

## **ANNUAL GOVERNANCE STATEMENT 2011/12**

### **1. SCOPE OF RESPONSIBILITY**

Westminster City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code can be obtained from the Council, Cabinet and Committee Scrutiny Secretariat. This statement explains how the Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

### **2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 achieving the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the Council for the year ended 31 March 2012 and up to the date of approval of the annual report and statement of accounts.

### 3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are:

- A comprehensive suite of business plans for each Cabinet Member detailing the key priorities and major planned activity under their portfolio of responsibility.
- An annual programme of priorities, key deliverables and service improvements to support delivery of the Council's key outcomes, and a transformation programme aimed at reducing costs and improving services and customer satisfaction;
- A medium term financial plan, which is reviewed and updated annually to support the achievement of the Council's corporate priorities;
- An annual strategic business planning process to define how the organisation will deliver the strategy underpinning the budget, its "Living City" priorities and track the critical indicators of service quality and associated risks to delivery through the performance management framework;
- A Strategic Executive Board (SEB), which is responsible for the overall management of the Council. SEB also has responsibility for reviewing and challenging Council performance and business plan delivery at the strategic level;
- A Senior Leadership Team (SLT), which is responsible reviewing council-wide operational performance and risk issues;
- A performance management framework to track and report on business plan delivery. The framework will involve monitoring and reporting of performance and risk at both operational and strategic levels. This includes quarterly summary reports to SEB and SLT on delivery milestones and critical service measures supplemented by a quarterly strategic review that will focus on delivery and exceptions in more detail;
- Full engagement on performance with elected Members through Cabinet, Audit & Performance Committee and Policy and Scrutiny Committees;
- Business Continuity plans, which ensure that the Council can maintain delivery of its business critical services, regularly tested emergency planning arrangement, a corporate health and safety policy and insurance policies to cover the Council's key financial risks;
- A local Code of Corporate Governance incorporating Members and Employee Codes of Conduct, which stipulates the regulations and standards required to be followed by officers and elected Members, as well as a protocol on officer/Member relations;
- A schedule of delegations setting out the functions that Senior Managers may discharge on behalf of the Council;
- A Westminster Scrutiny Commission that oversees the work of the Council's Policy and Scrutiny Committees which conduct an annual programme of scrutiny

reviews, establish Task Groups to scrutinize critical Service Areas, and have powers to call in and challenge decisions prior to implementation;

- An Audit & Performance Committee, which is independent of both the Executive and the Policy and Scrutiny function, and whose role includes maintaining an overview of the Council's governance framework and the financial and service performance of key Council functions;
- A Standards Committee which is responsible for promoting high standards of conduct by councillors, monitoring the operation of the Members Code of Conduct and maintaining an overview of ethical standards across the Council;
- A Head of Legal and Democratic Services (Monitoring Officer) whose functions include maintaining the Constitution and Code of Corporate Governance, overseeing compliance with the law and supporting the Standards Committee;
- A Section 151 Officer, who is responsible for the proper administration of the Council's financial affairs and for ensuring the lawfulness and financial prudence of financial transactions;
- A Statutory and Corporate Governance Group (comprising the Chief Executive, Chief Operating Officer and Head of Legal and Democratic Services) which oversees the Council's governance arrangements and promote best practice through the Governance Working Group;
- A set of Financial Regulations and a Procurement Code which stipulate how the financial management of the Council and the letting of contracts are to be conducted;
- A Budget & Performance Task Group which considers on behalf of the Policy & Scrutiny Committees, Budget Options and Draft Business Plans and Estimates at the appropriate stages in the business planning cycle and to submit recommendations/comments to the Cabinet and/or Cabinet Members;
- A Gate Review Process which oversees the letting and performance of the Council's key contracts;
- An internal audit service whose role includes reviewing the effectiveness of the Council's control systems in accordance with the standards set out in the Code of Practice for Internal Audit in Local Government;
- An anti-fraud and corruption strategy which outlines the Council's commitment to preventing and detecting fraud and corruption, a dedicated fraud investigation team, and a freephone hotline for members of the public to report suspicions;
- A whistleblowing policy which encourages staff to raise concerns about potential malpractice in the Council and provides protection to them when they do so;
- A new two stage corporate complaints handling procedure to replace the previous three stage procedure, which sets out how complaints will be investigated, recorded and monitored, and a separate procedure for social services complaints to ensure compliance with statutory requirements;

- A Human Resources framework which sets out the Council's approach to managing people and its policies and procedures for doing so including recruitment and release, remuneration, performance management, employee relations and the required standards of employee conduct.
- Officer training and development programmes to support high standards of conduct and promote effective performance of roles;
- Good governance arrangements in respect of partnerships and other group working have been put in place. For example:
  - The Council delivers a significant proportion of its services through its strategic partnership contract with Vertex. The direction and performance of the partnership is governed through regular meetings of the Partnership Management Board and Commercials Board;
  - The Council has established an arm's length management organisation (CityWest Homes), a wholly owned subsidiary limited by guarantee, to manage its housing stock and deliver some of its housing responsibilities. CityWest Homes has adopted a formal governance structure, and manages its internal affairs and delegated budgets through the Company's Board and four board committees: Finance and Audit Committee; Customer Services Committee; Development & Building Services Committee; and Remuneration, Employment & Diversity Committee. Performance is also monitored through a regular review process with senior Council officers and members. The Company operates its own risk management strategy and is subject to internal and external inspection and audit in compliance with the Companies Acts;
  - The Council has established WestCo Trading Limited to take advantage of trading powers introduced by the Local Government Act 2003. The company is wholly owned by the Council and is governed by a board of directors comprising senior Council officers, an elected member and an independent director. Accounts are independently prepared and lodged annually with Companies House;
  - The Council has also established Westminster Community Homes, a registered Industrial and Provident society to develop its Community Build Programme and Temporary to Settled Homes Scheme. It is governed by a board of directors comprising representatives from the Council, CityWest Homes and residents and is chaired by an independent nominee;
  - The Council continued to communicate with all sectors of the community and stakeholders exemplified by a consultation exercise on Community Governance to determine the options for establishing either a Community or Parish Council in certain neighbourhoods.
  - The Council formalised ambitious plans to bring together services, look at new ways of working, achieve economies of scale and minimise support costs by bringing activities together through aligning work with the Royal Borough of Kensington and Chelsea and the London Borough of

Hammersmith and Fulham. This has been done through a set of Tri-borough Proposals.

#### **4. REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

In practice the Council has a continuous process in place for maintaining and reviewing the effectiveness of its governance framework including the following mechanisms:

- Monthly monitoring of financial expenditure by senior managers and Cabinet Members;
- Quarterly activity, performance and risk monitoring by senior managers and Cabinet Members;
- Quarterly review of performance, risks, and audit and inspection results by the Audit and Performance Committee, supplemented by more detailed consideration of a range of issues by the Committee's working groups;
- Regular meetings of the Council's Policy and Scrutiny Committees, Task Groups and the Westminster Scrutiny Commission;
- Meetings of the Standards Committee on a range of matters including the Audit Commission's ethical governance audit, annual overview report on ethical standards, review of protocols for dealing with local complaints and guidance on Members' interests. The Council's procedure for dealing with breaches of the Members' Code of Conduct, and the City Council's Members' Code of Conduct itself (incorporating guidance on Members' interests) were reviewed in light of the implications of the Localism Act 2011. The proposed new procedure and Code were approved by the Standards Committee and the General Purposes Committee in April/May 2012, and will be recommended for adoption by the Council in June 2012;
- An in-depth review and scrutiny of the Council's Constitution and Code of Governance undertaken at least every four years, in addition to regular revisions to update and amend the content of these documents as necessary;
- A Schedule of Delegation is in place and will be reviewed shortly with updates being reported to the Leader, for executive functions and the Council in respect of non executive functions;
- A programme of compliance checks across all departments to ensure income and expenditure transactions are processed in accordance with approved regulations and procedures;

- Monthly review of internal audit results and a 94% implementation rate for priority 1 and 2 recommendations;
- Regular meetings of the Governance Working Group, which has overseen a number of improvements including expansion of governance training, updating of regulatory codes to reflect changes in organisational structure, a review of the Council's Anti-Fraud and Corruption Strategy and management of a governance risk register;
- The Human Resources Group meets on a monthly basis, and consists of members of SLT or their nominated representative, with at least one member from each strategic area, to review all human resources policies of the Council, the strategy of HR going forward, oversee the development and implementation of agreed compensation programs, the establishment of staff and manager development programs, and the councils succession planning process.

The Council also draws assurance on its governance arrangements from independent sources, in particular:

- Internal Audit

The internal audit service undertook a risk-based programme of audits during the year to provide the Council with assurance on the adequacy of its systems of internal control. Based on its work during 2011/12, Internal Audit concluded that the Council's control systems were adequate, that its internal control framework was improving and that it was effective in implementing recommendations where problems were found. However, there were a number of important areas where the auditor considered that improvements were required to strengthen the Council's control framework. A number of recommendations have been made to address these weaknesses particularly where important controls were not embedded into systems and where non compliance with Council procedures had been identified.

The Council has a range of mechanisms in place at member and officer level that provide a continuous review of the internal audit function. These include monthly review of performance against targets, quality control checks on audit files and formal annual assessment of compliance with the standards set down in the CIPFA Code of Practice for Internal Audit. The 2011/12 results confirm compliance with professional standards and good performance against targets. The service is also subject to regular review by the Council's external auditors which has confirmed that internal audit is an effective and CIPFA compliant function.

- External Audit

The Council is subject to an annual programme of independent external audits and statutory inspections which report on the Council's governance, performance and accounting arrangements. The auditor's 2010/11 Annual Audit Letter summarises the results of that year's audit, and concludes that:

- The Audit Commission issued an unqualified opinion on the Council's 2010/11 financial statements.

- The Audit Commission issued an annual Value for Money conclusion. The review concluded that there were proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources during 2010/11.
- Areas identified where actions are required by the Council included improving the arrangements for the preparation of the financial statements, monitoring the delivery of agreed actions in the Annual Governance Report, maintaining focus on delivering the 2011/12 forecast outturn, prioritising the development of robust plans to secure and deliver the 2012/13 budget and developing financial plans for medium to longer term to restore reserves.

The auditor's recommended improvements are being implemented, and the 2011/12 financial year programme of external audit coverage is in progress.

## **5. SIGNIFICANT GOVERNANCE ISSUES**

The Council has undertaken a transformation of its finance structure during the past year and as part of it, established a Shared Service Centre (SSC). This resulted from Internal Audit previously identifying control weaknesses. As part of this transformation, new process controls were identified, agreed and documented. Since the change, a follow up was undertaken to ensure that expected improvements were being delivered. Internal Audit identified that compliance with these new processes and associated controls needs to be improved and a number of recommendations have been made to address the issues of non-compliance. The main areas of concern were in respect of compliance with the processes within the accounts payable (P2P) area of the SSC. An agreed action plan has been put in place to remedy the weaknesses.

The Council's policies and procedures have been reviewed to identify where improvements should be made to address the requirements of the Bribery Act 2010. This identified that a number of existing policies and procedures needed to be updated to demonstrate that the Council is aware of its responsibilities and could demonstrate that it has taken all reasonable actions to prevent bribes occurring. Recommendations have also been made on communicating the requirements of the Bribery Act to Members and officers and how this could be achieved. The findings of this review have been discussed with the Council's Governance Working Group and actions are being taken to address the weaknesses identified.

The Council's insurance policy required updating to ensure all cash held within City Hall Cashiers' Office is fully insured. Furthermore, there was a lack of robust audit trail retained to support the reconciliations of all bank accounts and petty cash floats to bank records. An action is now in place to demonstrate clearer audit trails for greater transparency and assurance that controls are operating effectively.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed:**

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Leading Member (or equivalent) & Chief Executive (or equivalent) on behalf of [the authority]