness of both the risk and opportunities associated with major projects and programmes of work plus the development of risk registers into specialist areas has embedded the process further into the organisation.
- 13 There has been some inconsistency in business risk assessment during major service reorganisation programmes mainly due to the differing approaches adopted by the three councils. Risks have decreased as a result of management and mitigation in a number of major regeneration areas including the Earls Court and King Street development programmes. In these

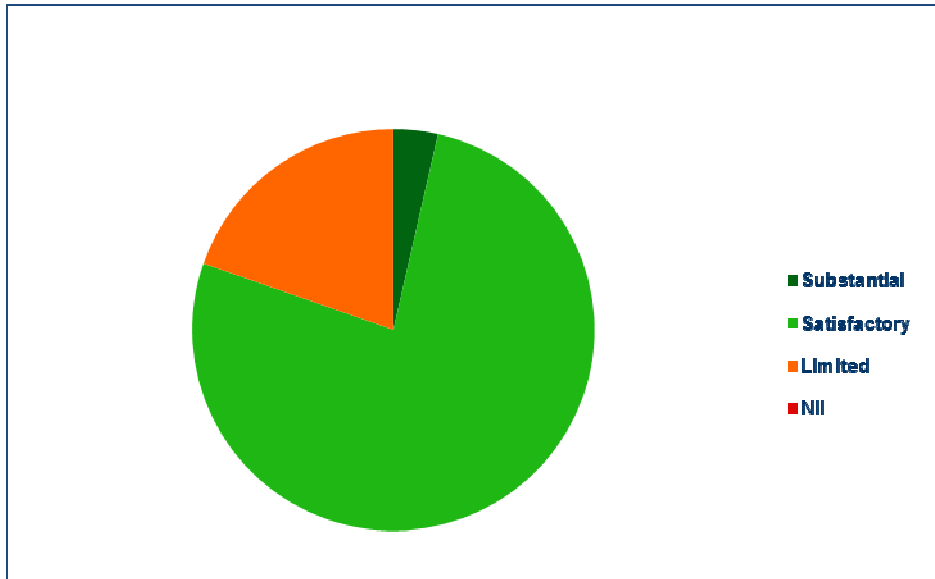
areas the risks reduced significantly due to the success of their respective planning decisions and changes to design following further consultation exercises. In some cases risks have increased due to planned changes for benefits and plans for Universal Credit. The Eurozone has also provided great volatility due to the international sovereign financial crisis. Risks have been monitored throughout the year on major change programmes including Managed Services and Facilities Management where risks and issues logs exist that alert Programme Boards to improve controls. Improvements to risk management in contractor supply chain monitoring has made the council more responsive to resilience matters and the effect of the negative impact on businesses of a sluggish economy. The H&F Business Board have focussed on addressing these key areas of risks through the ongoing review and maintenance of the Enterprise Wide Risk Register.

- 14 This has been delivered through very testing economic times and the comprehensive scrutiny of risk undertaken quarterly by the Committee has been robust and effective. The council is moving into a period of significant change with major change risk to the Finance, Procurement and Human Resources areas of business as newly procured systems come on-stream in 2012-2014. Benefits from management of the process where risk is acknowledged and quantified include improved organisational resilience and improved performance in service delivery to the community.

Internal Audit

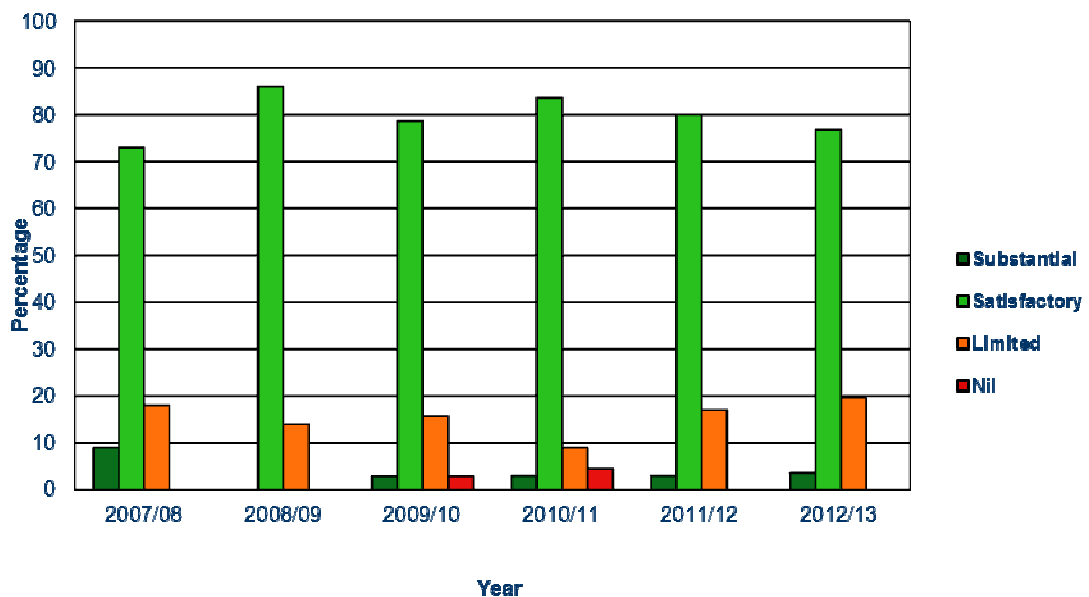
- 15 The Council's internal audit service is outsourced to under a framework agreement with LB Croydon to Deloitte & Touche Public Sector Internal Audit Ltd, who began delivering the service on 1 October 2004 and has won the contract re-tenders since.
- 16 The Internal Audit plans for the 2012/13 year were based on the departmental and the corporate risk registers supported by the production of an Assurance Framework. The draft plans were then reviewed and updated with departments through planning meetings with their Department Management Teams and were approved by the Business Board and the Committee.
- 17 The audit work that was completed for the year to 31 March 2013 involved 74 separate reviews of which 62 received an audit assurance. The levels of audit assurance achieved on the systems audited by year end are depicted in the chart below. This shows that 79% of the systems audited achieved an assurance level of substantial or higher, while 21% received a limited assurance level.

Assurance Levels for the year to 31 March 2013



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

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



- 19 The table below shows the percentage of recommendations past their implementation date reported as implemented. 100% of all recommendations made up to 2009/10 have been implemented. The volume of recommendations that have been implemented over the period help demonstrate the value of Internal Audit as an agent for change and improvement. Outstanding recommendations that have not been implemented will continue to be reported to Departmental Management Teams and the Committee.

Financial year	Recommendations Raised	Recommendations Implemented	% Implemented as at 31 March 2013
2012/13	324	321	99%
2011/12	327	322	98.5%
2010/11	274	271	98.9%

Anti-Fraud

- 20 During the 2012/13 year CAFS (Corporate Anti-Fraud Service) delivered 165 successful outcomes against a target of 130. These figures include 12 successful prosecutions, the remaining cases include administrative penalties, recovered properties, and removals from the Housing Register.
- 21 As a consequence of its counter fraud work the unit identified total fraud to the value of approximately £8.2 million. This figure includes £510k recovered by the council, £5 million that is potentially recoverable by the Council for the public purse. Where possible a financial value to the Council has been placed on the counter fraud work that CAFS undertakes on tenancies using the Audit Commission calculation that each recovered property is worth £18k to councils. Therefore the 25 recovered tenancies plus the 66 tenancies prevented have been valued at £2 million. All these financial values do not include values recovered from debts arising from fraud work in previous years. Nor does it account for any additional value such as the deterrent effect achieved from successful casework and the publicity gained from the results, plus the fraud awareness activity and the proactive work undertaken to prevent fraud occurring in the first place.
- 22 The work undertaken by the service has continued to expand with increased referrals for tenancy fraud and internal fraud, plus joint work undertaken with the police. The service now has three qualified Financial Investigators and a fully functioning Proactive resource and a legal officer. The service is also looking to use council intelligence more effectively.

Annual Accounts and Financial Reporting

- 23 Following some additional training provided to the Committee on local government accounts, the Committee reviewed the 2011/12 year annual accounts in its meeting in June 2012 in undertaking its role as the Approval of Accounts Committee. The training helped ensure that the Committee interpreted the accounts effectively and raised informed questions prior to approving the accounts.

Significant Issues

- 24 The Committee dealt with a number of significant issues during the 2012/13 year. These included the use of consultants and interims, allegations made regarding regeneration schemes, and the fraud that occurred in relation to NNDR.

Recruitment of consultants and interims

- 25 LBHF had a process for recruiting consultants and interims through personal service companies (PSC's) which was not fit for purpose and was given nil assurance opinion in an Internal Audit report in June 2011. A robust new procedure was developed and implemented in August 2011.
- 26 As the Council identified a total of 94 people who had been incorrectly treated for tax and National Insurance Contributions (NIC's) purposes as self-employed, a voluntary disclosure was made to HMRC. After detailed exchanges of information and a series of meetings a final liability of £357k including penalties of no more than £6k and interest over a six year period from 2006 - 20121 has been agreed. Given a worst case scenario of £640k, this represents the best outcome that the Council could have achieved. HMRC have complimented the Council on the effectiveness and efficiency with which it has managed its voluntary disclosure and that has led to a nil penalty for most of the liability.
- 27 An Internal Audit follow up report published in March 2013 has confirmed that all the recommendations made in its June report have been implemented and no further action is required. The Council has successfully concluded a difficult and sensitive issue and in doing so learned important lessons and played an important part in clearing up the distinction between independent contractors and people who should be treated as employees.

Regeneration Programme Allegations

- 28 Following allegations made by members of the public in relation to the Earls Court Regeneration Scheme the Committee commissioned an independent investigation into the claims. The report was presented to Committee in May 2013 and advised that there was no evidence to support the claims made.

Business Rates Fraud

- 29 Operational management became concerned that a council employee in the National Non-Domestic Rates (NNDR) team had been granting empty rate relief without proper controls and when properties were not empty and that this had happened on numerous instances. The individual was suspended and the matter was accepted for criminal investigation by the CAFS team at LBHF in May 2012. The officer and another individual have been charged under the fraud act and a full trial is pending, a parallel discipline investigation resulted in the dismissal of the officer from his employment in November 2012. An audit was undertaken to identify weaknesses in processes, a further audit has been undertaken confirming that effective controls have now been put in place to manage the risks. The losses incurred are to the public purse and not to LBHF finances.

Future developments

- 30 Some of the more significant issues likely to have a focus for the Committee are considered to include:
- a. The continued pressure being applied to councils through the new financial realities for public finances;
 - b. The organisational change programme within the council including that related to the tri-borough arrangements. This will include ensuring that control is maintained for existing services and projects, plus ensuring that new processes have control designed into them;
 - c. The Single Fraud Investigation Service linked to Universal Credit. This needs to be kept under review to be clear on the potential impact on the fraud service.

AUDIT, PENSIONS AND STANDARDS COMMITTEE
TERMS OF REFERENCE

1. Membership

1.1 The Committee will have the following membership:

4 Administration Councillors

2 Opposition Councillors

1.2 The Chairman will be drawn from one of the Administration Councillors; the Vice-Chairman will be an Opposition Councillor.

1.3 The Committee may co-opt non-voting independent members as appropriate.

1.4 The agenda of meetings of the Committee will be divided into separate sections for Audit, Pensions and Standards matters.

1.5 The Pension Fund's external investment managers will be required to attend meetings of the Committee when dealing with Pensions matters and to submit reports and make presentations as required.

1.6 The Trades Unions and representatives from the admitted and scheduled bodies in the Pensions Fund shall be invited to attend and participate in meetings considering Pensions matters, but shall not have a formal vote.

1.7 The Committee may ask the Head of Internal Audit, a representative of External Audit, the Risk Management Consultant, Assistant Director (Business Support) and any other official of the organisation to attend any of its meetings to assist it with its discussions on any particular matter.

2. Quorum

2.1 The quorum of the Committee shall be 3 members.

3. Voting

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

4. Procedures

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

5. Meetings

- 5.1 The Audit, Pensions and Standards Committee will meet at least four times a year.
- 5.2 Meetings will generally take place in the spring, summer, autumn, and winter. The Chairman of the Committee may convene additional meetings as necessary.
- 5.3 The Chief Executive may ask the Committee to convene further meetings to discuss particular issues on which the Committee's advice is sought.

6. Reporting

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

7. Responsibilities

(a) Audit

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

7.2 The Committee's responsibilities in relation to the annual accounts will include:

- to approve the Council's Statement of Accounts, in accordance with the deadlines set out in the Accounts and Audit Regulations 2003;
- acting as the Approval of Accounts Committee, to be held in June;
- to consider any report as necessary from the External Auditor under Statement of Auditing Standard 610;
- to re-approve the Council's Statement of Accounts following any amendments arising from the external audit, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003.

7.3 The Committee's responsibilities in relation to risk management will encompass the oversight of all risk analysis and risk assessment, risk response, and risk monitoring. This includes:

- the establishment of risk management across the organisation, including partnerships;
- awareness of the Council's risk appetite and tolerance;
- reviewing of the risk portfolio (including IT risks);
- being appraised of the most significant risks;
- determining whether management's response to risk and changes in risk are appropriate.

7.4 The Council has nominated the Committee to be responsible for the effective scrutiny of the Treasury Management Strategy and policies.

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

7.5 To determine the overall investment strategy and strategic asset allocation of the Pension Fund.

7.6 To appoint the investment manager(s), custodian, actuary and any independent external advisors felt to be necessary for the good stewardship of the Pension Fund.

7.7 To monitor the qualitative performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable.

7.8 To review on a regular basis the investment managers' performance against established benchmarks, and satisfy themselves as to the managers' expertise and the quality of their internal systems and controls.

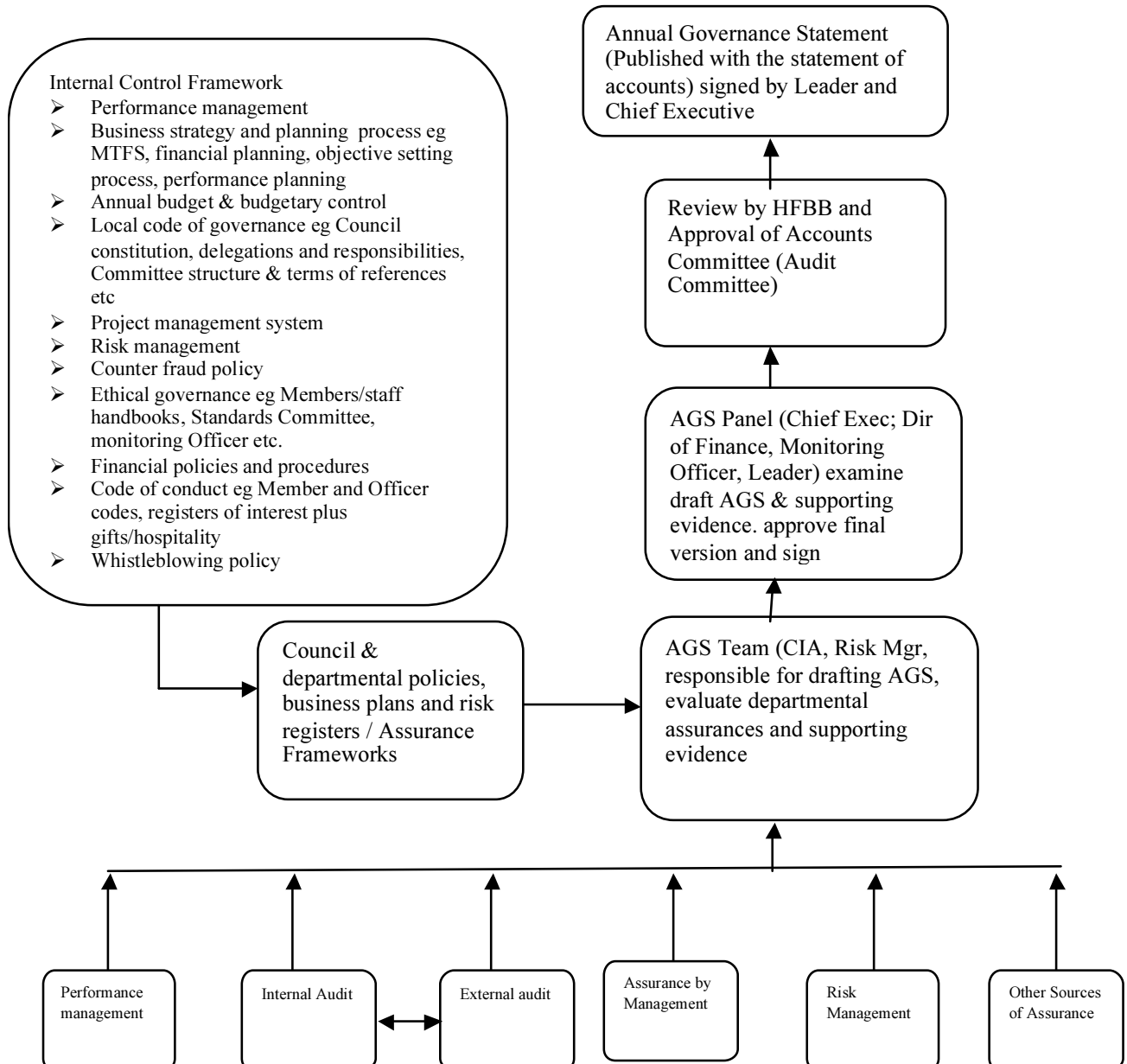
7.9 To prepare, publish and maintain the Statement of Investment Principles, and monitor compliance with the statement and review its contents.

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

(c) Standards

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

Council Framework for the Annual Governance Statement



LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	CIPFA publication 'Audit Committees – practical guidance for local authorities	Geoff Drake Ext. 2529	Finance and Corporate Services department 6 th Floor Town Hall Extension