



AUDIT AND PENSIONS COMMITTEE

29 June 2010

CONTRIBUTORS	Subject	WARDS
Risk Management Consultant Chief Internal Auditor Director of Finance	Annual Governance Statement 2009/10 year This Statement forms part of the council's 2009-10 year accounts and is submitted for review by the Committee	All

RECOMMENDATION:

To agree the contents of the Statement.

LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

No.	Description of Background Papers	Name/Ext. of Holder of File/Copy	Department/ Location
1.	Risk registers, Internal Audit reports, departmental year end assurance statements, etc.	Mike Sloniowski X2587	Risk Management Consultant, Hammersmith Town Hall

ANNUAL GOVERNANCE STATEMENT

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 an approved and adopted code of corporate governance embedded in its Financial Regulations, which is consistent with the principles of the CIPFA/SOLACE *Framework Delivering Good Governance in Local Government*. A copy of the code and Financial Regulations is contained in the Council's constitution and is available on the Council website. This statement explains how Hammersmith & Fulham Council has complied with the code 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 2006 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 2010 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, the Council's Corporate Plan, and the Borough's Local Area Agreement 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 are presented to the Executive Management Team 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 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 Councils 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 and decisions are taken in public unless certain statutory ‘exempt’ subject matter is being discussed. 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. 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.

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 (a national code, overseen by the Standards Board for England and the Council’s own Standards Committee) and various additional local protocols governing Members and officers.

The Council has an approved Anti-Fraud and Corruption Strategy that incorporates a 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. Standards of conduct of councillors are overseen by the Standards Committee.

- ◆ 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 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 e.g. reporting on statutory Performance Indicators.

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 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.

All Cabinet reports are cleared by the Head of Legal Services and by the Director of Finance & Corporate Services. The council has corporate boards, including scrutiny committees and partnership boards, whose role is to approve plans and monitor performance.

The Council has an established Standards Committee. The Standards Committee comprises 10 members (5 Councillor members and 5 independent persons drawn from outside the Council). The Committee will always be chaired by one of the independent members, and oversee the Council's ethical framework of codes and processes designed to ensure policy probity and high standards of conduct in respect of councillors. This committee meets regularly.

- ◆ 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.

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

All members are offered training on the members' code of conduct and must sign a declaration that they will be bound by it. 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 Committee receives training before each of its meetings. The Leader undertakes appraisal meetings with cabinet Members and Chief Officers 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 council policy and budget and council tax setting and from the compilation of the Community Strategy and Corporate Plan. The Council also uses a web based consultation package, Citizen Space, available through the Council's Internet. Added to these are the public forums for local issues such as the third Heathrow runway, Building Schools for the Future, tackling crime and the Leader Listens. Each year a Borough Residents Survey takes place that acts as a test of satisfaction in relation to the council's overall performance. The Council also produces its own newspaper distributed to residents called H & F News and performance and finance related material is available in both hard copy and electronic format available either centrally, on request or through release at local libraries.

- ◆ incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the authority's overall governance arrangements

In its wider community leadership role, the Council established the Borough Partnership. This is now accredited as a Local Strategic Partnership (LSP), by the DCLG and Government Office of London. It is responsible for overseeing

and updating the local community strategy, as a 10 year strategic vision for the area. The Borough Partnership has established a local public services board, to prepare and deliver the Local Area Agreement for Hammersmith and Fulham. Where services are delivered through significant partners such as the Primary Care Trust, H & F Bridge Partnership for Information and communication technology, or H & F Homes for Housing services, performance monitoring arrangements are in place and assurances of their internal governance arrangements have been reviewed.

The Council's Group Accounts include two other organisations that have a material impact on the accounts. These are H and F Homes Ltd and H and F Bridge Partnership Ltd. Their governance arrangements are outlined below.

H and F Homes

For H and F Homes the Board of Directors acknowledges its responsibility to establish and maintain systems of internal financial control. These include having formal policies and procedures in place relating to financial systems and letting of contracts, plus formal delegation of authorities. The Company has experienced and suitably qualified staff to take responsibility for important business functions supported by annual development review procedures. There is a risk management framework that is reviewed by the Chief Executive and the Executive team, plus internal audit and external audit services who report to the Company's Finance, Audit and Risk Committee which has the responsibilities of an audit committee. Forecasts and budgets are prepared that are then monitored by the Board of Directors and management, plus regular management accounts are prepared. All significant new initiatives, major commitments, and investment projects are subject to formal authorisation by the Board of Directors and officers of the Company. A full range of insurance including Fidelity Guarantee has been put in place to safeguard assets.

H and F Bridge Partnership

For H and F Bridge Partnership the Board is responsible for the effectiveness of the system of internal control and has established a continuous process for identifying, evaluating, and managing significant risks. Key business issues and risks are reviewed weekly by the Operations Executive and monthly by the Board. Where areas of improvement are brought to the Board's attention, steps are taken to embed internal control and risk management into the operations of the business. Objectives are captured in regular reviews of corporate strategy carried out by the executive directors with the involvement of senior managers and reported to the Board. The reviews of corporate strategy form the basis for establishing business objectives which are then fully reflected in business strategies and financial objectives. Key policies, processes and control procedures are communicated throughout the organisation. Non-compliance is reviewed and any weaknesses identified and addressed promptly by the Board. Continuing actions are taken throughout

the year to embed risk management and internal control in day to day operations. Authorisations and approvals are a key area of focus and significant investment has been made in work flow systems. Third party spend is significant. To minimise fraud risk and ensure necessary approvals are obtained all third party spend is controlled through the Agilisys Procurement Tool (APT) which is a web-based tool routing procurement requests automatically to appropriate managers and directors using a centrally set matrix of approved limits. It is policy to continue to strengthen the effectiveness of the system of internal control by recruiting, developing and managing employees of the highest calibre and matching their skills to the appropriate disciplines.

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 Executive Management Team.

Control Assurances and Group Accounts

The Council has reviewed in detail the control assurances across the authority and of its significant partners and advice on the implications of the result of the review of the effectiveness of the Internal Control environment to the audit committee and a plan to address weaknesses and ensure continuous improvement of the system is in place. Assurances have been sought of entities that form part of the Group Accounts and these have been included as part of this review. Matters pertaining to H & F Homes and H & F Bridge Partnership in which the council has an interest are disclosed as part of the following list. In completing this review the following governance issues were identified:

1. Budget Estimation

Corporate Capital and Revenue monitoring identified variances to budgets during the 2009/10 year. These were brought to the attention of the council's Financial Strategy Board as part of the standard monitoring process. Consequently departmental procedures have been strengthened through more explicit standard setting by Corporate Finance complimented with written guidance. Financial Regulations were updated and republished in 2009. An internal Audit review of the process will be undertaken during the 2010/11 year to gain an assurance on the effectiveness of the process improvements.

2. Reconciliation of financial systems

The Council has progressed well in redeveloping financial systems and processes over the past few years and acknowledges the project to move towards World Class Financial Management. However there are outstanding recommendations from External Audit relating to reconciliations that remain to be fully resolved.

3. Business Continuity IT

A paper has been submitted to Cabinet, and approved, recommending the implementation of a Business Continuity project to increase IT resilience. This will take some time to complete however it is anticipated that once in place arrangements should prove robust in the event of an IT service interruption.

4. Frameworki

Control issues emerging from the use of the Frameworki system were reported to Cabinet and the position updated in January 2010. Supporting Social Workers is key to safeguarding clients and the system has provided a number of challenges in what is a very complex case recording system. There is a good multi working arrangement across agencies that contribute to mitigating the risks plus developments made throughout the year to improve control with more planned improvements, these action are sufficient to resolve this as a significant control issue.

5. Contract Management of Consultants

The Audit Committee has received a report that identifies a number of weaknesses in managing these contracts that need to be addressed. The corporate Procurement team are leading a piece of work across departments to strengthen the management of consultants and the area will be re-audited in the 2010/11 audit programme.

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