


<p>London Borough of Hammersmith & Fulham</p> <p>FULL COUNCIL</p> <p>19 October 2016</p>		
<p>ANNUAL REPORT OF THE CHAIR OF THE AUDIT, PENSIONS AND STANDARDS COMMITTEE 2015/16</p>		
<p>Report of the Chair of the Audit, Pensions and Standards Committee</p>		
<p>Open Report</p>		
<p>Classification: For Information Key Decision: No</p>		
<p>Wards Affected: None</p>		
<p>Accountable Director: Hitesh Jolapara, Strategic Finance Director</p>		
<p>Report Author: Geoffrey Drake, Senior Audit Manager</p>	<p>Contact Details: 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 2015 to 31 March 2016 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 2015/16. 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. Throughout the period the Committee has actively contributed to leading and shaping change in all areas of its responsibilities. Key achievements include:
- Oversight and scrutiny of Shared Service arrangements for risk management. Regular risk management reports to the committee provide transparency on risk management performance. Departments also are required to attend committee to provide additional 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 monitoring of the Council's exposure to Information 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 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 the Managed Services programme, Riverside Studios, and Fulham Palace Trust;
 - Scrutiny of the Council's Annual Governance Statement;
 - Review of Internal Audit compliance with the Public Sector Internal Audit Standards;
 - Approval of the 2015/16 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 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 Committee monitors the action plans and progress in implementing them at each of their meetings.
- 4.5. 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 in accordance with the Accounts and Audit regulations. The Audit, Pensions and Standards Committee's contribution to the corporate governance of the Council is reflected in the Annual Governance Statement. This year the review of governance re-states that the Council is again compliant with the CIPFA/SOLACE governance guidance issued in 2007.
- 4.6. 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

- 4.7. 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 management assurance statements from departmental heads and specialist interest areas such as IT and procurement.

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

Risk Management

- 4.9. The council has faced many challenges during the year not least as a result of further budget reductions due to cuts in Local Government Finance imposed on us by national government, the uncertainty caused following the referendum and decision to leave the European Union, the performance of the Managed Services system, supply chain resilience, transition of IT servers and systems from the Hammersmith and Fulham Bridge Partnership and increase in focus generally on how information is managed. In addressing this last issue the Committee paid particular attention to the Information Commissioner and monetary penalties being imposed on other Public Bodies and the measures put into place to train Officers.
- 4.10. During the period the Committee responded swiftly to other emerging threats including a review of the Council's response to potential cyber risks, hacking and cyber ransoms that other Local Authorities have experienced. Service departments risk registers have been assessed and recommendations adopted to improve quality and reporting. The Committee were informed of the outcomes of the Internal Audits of Risk Management both corporately and of departments once more a positive assurance was attained.
- 4.11. 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.
- 4.12. The council also received the 2014/15 year annual Corporate Health and Safety report as part of its role to review areas of risk, to satisfy itself that the council is fulfilling its legal duty of care.

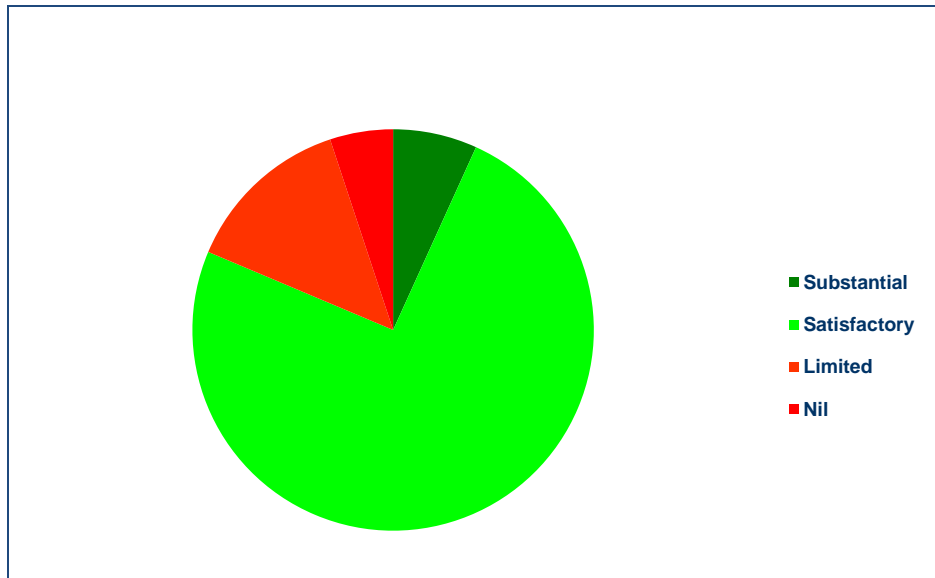
Internal Audit

- 4.13. 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 93% of the plans were delivered.
- 4.14. Professional Internal Audit standards plus the UK Public Sector Internal Audit Standards (UKPSIAS) require that internal audit services undergo a periodic independent review. The LBHF Internal Audit service underwent an independent peer review during 2015 and the results were reported to the Committee. The review confirmed that the service 'generally conforms' with the UKPSIAS, meaning that they comply with the requirements in all material respects.

- 4.15. The Internal Audit plans for the 2015/16 year were developed using the departmental and the corporate risk registers plus the audit universe document as a basis supported by Internal Audit knowledge input. The draft plans were then reviewed and updated with departments through a series of planning meetings with the service directors after which the plans were approved by the Business Board and the Committee.
- 4.16. The annual Head of Internal Assurance Report concluded that 'The work carried out by the Council's Internal Audit Service in the financial year 2015/16 found that, in the areas audited, internal control systems were generally effective with 81.4% of the audits undertaken receiving a positive assurance opinion. There are a few areas where control improvements are required and compliance with agreed systems could be improved. In each case, action plans are in place to remedy the weaknesses identified. These will be followed up by the Internal Audit service until they are completed. It should be noted that a number of issues concerning compliance were directly or indirectly related to the implementation of the Managed Services Programme. It is anticipated that these issues have or will be addressed within the near future.' During the financial year 2015/16, the following significant issues were identified from Internal Audit work:
- Two limited assurance reports were issued in relation to the Managed Services Programme: A High Level review of new Controls and Processes, and; Implementation Planning.
 - Weaknesses were found within the Premises Licensing Audit, mainly related to the implementation of the Agresso system. The implementation of Agresso also affected a number of other audits but not sufficiently to impact on the assurance opinion provided.
 - Weaknesses were found in the governance of Mental Health Section 75 Agreements;
 - One school received Limited Assurance opinions (Kenmont Primary School), and two schools received Nil Assurance opinions (Brackenbury and Fulham Primary Schools);
 - Weaknesses were found within the letting and management of Council owned garages, and;
 - The main Managed Services audits due to be undertaken in 2015/16 could not be undertaken for a number of reasons including a lack of auditor access and delays in implementing aspects of the system. Corrective action is being undertaken by both Council staff and the Managed Service provider and mitigating actions have been taken by the Council to minimise the impact of any errors identified on the Council's financial management information. Although the Council has been proactive in identifying errors and weaknesses to the Managed Services provider, it should be noted that until robust controls and systems are embedded, the potential for further related or unrelated errors, cannot be ruled out.

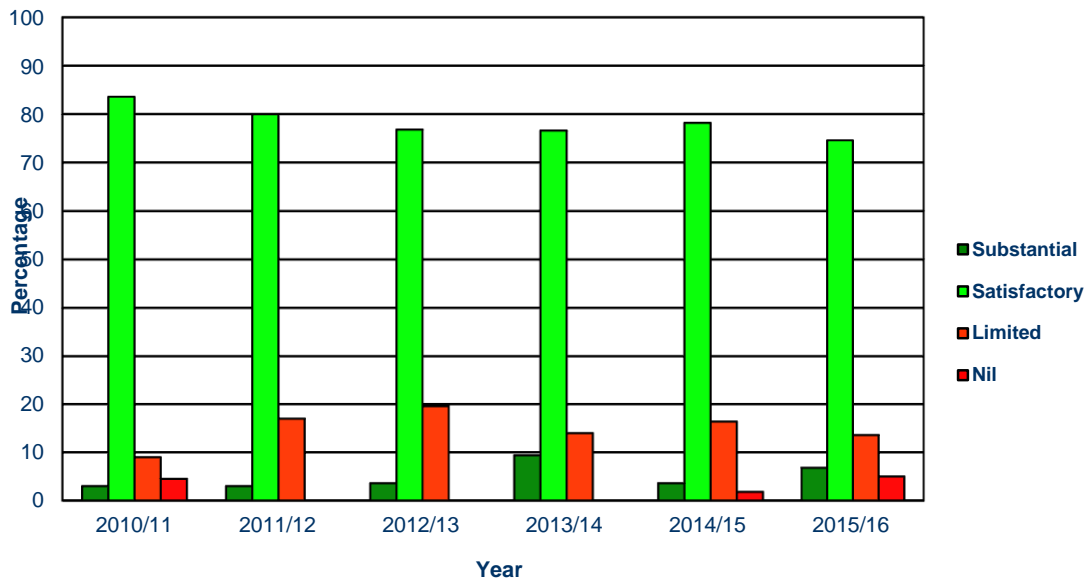
4.17. The pie chart below shows the levels of audit assurance achieved for the 2015/16 year, so that it covers all audits covering systems that support delivery of LBHF services. 81.4% of the systems audited achieved an assurance level of Satisfactory or higher, of which four audits received Substantial Assurance. 13.6% received a Limited Assurance, plus three Nil Assurance reports were issued in 2015/16 of which two were schools.

Assurance Levels for the year to 31 March 2016



4.18. To help put this into context 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 number of limited assurance and substantial assurance reports although nil assurance numbers have increased from one to three.

Assurance Levels of Reports from 2010/11 to 2015/16



Acceptance and implementation of Internal Audit recommendations

- 4.19. All of the recommendations made during the year were accepted by management. Whilst 18 reports remain at the draft report stage we have been provided with assurance by management as part of the debrief meeting process that the recommendations made will be implemented.
- 4.20. The table below shows the number of audit recommendations raised each year that have been reported as implemented. This helps to demonstrate the role of Internal Audit as an agent of change for the council.

Year	Number of recommendations due	Number of recommendations implemented
2013/14	248	247
2014/15	203	191
2015/16	114	52

4.21. In total, 49 recommendations have been followed up by Internal Audit, of which 39 were either fully implemented or no longer relevant, representing 80% of all those tested. If partially implemented recommendations are added this totals 96% of all those tested. This is an improvement since 2014/15 and provides reasonable confidence that recommendations reported as implemented have been effectively actioned. The results of our follow up visits can be seen in Appendix D.

4.22. The committee has continued 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

- 4.23. During the 2015/16 year CAFS (Corporate Anti-Fraud Service) identified 109 positive outcomes against a target of 100, including eight prosecutions, 30 recovered tenancies and seven Proceeds of Crime Act (POCA) recoveries totalling £409,284.
- 4.24. As a consequence of its counter fraud work the unit identified total fraud to the value of approximately £4.4 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.
- 4.25. The financial year 2015/16 was first year of anti-fraud work with a reduced establishment following the Government's decision to centralise the investigation of housing benefit fraud, creating a Single Fraud Investigation Service. On 1 March 2015 four investigators from CAFS transferred their employment to the Department for Work and Pensions.
- 4.26. 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

- 4.27. Following the circulation of guidance to the Committee members on local government accounts, the Committee reviewed the 2014/15 year annual accounts in its meeting in September 2015 in undertaking its role as the Approval of Accounts Committee. The Committee reviewed and interpreted the accounts raising informed questions prior to approving the accounts. As part of this process the Committee also reviewed the Annual Governance Statement (AGS), they then tracked the action plans arising from the control weaknesses identified in the AGS to consider their appropriateness and then review the progress made against those plans.
- 4.28. 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, the grants report, and the External Audit plan.
- 4.29. The Committee also received Treasury Management reports including the mid-year position, strategy report where the Committee approved the future borrowing and investment strategies plus the interest rate to be paid to the

Housing Revenue Account (HRA) on unapplied HRA receipts and HRA cash balances.

Additional Issues

- 4.30. Throughout the year the Committee received updates on the Managed Services project that is designed to deliver new financial and Human Resources processes. A special meeting was held in January 2016 to review the situation more fully including receiving a Lessons to Learn report, reflecting the Committee's concerns in relation to the project and the services it is delivering. The Committee continues to keep this under review.
- 4.31. The committee received a report on Riverside Studios at its December 2015 meeting. The Committee received an officer report on a funding shortfall in re-providing the Riverside Studio facilities in full. The Committee asked for additional information to be provided.
- 4.32. The Committee received an officer report on Fulham Palace Trust at its June 2015 meeting requesting the council to fund a pension deficit relating to staff transferred from the council. The committee resolved that the request should follow the traditional grant funding process and that in future when a trust is being formed the council should recommend trustees seek independent financial advice.

Significant Issues

- 4.33. The Committee dealt with a number of significant issues during the 2015/16 year.
- 4.34. 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 steady state, the Committee continue to keep this under review.
- 4.35. 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.
- 4.36. The Committee also followed up on the earlier NNDR fraud discussing with officers the actions being taken to prosecute individuals.

Future developments

- 4.37. 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 shared services 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 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 implications on services of the decision to leave the European Union.
- 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;
- The IT transition Programme including the managed winding down of ICT operations undertaken by the Hammersmith and Bridge Partnership as the contract expires in October 2016.
- Major repairs to Hammersmith Bridge works to be undertaken which are part funded by TFL and the impact on the local transport network.
- Ongoing consultation and review of the options with the Housing Stock.

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

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

