


London Borough of Hammersmith & Fulham COUNCIL 21 OCTOBER 2015		 h&f hammersmith & fulham
ANNUAL REPORT OF THE CHAIR OF THE AUDIT, PENSIONS AND STANDARDS COMMITTEE		
Report of the Chair of the Audit, Pensions and Standards Committee Councillor Iain Cassidy		
Open Report		
Classification: For Information Key Decision: No		
Wards Affected: None		
Accountable Director: Hitesh Jolapara, Finance Director		
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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 2014 to 31 March 2015 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 Iain Cassidy	Chairman
Councillor Michael Adam	Vice Chairman
Councillor Nicholas Botterill	Member
Councillor Adam Connell	Member
Councillor PJ Murphy	Member
Councillor Ben Coleman	Member
Councillor Guy Vincent	Member
Councillor Mark Loveday	Member
Councillor Donald Johnson	Member

4.2. This report details the key successes and work of the Committee in relation to its role as an audit committee in 2014/15. 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 Shared Service arrangements for risk management and the risk management service hosted by the Royal Borough of Kensington and Chelsea. Departments own business, programme and project risks feed into regular reports to the committee and has helped provide transparency on risk management performance. Departments also are required to attend committee to provide context to the risk environment. During the period the committee arranged the call-in of departmental risk registers for scrutiny and review and has considered the Council's response to monitoring of the Council's exposure to Cyber Risks.
- Continued performance improvements in responding to internal audit reports and recommendations across the Council, and delivery of the Internal Audit plans. This has included now asking officers from services that receive limited and nil assurance audit reports to attend meetings to present and answer member questions on the reports;
- 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 2013/14 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 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 2014/15 draft accounts demonstrates evidence of responding to issues by monitoring the clearance of 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 6 of section 2 of the Accounts and Audit (A&A) Regulations 2015 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 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 Shared Service arrangements for 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, for example in the Managed Services Programme, mainly due to the differing approaches adopted by the councils approach to management risk in programmes

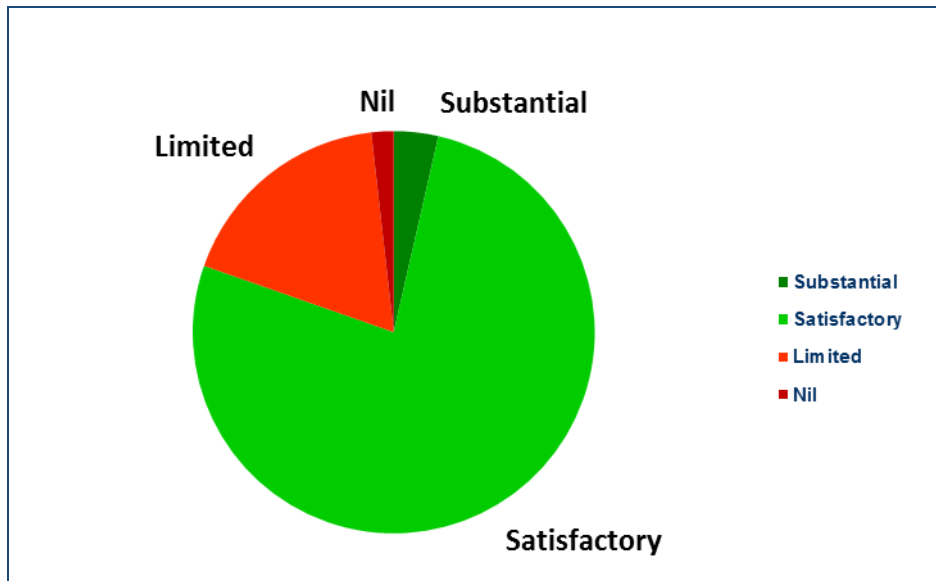
4.12. There remain challenges where management of risk can be improved. This includes the assessment of risks in programme and project management, supply chain resilience and management of a contracts register for procured and commissioned services, where a number of direct awards have been identified and have been referred to Internal audit. The H&F Business Board have focussed on addressing these key areas of risks through the ongoing review and maintenance of the Shared Services 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. 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

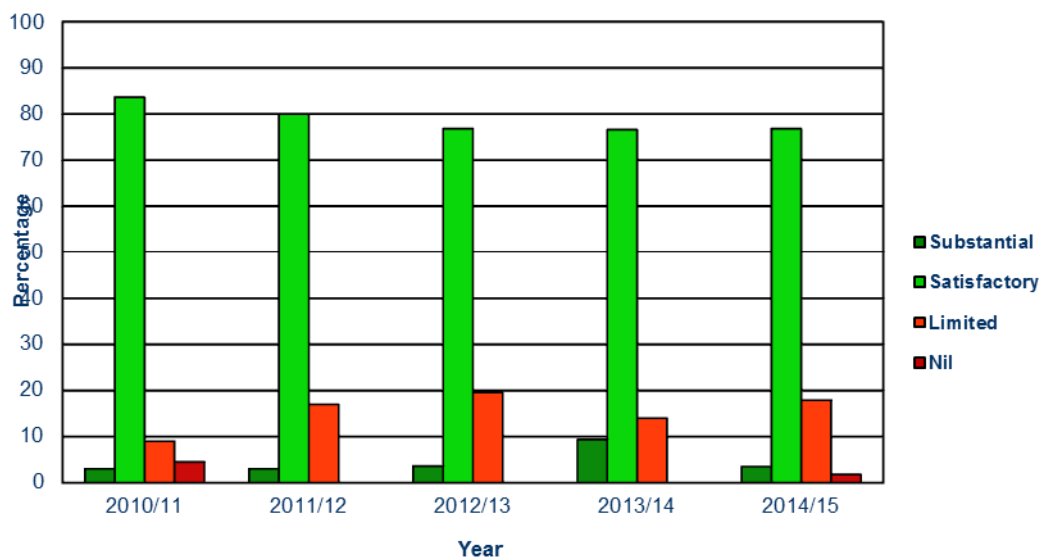
- 4.14. The Council's internal audit service is chiefly outsourced under a framework agreement with LB Croydon to Mazars, a Public Sector Internal Audit Company, who began delivering the service in January 2014 following transfer of business from Deloitte. The performance of the audit service in delivering the audit plans were regularly reports to the committee, at year end 95% of the plans were delivered.
- 4.15. The Internal Audit plans for the 2014/15 year were based on the departmental and the corporate risk registers supported by Internal Audit knowledge input. 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 Audit, Pensions and Standards Committee.
- 4.16. The annual Head of Internal Assurance Report concluded that 'From the Internal Audit work undertaken in 2014/15, 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 2015 accords with proper practice, except for any details of significant internal control issues documented.' During the financial year 2014/15, the following significant issues were identified from Internal Audit work:
- Weaknesses were found in the application controls of the Council's Parking System, ICPS. A new system is in the process of being implemented and the service advised that these weaknesses will be addressed;
 - Four schools received Limited Assurance opinions (Langford Primary, Melcombe Primary, The Good Shepherd RC Primary and Jack Tizard School), which is a deterioration on the previous year where two schools received a Limited Assurance opinion;
 - Weaknesses were found in the administration of the Council's Cemeteries and Bereavement Service. These mainly related to Health and Safety Risk Management and income collection controls;
 - All Three audit reports issued in relation to the Managed Services Programme were given limited assurance. These covered, System Testing, High Level IT Controls, and Change Configuration and Release Management;
 - In quarter 4 of 2014/15 key controls testing was undertaken on Payroll and Recruitment. A number of controls tested were not operating effectively based on the information provided.
- 4.17. The pie chart below shows the levels of audit assurance achieved for the 72 system audits undertaken in the 2014/15 year. 80% of the systems audited achieved an assurance level of Satisfactory or higher, of which two audits received Substantial Assurance. 17% received a Limited Assurance and one Nil Assurance report was issued in 2014/15. Four of the ten Limited Assurance reports were for schools and three related to the Managed Services Project

Assurance Levels for the year to 31 March 2015



4.18. The bar chart below shows the levels of assurance provided for all systems audited since the 2010/11 financial year. The distribution of assurance opinions shows a relatively stable position in the spread of assurance levels reported. 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. As stated above, four of the ten Limited Assurance reports were for schools and three related to the Managed Services Project leaving only 3 arising from mainstream council departments.

Assurance Levels of Reports from 2010/11 to 2014/15



- 4.19. Recommendations to take corrective action were agreed with management and we will continue to undertake follow up work in 2015/16 to confirm that they have been implemented. The table below shows the number 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. The 2014/15 year naturally has fewer implemented recommendations because many have only recently been raised and are not yet timetabled for implementation. Recommendations that have not been implemented that have passed their implementation deadline will continue to be reported to Departmental Management Teams and the Audit, Pensions and Standards Committee.

Financial year	Recommendations Implemented as at 11 February 2015
2014/15	63
2013/14	227
2012/13	244

- 4.20. A new approach has been introduced by the committee to invite officers responsible for services that receive limited and nil assurance audit reports to attend the committee to present the report and answer members' questions. This has given members a better understanding of the risks and issues involved in each case and the actions being proposed to mitigate and manage them.

Anti-Fraud

- 4.21. During the 2014/15 year CAFS (Corporate Anti-Fraud Service) identified 147 positive outcomes against a target of 145 (7.5% increase), including twelve prosecutions, nineteen recovered social housing properties, thirteen stopped Right to Buys and eight false housing applications. Proceeds of Crime (POCA) recoveries totaled £229,909
- 4.22. As a consequence of its counter fraud work the unit identified total fraud to the value of approximately £3.72 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
- 4.23. CAFS is part of the Shared Services Corporate Anti-Fraud Service that came into effect from 1 April 2015. 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.

- 4.24. 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

- 4.25. Following training provided to the Committee on local government accounts, the Committee reviewed the 2013/14 year annual accounts in its meeting in September 2014 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.
- 4.26. The committee also received and reviewed the External Audit reports issued during the year. These included the Annual audit Letter, the report on the annual accounts, and the grants report.

Significant Issues

- 4.27. The Committee dealt with a number of significant issues during the 2014/15 year.
- 4.28. The Managed Services Programme received three limited assurance audit reports during the year and officers from the programme have attended the committee to answer members' questions. The service went live on 1 April 2015 and continues to work towards a Business As Usual state, the committee continue to keep this under review.
- 4.29. The committee received a report on H&F measures to mitigate the threat of cyber terrorism. The report was discussed with officers covering both the threats that exist and the arrangements the council has in place to address them.
- 4.30. The committee also followed up on the earlier NNDR fraud discussing with officers the actions being taken to prosecute individuals.

Future developments

- 4.31. Some of the more significant issues likely to have a focus for the Committee are considered to include:
- 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;
 - The ongoing programme to deliver Managed Services which will deliver significant changes to the delivery of financial and Human Resources processes;
 - The continued impact of the current economic climate on the Council's finances through reduced levels of income with councils facing further reductions in the amount of money they receive from Government. This is coupled with other factors such as likely increases in demand for services and

the performance levels and financial stability of organisations the Council works with;

- The result of the May 2015 General Election;
- Transformation programmes and projects continue to be undertaken to deliver savings, particularly within the Adult Social Care Department. This degree of change brings challenges in implementing a series of interconnected transformation projects successfully without impacting on service delivery. We would expect continued Internal Audit involvement in transformation projects and new initiatives, both to provide assurance and provide early support for new systems being 'right first time';
- Continued cross borough working with Westminster Council and the Royal Borough of Kensington and Chelsea during this period of change may give rise to additional risks related to governance, delegation of powers, performance management and financial management of shared services;
- Hammersmith & Fulham have entered into a managed services contract with BT that has effected a radical redesign of the Council's human resources and finance services. This went live in April 2015 and has led to significant changes to systems, process and ways of working across the Council. While the service went live on 1 April 2015, the full service continues to be implemented, working towards its long term steady state. We will continue to undertake a series of audits in this area in 2015/16;
- The IT transition Programme including the managed winding down of ITC operations undertaken by the Hammersmith and Bridge Partnership as the contract expires in October 2016 with the commencement of the transition programme in August 2015.
- School meals. Whilst a new contract for 2016-2021 has been advertised, and short-listed bidders already selected, invitations to tender for the contract will not be issued until January 2016. This is a significant procurement exercise that will require careful planning and engagement with the market.
- Major repairs to Hammersmith Bridge works to be undertaken by TFL and the impact on the local transport network.
- Planned preventative maintenance on council housing. The current contract covers a wide range of programmed works such as windows replacement, architectural services, electrical works etc and expires October 2016. The council is currently reviewing future provision. If a new contract is tendered, bidders will be expected to describe how they can involve local firms in their supply chain, as well bring other benefits such as apprenticeships and training schemes.
- Ongoing consultation and review of the options with the Housing Stock.

LOCAL GOVERNMENT ACT 2000

LIST OF BACKGROUND PAPERS USED IN PREPARING THIS REPORT

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 (2014/2015)

AUDIT, PENSIONS AND STANDARDS COMMITTEE	
CONSTITUTION AND TERMS OF REFERENCE	
Members: Nine voting councillors	Quorum: Five Members of the Committee
Political proportionality: 5 Administration members 4 Opposition members.	Co-opted Members: The Committee may co-opt non-voting independent members as appropriate

1. Membership

- 1.1 The Chair will be drawn from one of the Administration Councillors; the Vice-Chair will be an Opposition Councillor.
- 1.2 The Committee may co-opt non-voting independent members as appropriate.
- 1.3 The agenda of meetings of the Committee will be divided into separate sections for Audit, Pensions and Standards matters.
- 1.4 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.
- 1.5 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.
- 1.6 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. Voting

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

3. Procedures

- 3.1 Except as provided herein, Council Procedure Rules (as applicable to all Committees) shall apply in all other respects to the conduct of the Committee.

3.2 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).

4. Meetings

4.1 The Audit, Pensions and Standards Committee will meet at least four times a year.

4.2 Meetings will generally take place in the spring, summer, autumn, and winter. The Chair of the Committee may convene additional meetings as necessary.

4.3 The Chief Executive may ask the Committee to convene further meetings to discuss particular issues on which the Committee's advice is sought.

5. Reporting

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

6. Responsibilities

(a) Audit

6.1. 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.

- 6.2 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.
- 6.3. 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 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.
- 6.5. 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)

- 6.6. To determine the overall investment strategy and strategic asset allocation of the Pension Fund.
- 6.7. 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.
- 6.8. To monitor the qualitative performance of the investment managers, custodians, actuary and external advisors to ensure that they remain suitable.
- 6.9. 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.
- 6.10. To prepare, publish and maintain the Statement of Investment Principles, and monitor compliance with the statement and review its contents.

- 6.11. 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.
- 6.12. To approve the final accounts and balance sheet of the Pension Fund and approve the Annual Report.
- 6.13. To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
- 6.14. 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.
- 6.15. To consider any proposed legislative changes in respect of the Compensation and Pension Regulations and to respond appropriately.
- 6.16. To approve the arrangements for the provision of AVCs for fund members.
- 6.17. To receive and consider the Audit Commission's report on the governance of the Pension Fund.

(c) Standards

- 6.18. To promote and maintain high standards of conduct by the Executive, non-executive Councillors, co-opted Members and church and parent governor representatives;
- 6.19. To assist Councillors, co-opted Members, and church and parent governor representatives to observe the Members' Code of Conduct;
- 6.20. To advise the Council on the adoption or revision of the Members' Code of Conduct;
- 6.21. To monitor the operation of the Members' Code of Conduct;
- 6.22. 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;
- 6.23. 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.
- 6.24. To consider any applications for dispensations from Councillors and co-opted members to allow them to participate in decisions

Council Framework for the Annual Governance Statement

