	<p style="text-align: center;"><b>London Borough of Hammersmith &amp; Fulham</b></p> <p style="text-align: center;"><b>AUDIT PENSIONS AND STANDARDS COMMITTEE</b></p> <p style="text-align: center;"><b>16<sup>th</sup> September 2014</b></p>
<p><b>ANNUAL GOVERNANCE STATEMENT 2013 2014</b></p>	
<p><b>Report of the Executive Director of Finance and Corporate Governance</b></p>	
<p><b>Open Report</b></p>	
<p><b>For Review &amp; Comment</b></p> <p><b>Key Decision: No</b></p>	
<p><b>Wards Affected: None</b></p>	
<p><b>Accountable Executive Director:</b> Jane West, Executive Director of Finance and Corporate Governance</p>	
<p><b>Report Author:</b> Michael Sloniowski, Bi-borough Risk Manager</p>	<p><b>Contact Details:</b>  Tel: 020 8753 2587  E-mail: <a href="mailto:michael.sloniowski@lbhf.gov.uk">michael.sloniowski@lbhf.gov.uk</a></p>

## 1. EXECUTIVE SUMMARY

1.1. This report presents to the Committee the Council's Annual Governance Statement (AGS) covering the period 2013 - 2014 (**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 note the 2013 – 2014 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 Tri-borough 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 Tri-borough, Bi-borough 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 Tri-borough Head of Anti-fraud and Internal Audit's annual report** on anti-fraud and corruption activities
- **the annual review of the effectiveness of the Tri-borough 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 previous 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. One

governance issue was closed from the 2012 – 2013 AGS, two where progress continues to be made and two 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 Significant Governance Issues, Appendix 1.

- Health and Safety – Contractors property risk assessment plans

**5.4. Items where progress continues to be made.**

- Business Continuity, supply chain resilience – A Tri-borough solution is in development using segmentation and criticality of contracts loaded on the CapitalESourcing software. A Tri-borough procurement risk advisory group has been formed of procurement and business continuity officers to develop solutions and monitor progress.
- Contracts register – A Tri-borough solution, CapitalESourcing is being used to manage and record contracts electronically. As new contracts are awarded the system is updated.

**5.5. New governance issues**

- Public Health, financial accounting and charging. A Tri-borough Public Health strategic business plan and associated aims, deliverables and risks has been compiled. The plan includes how the three boroughs will be measured against public health outcomes using the Public Health Outcomes framework. Public Health strategic direction is also derived from a number of sources including the h&f 2012/15 Corporate Plan, Community Strategy, Improving Health and Wellbeing Strategy.
- Adult Social Care risk management. Adult Social Care continues to make improvements to their approach to strategic risk management since the last quarter. The Department are going through their key governance boards, assigning risks to them and working through with them how they should review each risk on the basis of the Tri-borough approach. Where new risks are being identified they are prompted to consider including them on the risk register. The Leadership team have had a discussion on and agreed the process for implementing the new policy, but they have not yet signed off a final, updated register.

**5.6. 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.**

5.7. 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. 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**

7.1. The Tri-borough Director of Audit, Risk, Insurance and Fraud, H&F and RBKC Senior Audit Managers, Bi-borough Risk Manager, H&F Business Board, Bi-borough Corporate Safety, Tri-borough Corporate Anti Fraud Service, The Bi-borough Director of Law, Bi-borough 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**

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

**LIST OF APPENDICES:**

*Appendix 1 – Annual Governance Statement 2012 2013*

**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 2011 to prepare such a statement.

A governance framework has been in place for the year ended 31 March 2014 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 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 "Council and democracy".

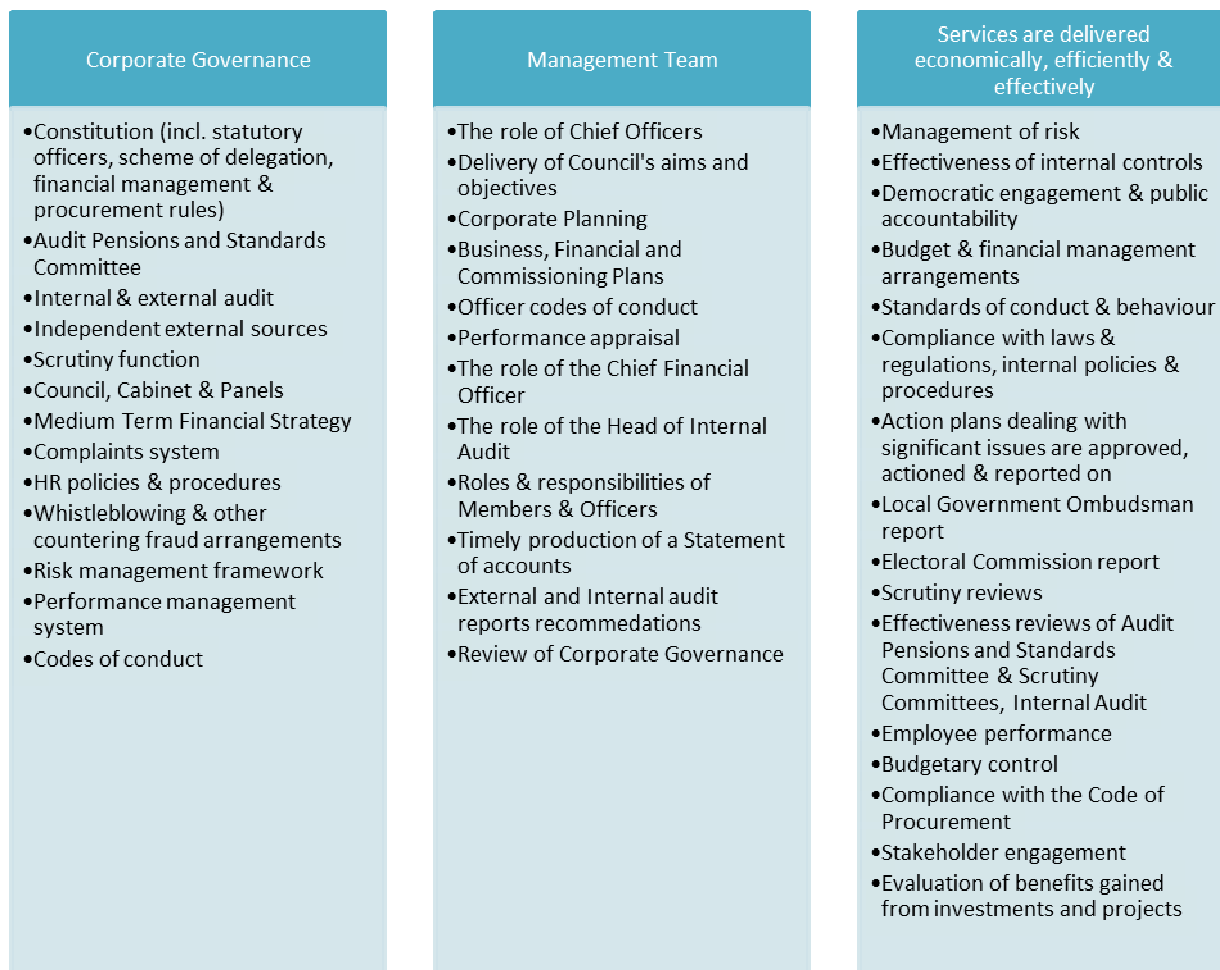
The annual revenue and capital budgets will be prepared by the Cabinet, consulted upon, reflected in the Forward Plan and then considered and approved by the full Council at the Budget Council meeting in February each year. This sets the level of Council Tax for the forthcoming Municipal Year (April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



## The Council

The Council was composed of 46 elected councillors representing 16 wards. The composition of the Council in 2013/14 was:

Conservative 31

Labour 15

## 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 Bi-borough Director of Law has been appointed to this statutory post. The Bi-borough 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 November 2013, interim management arrangements were introduced following the retirement of the Joint Chief Executive. The Council Leader agreed to combine the post of Town Clerk and Executive Director of Finance at the Royal Borough of Kensington and Chelsea with the post of Joint Chief Executive on an interim basis. Nicholas Holgate took up this role in November 2013.

## **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 Bi-borough Enterprise Wide risks and approval of 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.

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 compliance with the new Public Sector Internal Audit Standards;
- Approval of the 2012-2013 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:

- Oversight of a number of key issues including the employment of consultants and interims;
- A fraud in relation to business rates;
- Allegations made in respect of a regeneration project.

Action has been taken:

- HM Revenue and Customs have complimented the Council on the effectiveness and efficiency with which it has managed its voluntary disclosure on the employment of consultants and interims and that has led to a £357k back tax payment and £6k penalty for most of the liability over a six year period from 2006 - 2012. An Internal Audit report published in March 2013 confirmed that all the recommendations made in its initial report have been implemented. A follow up audit has since found evidence of non-compliance with the new procedures and therefore a limited assurance has been given on their effectiveness.
- National Non-Domestic Rates are the way businesses and other occupiers of non-domestic property contribute towards the costs of local authority services. The tax is set by the government and collected by us. A serious and material fraud was committed in this area and investigated during the year. The perpetrators have been convicted and robust efforts are being made to recover the monies fraudulently obtained. An audit has since been undertaken confirming that effective controls have now been put in place to manage the risks. The net losses incurred are currently estimated at £2.5 million, subject to further recoveries. Because the losses occurred before the new system of rates retention was put in place, they happen to be borne by central Government – but are no less serious for that. Two people were successfully prosecuted following an investigation into the crime and found guilty on all charges.
- Following allegations made by members of the public in relation to the Earls Court Regeneration Scheme the Committee commissioned an independent investigation

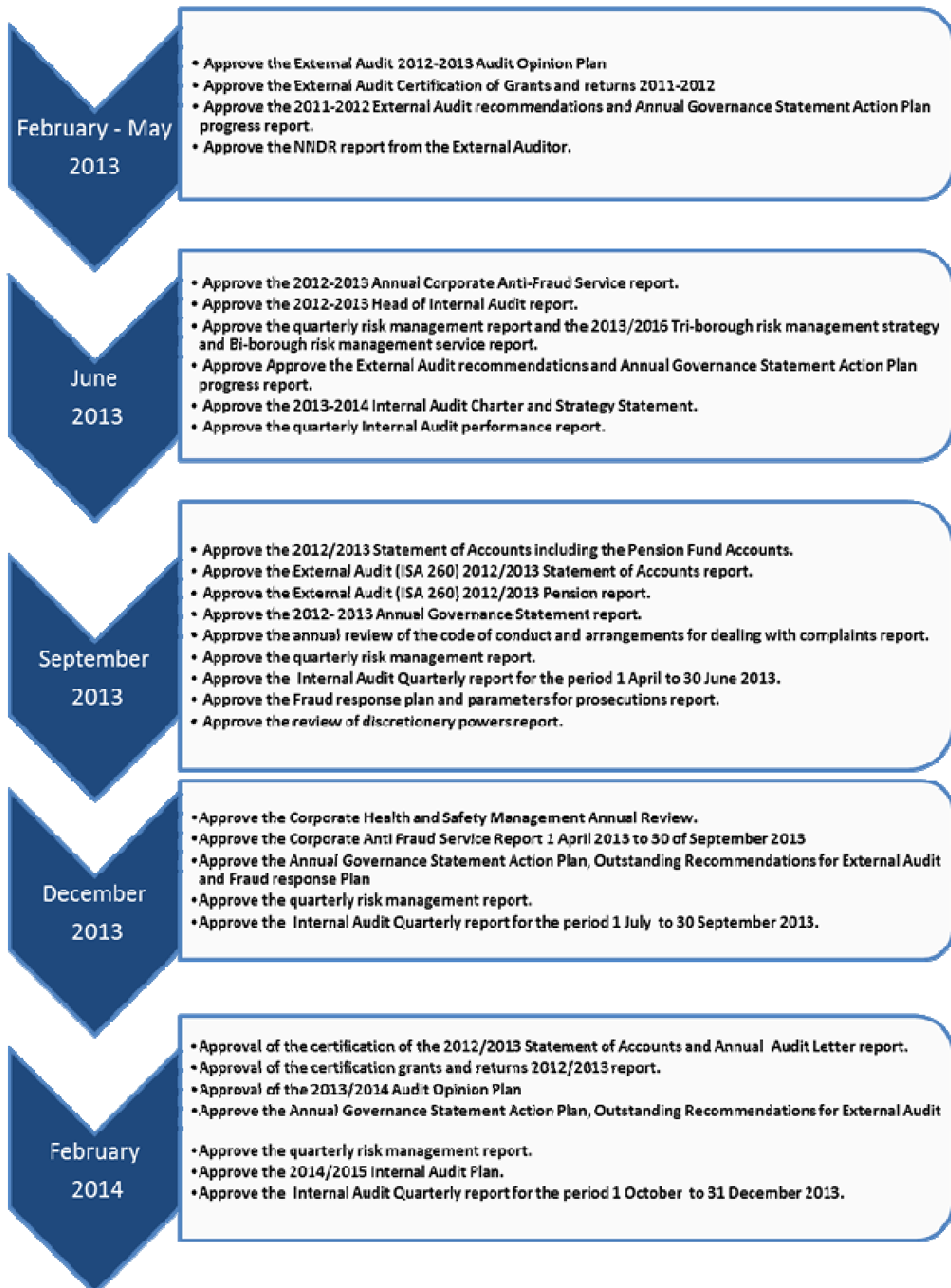
into the claims. The report was presented to the Committee in May 2013 and advised that there was no evidence to support the claims made.

### **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- 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 £61 million in savings over the period 2013/14 to 2015/16, including £23.6 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 is both as an individual authority and the Tri-borough Programme for combining services with the Royal Borough of Kensington and Chelsea and the City of Westminster.

The provisional net under-spend on the General Fund, subject to the final closure of accounts, was £11 million reflecting a 1.5 per cent underspending by departments after agreed carry forwards of budgets to 2014/15 of £8.2 million.

## Audit, Pensions and Standards Committee: Key Audit Business



## **Effectiveness review of Overview & Scrutiny Panels**

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

At Hammersmith & Fulham, there were four main scrutiny committees during 2013/14:

- The Overview and Scrutiny Board
- The Education and Children's Services Select Committee
- The Housing, Health and Adult Social Care Select Committee and
- The Transport, Environment and Residents Services Select Committee

The Committees had cross cutting remits designed to reflect the Council's key priorities and objectives. They each comprised nine elected non-executive Members. Committees may also co-opt members who bring a particular expertise or direct knowledge of the service user perspective to assist with their work. Co-optees are usually non-voting although the parent governor and diocesan representatives on the Education and Children's Services Select Committee were entitled to vote on education matters. The Overview and Scrutiny Board, which was responsible for coordinating the scrutiny function, included the Chairman of each select committee.

Each Committee receives the list of Key Decisions (a rolling list of key decisions which the Cabinet is planning 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.

Scrutiny Committees also have 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](http://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 the Tri-borough risk management strategy. It was reviewed by the Audit, Pensions and Standards Committee in December 2012 to ensure it remains appropriate and reflects 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, Westminster City Council and the Royal Borough of Kensington and Chelsea, that risk management is an integral part of good governance. Services undergoing substantial changes will continue into 2015 resulting in a variety of business models being used across the three Councils.

The Tri-borough Risk Management Strategy Statement sets out the intended approach to risk management to be used for Tri-borough, Bi-borough and sovereign services to respond to risk and opportunities in the delivery of both strategic and operational objectives.

The aim of each 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 supports a Tri-Borough 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
- 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

In 2013/14, 14 cases of fraud were identified of which seven cases were not proven, two staff were disciplined and five staff resigned.

### **Managing the risk of fraud**

A 'Whistleblowing' policy 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 2013/14, there were 12 housing benefit prosecutions, four benefits administration penalties, two housing benefits cautions issued and 26 housing properties were recovered.

### **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 is the Chief Financial Officer and is a member of the Chief Officers' Management Team.

The Executive Director has line management responsibility for the Accountancy team. 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 Executive 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 its Internal Audit Service (Tri-borough Internal Audit working in partnership with Mazars and Baker Tilley) and 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 that review in June 2013 and decided that there were no issues of 'non-conformance' with the PSIAS that needed to be included in this statement.

Good practice suggests that internal audit should also be reviewed against the governance arrangements set out in the CIPFA Statement on the Role of the Head of Internal Audit. This has not been done. The PSIAS are considered sufficiently challenging. An independent review of the internal service is to be undertaken during 2014/15. 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 Internal Audit Manager.

From the Internal Audit work undertaken in 2013/14, 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 2014 accords with proper practice, except for any details of significant internal control issues as documented in the detailed report. The assurance can be further broken down between financial and non-financial systems.

A limited assurance conclusion was provided for:

- Non-compliance of controls on the selection and Use of Consultants and Interim staff. This followed a nil assurance in 2010/2011. Procedures were improved and implemented however following a follow up audit there remain low levels of compliance;
- Weaknesses identified in the Council's supply chain resilience arrangements. These were identified following the liquidation of a major software supplier. Improvements were made to the credit monitoring arrangements of the Council and its Information Technology contractor. A Tri-borough programme is underway to categorise contracts by criticality using the new CapitalEsourcing procurement software;
- Two schools, St. Pauls CE Primary School and St. Thomas of Canterbury Catholic Primary School where recommendations have been made to improve the governance their of procurement and purchasing processes;
- Weaknesses were identified in the Commissioning and Procurement arrangements within Adult Social Care who have adopted a framework for purchasing including development of Tri-borough guidance and use of the Tri-borough eprocurement system ; and
- Maintenance of the contracts register which was found to be incomplete. A new system, CapitalEsourcing has been implemented and is envisaged that this will provide improvement to the process.

### **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 2012/13 on 30 September 2013. 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 30 September 2013. 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 did not identify any material adjustments. The Authority made three non-trivial adjustments in addition to the removal of the prior year adjustment originally shown in the draft accounts. KPMG raised two recommendations their ISA 260 report. These relate to the management of non-current assets and the arrangements for accounting for these and an opportunity to generate efficiencies in the investment approval process.

#### Annual Governance Statement

KPMG reviewed the 2012/13 Annual Governance Statement and concluded that it was consistent with their understanding.

#### **Significant Governance Issues**

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

#### **2012-13**

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. The Bi-borough Procurement Strategy Board are reviewing the systems and processes associated with resilience of the supply chain and a Tri-borough solution is in development .

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 was incomplete. A review of contracts was being undertaken by Corporate Procurement.

Health and Safety Management: there has been substantial progress in delivering a reasonable Health & Safety environment throughout 2012/13 and into 2013/14. This issue was raised following a prosecution by the Health and Safety Executive. Improvements have included enhanced training, support, resource and guidance. A map of Health and Safety risks has also been compiled and is reviewed quarterly. This matter is therefore considered closed.

## **2013-14**

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.

### **Public Health, financial accounting and charging.**

As of the 1st April 2013 local authorities have a key role in improving the health and wellbeing of their local population and working in partnership with clinical commissioning groups and other health institutions. This involves commissioning and collaborating on a range of public health services. A review of the financial accounting and charging arrangements set out by the Department of Health (DoH) established a limited assurance on expenditure made in accordance with the DoH grant conditions. The conditions cover how the grant may be spent and the activities on which it may be spent. The current Business Partners, with the assistance of the Business Support Team, have been making significant progress with addressing these issues.

### **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 embedded and integrated into business processes. Many elements of operational risk management are considered to be effective however these are not managed within a structure that is consistent with the Tri-borough risk management strategy. These include consideration of a departmental risk register comprising strategic, business as usual and change risks that are measured, allocated, categorised and reviewed. Departmental procedures have been reviewed and an action plan implemented to improve the issues identified.