

ANNUAL GOVERNANCE STATEMENT 2008-09**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 Cabinet, Committee and 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 achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place in the Council for the year ended 31 March 2009 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 City Plan which sets out the Council's vision and community strategy for the next ten years. The Plan is developed jointly with the Westminster City Partnership which brings together representatives of the public, voluntary and business sectors.
- An annual programme of priorities and service improvements to support delivery of the Council's vision.
- A WorkSmart programme which underpins the delivery of the Council's vision and aims to generate improved customer satisfaction, cost reduction and service improvement through introducing new ways of working and delivering services.
- A medium term financial strategy which is reviewed and updated annually to support the achievement of the Council's corporate priorities.
- A formal performance management framework which includes an annual business planning process and monthly performance reports covering progress against corporate priorities, financial performance, service performance, project updates, key risks and opportunities, and achievement of key performance targets.
- A Performance Board, established towards the end of the year, with overall responsibility for monitoring and challenging Council performance and delivery against agreed outcomes.
- A risk management strategy which sets out the processes for identifying, assessing and managing risks to the achievement of the Council's objectives. The strategy requires the establishment of strategic and departmental risk registers and action plans to support the delivery of objectives, and the application of risk management techniques within key projects, partnerships, initiatives and contracts.
- Business continuity plans which ensure that the Council can maintain delivery of its business critical services, regularly tested emergency planning arrangements, a corporate health and safety policy and insurance policies to cover the Council's key financial risks.
- A Constitution which sets out how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. This includes the publication of a monthly

Forward Plan containing all key decisions to be considered by the Cabinet, individual Cabinet Members and Chief Officers.

- A local Code of Corporate Governance which sets out how the Council's business is conducted and, along with the Constitution, stipulates the regulations and standards required to be followed by officers and elected members and includes a protocol on officer/member relations.
- A schedule of delegations setting out the functions that chief officers 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 scrutinise critical service areas, and have powers to call in and challenge decisions prior to implementation.
- An Audit and Performance Committee which is independent of both the executive and the overview 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 Services whose functions include maintaining the Constitution and Code of Corporate Governance, overseeing compliance with the law, and supporting the Standards Committee.
- A Director of Finance 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, Director of Finance and Head of Legal Services) which was established towards the end of 2008/09 to oversee the Council's governance arrangements and promote best practice through the Governance Working Group.
- A set of Financial Regulations and a Procurement and Contracts Code which stipulate how the financial management of the Council and the letting of contracts are to be conducted.
- A Contracts Review Board, and four Departmental Contracts Boards, which oversee the letting and performance management 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 provides protection to staff wishing to raise concerns about potential malpractice in the organisation.
- A corporate complaints handling 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, remuneration, performance management, employee relations and the required standards of employee conduct.
- Member and officer training and development programmes to support high standards of conduct and promote effective performance of roles.

In addition:

- 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 the Customer Services Initiative Joint Board and the Partnership Management Board and key risks are reviewed monthly by representatives from the Council and Vertex.
- The Council has established an arms 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 code of governance, and manages its internal affairs and delegated budgets through the Company's Board and Performance and Audit 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 and an elected member.
- 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 Westminster City Partnership has developed a Local Area Agreement (LAA) to promote delivery of the City Plan. The Council is the accountable body for the LAA and performance is reported regularly to the LAA Board, Strategic Partnership Board, Government Office for London, the Audit and Performance Committee and relevant overview and scrutiny committees.

- The Council participates in a variety of other partnerships and has a range of mechanisms in place for agreeing objectives and for monitoring and managing performance.

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 by senior managers and Cabinet members against three key areas – finances, performance and delivery of the Council's vision. The results for the year confirm that services were delivered in line with budget projections, and show improved performance against local and national targets and successful delivery of One City projects.
- Monthly review of internal audit results by senior managers resulting in a 97% implementation rate for priority audit recommendations.
- 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. Areas reviewed have included procurement arrangements, HR strategies, anti-fraud initiatives and treasury management.
- Regular meetings of the Council's Policy and Scrutiny Committees, Task Groups, and the Westminster Scrutiny Commission which have included question and answer sessions with the Leader of the Council and consideration of a range of specific areas as set out in the annual Overview and Scrutiny Committee report to Council.
- Regular meetings of the Standards Committee on a range of matters including proposed revisions to the model Code of Conduct for Members, the implementation of a local standards framework, and consideration of an annual report giving an overview of ethical standards across the Council.
- Line managers monitoring of internal control systems and completion of self-assessments in a number of key areas.
- A programme of compliance checks across all departments to ensure income and expenditure transactions are processed in accordance with approved regulations and procedures.
- Regular meetings of the Governance Working Group which has overseen a number of improvements including development of a partnership governance manual and associated partnerships register, implementation of a governance training programme, updating of the code of governance and creation of a governance website.

Managers also monitored progress against the significant internal control issues raised in the 2007/08 statement of internal control. Improvements have been made across all areas including development of the Council's ICT and HR strategies and strengthening of internal control systems within the Property Division.

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 2008/09, the internal auditor concluded that the Council's control systems were adequate, that its internal control framework was improving and that it is effective in implementing recommendations where problems are found. However, there were a number of important areas where the auditor considered that improvements were required to strengthen the Council's control framework. These included controls over cashiers, creditors, debtors and payroll functions. The Council has developed action plans to address these issues.

The Council has a range of mechanisms in place, at member and officer level, that provide a continuous review of the internal audit function. This includes 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 2008/09 results confirm compliance with professional standards and good performance against targets. The service is also subject to regular inspection by the Council's external auditors and their recent review confirms that internal audit is a strong and compliant function.

- **External audit and inspection**

The Council is subject to an annual programme of independent external audits and statutory inspections. The external auditor reports on the Council's governance, performance and accounting arrangements.

The Audit Commission's 2007/08 Use of Resources Assessment examined the Council's arrangements against five themes - financial reporting, financial management, financial standing, internal control and value for money. The Council was assessed as performing strongly and achieved an overall score of 4 (the highest available). The report concluded that the Council continued to demonstrate strong arrangements for managing risks and promoting probity and propriety and that it had improved its management of key account reconciliations and partnership governance. The auditor's suggested improvements in relation to the Council's arrangements for production of its financial statements are being implemented.

The auditor's 2007/08 annual governance report and audit and inspection letter concluded that the Council had made proper arrangements to secure economy, efficiency and effectiveness of its use of resources, that the financial statements fairly reflected the financial transactions of the Council, and that the audit had not identified any material weaknesses in financial control.

The 2008/09 programme of external audit coverage is in progress.

- **External review**

During the year the Council became exposed to potential financial losses as a result of the collapse of Icelandic banks. As a result the Director of Finance commissioned an urgent independent external review of the Council's treasury management strategy and supporting systems of internal control. The review concluded that the Council had complied with its treasury management strategy and that no instances were identified where controls were materially ineffective. A number of areas for improvement were identified including clarifying aspects of the treasury management strategy, documenting the respective roles and responsibilities of parties involved in treasury activities, and strengthening authorisation controls and separation of duties. Action is being taken to implement the recommendations made and progress is being monitored by the Audit and Performance Committee. Recovery of the sums invested is being pursued through the banks appointed administrators.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Performance Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5 SIGNIFICANT GOVERNANCE ISSUES

During the course of the year the Council's monitoring processes identified a number of issues that needed to be addressed to ensure the continuous improvement of the system of governance. As a result action was taken to improve the administration of creditors, cashiers and payroll systems. There are detailed plans in place setting out the actions taken and implementation will be independently reviewed by internal audit.

In addition the following actions are in progress:

ISSUE	ACTIONS REQUIRED
Strengthen treasury management strategy and internal control systems.	Actions include implementation of new treasury management strategy and reporting structures, review of roles and responsibilities, strengthening of authorisation controls and separation of duties, and expanded use of IT.
Improve internal controls within systems for administering debtor accounts.	Actions include review of procedures and provision of training to ensure that debtor accounts, write-offs and refunds are supported by appropriate documentation and authorisations.

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.

Mike More
Chief Executive
July 2009

Colin Barrow
Leader of the Council
July 2009