	<p><b>London Borough of Hammersmith &amp; Fulham</b></p> <p><b>COUNCIL</b></p> <p><b>22 OCTOBER 2014</b></p>
<p><b>ANNUAL REPORT OF THE CHAIR OF THE AUDIT, PENSIONS AND STANDARDS COMMITTEE</b></p>	
<p><b>Report of the Chair of the Audit, Pensions and Standards Committee</b></p>	
<p><b>Open Report</b></p>	
<p><b>Classification - For Information</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> Geoffrey Drake, Senior Audit Manager</p>	<p><b>Contact Details:</b> Tel: 0208 753 2529 E-mail: Geoff.drake@lbhf.gov.uk</p>

## 1. EXECUTIVE SUMMARY

- 1.1. This report relates to the work of the Audit, Pensions and Standards Committee's work during the period 1 April 2013 to 31 March 2014 excluding all matters relating to pensions and standards. 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.
- 1.2. This report details the key successes and work of the Committee in relation to its role as an audit committee in 2013/14. The Committee has overseen transformation in all areas of its responsibilities and has actively contributed to leading and shaping those changes.

## 2. RECOMMENDATION

- 2.1. To note the contents of this report

## 3. REASONS FOR DECISION

- 3.1. Not applicable

## 4. INTRODUCTION AND BACKGROUND

- 4.1. The table below details last year's Committee members.

### 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 Charlie Dewhirst	Member
Eugenie White	Co-opted Member

- 4.2. This report details the key successes and work of the Committee in relation to its role as an audit committee in 2013/14. The Committee has overseen transformation in all areas of its responsibilities and has actively contributed to leading and shaping those changes. Key achievements include:
- Oversight and scrutiny of Tri and Bi-borough arrangements for risk management and the risk management service. This follows the approval and implementation of the Tri-borough risk management strategy and the commencement of a Bi-borough risk management service hosted by the Royal Borough of Kensington and Chelsea. Reporting from departments own business, programme and project risks feed into regular reports to the committee and has helped provide transparency on risk management. During the period the committee has called-in departmental risk registers for scrutiny and review and has considered the Council's response to monitoring of the Council's gas safety and health and safety programmes, IT Tri-borough Information security risk management, flood risk management arrangements, the e-procurement system and resilience of the Cedar financials system.

- Continued performance improvements in responding to internal audit reports and recommendations across the Council, and delivery of the Internal Audit plans;
- Oversight of key issues including a significant fraud in relation to business rates;
- Scrutiny of the Council's Annual Governance Statement;
- Review of compliance with the Public Sector Internal Audit Standards;
- Approval of the 2012/13 year annual accounts.

## **Governance**

- 4.3. 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.
- 4.4. 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*.
- 4.5. 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 2013/14 draft accounts demonstrates evidence of responding to issues by monitoring the clearance of 3 significant control weaknesses.
- 4.6. 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.
- 4.7. The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

## **Internal Control**

- 4.8. 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.
- 4.9. The Committee leads this review by receiving reports at every meeting from most of these areas.

## **Risk Management**

- 4.10. 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.
- 4.11. Operationally the engagement, ownership, management and delivery of risk management, including Tri-borough 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. 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. These have now decreased following the approval of a Tri-borough standard. A single template for business risk assessment has been agreed for use across Tri-borough and risk registers have been combined, where they made sense to do so. A common way of assessing, recording and reporting of risk was agreed with our Tri-borough partners. There are good examples of risk management practice in departments and areas where reporting and risk awareness has improved. These include the Tri-borough Children's

Services and Environment, Leisure and Residents Services departments. Additionally substantial progress has been made in the identification of Tri-borough Information Technology, Security and Information Management risk. Full assurance was also given on the Council's financial risk management arrangements following an internal audit review.

- 4.12. There remain challenges where management of risk can be improved. This includes the assessment of risks in programme and project management, supply chain resilience and management of a contracts register for procured and commissioned services. Tri-borough has been effective in addressing these challenges including implementing a Tri-borough e-procurement system that captures all relevant procurement processes and manages the procurement workflow. A Tri-borough Procurement Risk Advisory Group (PRAG) has been formed to improve the resilience of the supply chain alongside the Councils' business continuity teams. 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. The H&F Business Board have focussed on addressing these key areas of risks through the ongoing review and maintenance of the Tri-borough Enterprise Wide Risk Register.
- 4.13. This has been delivered through 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 2015. 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**

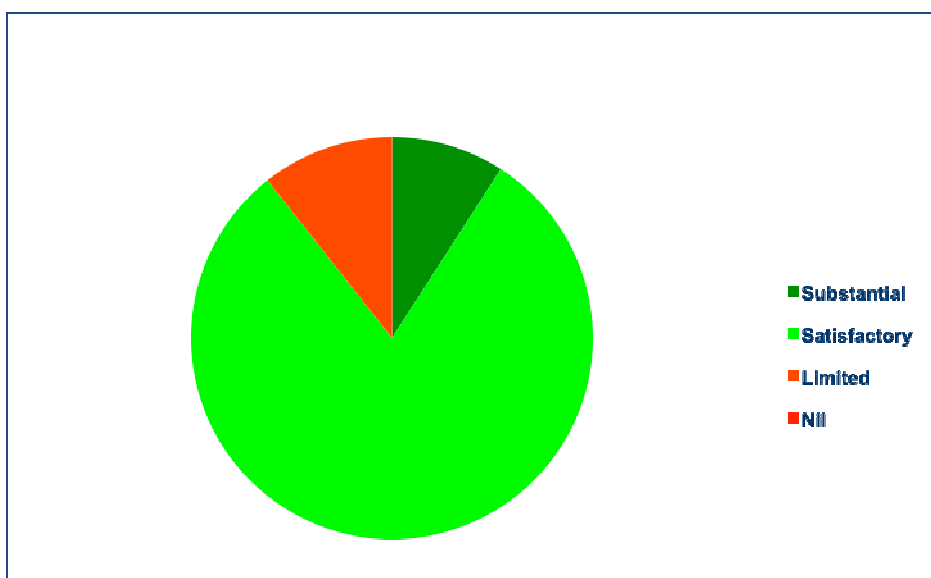
- 4.14. The Council's internal audit service is outsourced to under a framework agreement with LB Croydon to Mazars, a Public Sector Internal Audit Company, who began delivering the service in January 2014 following transfer of business from Deloitte.
- 4.15. The Internal Audit plans for the 2013/14 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.
- 4.16. The annual Head of Internal Assurance Report concluded that 'From the Internal Audit work undertaken in 2013/14, it is our opinion that we can provide reasonable assurance 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 documented.’ During the financial year 2013/14, the following significant issues were identified from Internal Audit work:

- A Limited Assurance audit opinion was provided for the audit of the Use of Consultants and Interims following a Nil assurance opinion provided in 2010/11. Although the design of the control system was found to be satisfactory, a large amount of non-compliance was identified;
- Weaknesses were identified in the Council’s supply chain resilience arrangements;
- The corporate contracts register was found to be incomplete; however a new system, CapitaleSourcing, has since been implemented and it is envisaged that this will improve the maintenance of the contracts register;
- The Public Health financial accounting and charging system was audited and is the basis for the Annual Governance entry on the subject;
- Two schools received Limited Assurance opinions, which is an improvement on the previous year where four schools received a Limited Assurance opinion.

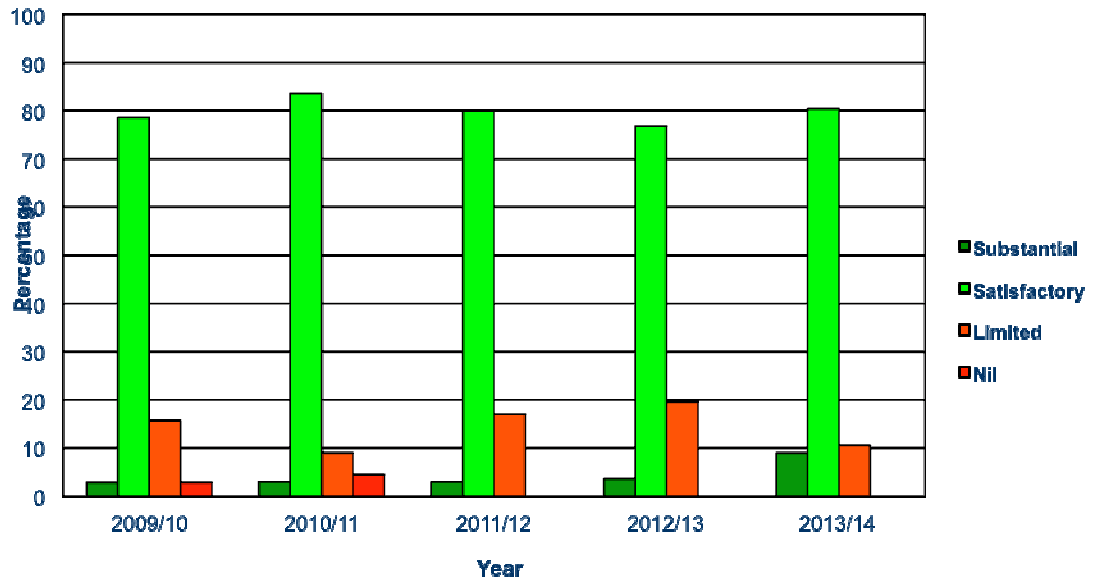
4.17. The audit work that was completed for the year to 31 March 2014 involved 74 separate reviews of which 62 received an audit assurance. The levels of audit assurance achieved on the systems audited by year end are depicted in the chart below. This shows that 89% of the systems audited achieved an assurance level of satisfactory or higher, while 11% received a limited audit assurance. Two of the seven Limited Assurance reports were for schools and a further three were audits undertaken at the request of management who had already identified weaknesses or concerns.

#### Assurance Levels for the year to 31 March 2014



4.18. The bar chart below shows the levels of assurance provided for all systems audited since the 2009/10 financial year. The distribution of assurance opinions shows a decrease in Limited Assurance reports and an increase in Satisfactory Assurance reports. Given the significant changes that continue to occur across the Council, which would usually be expected to increase levels of control weakness, this is considered a positive outcome.

**Assurance Levels of Reports from 2009/10 to 2013/14**



4.19. Recommendations to take corrective action were agreed with management and we will continue to undertake follow up work in 2014/15 to confirm that they have been effectively implemented. The table below shows the percentage of recommendations past their implementation date reported as 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.

Financial year	Recommendations Raised	Recommendations Implemented	% Implemented as at 11 June 2014
2013/14	118	117	99.2%
2012/13	238	235	98.7%

### Anti-Fraud

4.20. During the 2013/14 year CAFS (Corporate Anti-Fraud Service) identified 155 positive outcomes against a target of 130, including twelve prosecutions, nine recovered social housing properties and eight false housing applications. Proceeds of Crime (POCA) recoveries totaled £135,630.

- 4.21. As a consequence of its counter fraud work the unit identified total fraud to the value of approximately £3.8 million. Where possible a financial value to the Council has been placed on the counter fraud work that CAFS undertakes and does 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.
- 4.22. CAFS is part of the Tri-borough Anti-Fraud Service that came into effect from 1 April 2014. Previously CAFS was a Bi-borough Service working in partnership with the Royal Borough of Kensington and Chelsea's Corporate Investigation Group from 1 July 2013.
- 4.23. CAFS continues to provide Hammersmith & Fulham with a full, professional counter fraud and investigation service for fraud attempted or committed against the Council.

### **Annual Accounts and Financial Reporting**

- 4.24. Following some additional training provided to the Committee on local government accounts, the Committee reviewed the 2012/13 year annual accounts in its meeting in September 2013 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**

- 4.25. The Committee dealt with a number of significant issues during the 2013/14 year. These included the fraud that occurred in relation to NNDR, and the Council's contracts register.

#### Business Rates Fraud

- 4.26. 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. The officer and another individual were charged with four offences between them.
- Conspiracy to defraud contrary to the Common Law
  - False accounting contrary to section 17 of the theft Act 1968
  - Fraud contrary to Section 1 of the Fraud Act 2006
  - Dishonestly making false representations contrary to Section 111A (1)(a) of the Social Security Administration Act 1992



- 4.27. The trial commenced on 10 February 2014 at Isleworth Crown Court where the jury returned an 11-1 majority verdict of “guilty” for all charges. Following several adjournments they were sentenced at Chichester Crown Court on 16 June 2014.
- The ex-employee was sentenced to eight years for Conspiracy, five years for the Theft Act charge and two years for the Fraud Act charge. The Theft Act and the Fraud Act charges are to run concurrent. In total, he was sentenced to eight years imprisonment.
  - The co-conspirator was sentenced to four years for Conspiracy and nine months for the benefit fraud charge and these are to run consecutively.
- 4.28. The successful prosecution has triggered confiscation proceedings in respect of the Proceeds of Crime Act and this is currently ongoing. Assets belonging to the individuals, valued at in excess of £360,000 have been frozen. Further action against a number of business ratepayers is currently being considered.

#### Contracts Register

- 4.29. Following an audit report identifying issues in relation to the completeness of the Council’s contracts register the Committee expressed its concerns and asked that officers attend to explain the position and the actions being taken. Officers from both H&F and Westminster City Council attended the June 2014 Committee meeting to give a presentation on the new CapitaleSourcing system and answer the newly constituted Committee’s questions on future planned improvements.

#### Consultants and Interims

- 4.30. In March 2012 the Council made a voluntary disclosure to HMRC with respect to its incorrect treatment of 94 people who should have been subject to deduction of tax and National Insurance Contributions (NICs) as independent self-employed contractors. A total of 59 of these people were engaged by schools to provide additional teaching or enrichment activities such as guitar lessons or tennis coaching. An end of project report was provided to the Audit, Pensions and Standards Committee dated 22 May 2013. The report anticipated the successful conclusion of the voluntary disclosure, but was not able to confirm the final figures.
- 4.31. H&F formally concluded this matter on 15 January 2014. The delay arose out of the time taken by HMRC to confirm the amount of the set off against the Council’s liability of tax paid by those named in its voluntary disclosure and an error by HMRC with respect to the application of the Finance Act 2008.

4.32. The total amounts that have been paid by the Council to HMRC are confirmed as follows:

Unpaid PAYE tax and NICs	£324,626.00
Statutory interest	£ 16,308.00
Penalties	£ 5,224.60
<b>Total</b>	<b>£346,158.60</b>

4.33. A report to the Committee in September 2012 identified a best case scenario of £350k and a worst case of £640k. The difference between the worst case and the outcome achieved was as a result of being able to agree with HMRC a substantial reduction in the tax liability and the penalties to which the Council might have been liable.

### **Future developments**

- 4.34. Some of the more significant issues likely to have a focus for the Committee are considered to include:
- The continued pressure being applied to councils through the new financial realities for public finances;
  - 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;
  - From October 2014 the Department for Work and Pension (DWP) will launch a Single Fraud Investigation Service (SFIS) to investigate Social Security, welfare benefit and Tax Credit fraud across all local authorities, HM Revenue and Customs, and DWP. SFIS will be a single organisation within DWP and a phased national implementation program will continue until April 2016. The Council has been informed that SFIS will take on responsibility to investigate alleged and suspected housing benefit fraud in H&F from 1 March 2015. In line with the transfer of work, Council staff will also transfer to DWP, maintaining their current terms and conditions akin to a TUPE transfer. The implementation of SFIS will have a substantial impact on the manner in which the Fraud Service operates and will result in a reduction in staffing levels at the Council, together with a re-focusing of fraud work. In the coming months the Fraud Service will need to re-align to react to the changing responsibilities and to ensure the Service is structured to effectively prevent, detect and deter fraud against the Council.
  - The ongoing programme to deliver Managed Services which will deliver significant changes to the delivery of financial and Human Resources processes.

## **5. PROPOSAL AND ISSUES**

5.1. Not Applicable

**6. OPTIONS AND ANALYSIS OF OPTIONS**

6.1. Not Applicable.

**7. CONSULTATION**

7.1. Not Applicable.

**8. EQUALITY IMPLICATIONS**

8.1. Not applicable

**9. LEGAL IMPLICATIONS**

9.1. Not applicable

**10. FINANCIAL AND RESOURCES IMPLICATIONS**

10.1. Not applicable

**11. RISK MANAGEMENT**

11.1. Not applicable

**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>
	none		

**LIST OF APPENDICES:**

**Appendix 1 – APSC Terms of Reference**

**Appendix 2 - Council Framework for the Annual Governance Statement**

**AUDIT, PENSIONS AND STANDARDS COMMITTEE**  
**TERMS OF REFERENCE (2013/2014)**

**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**

