

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

London Councils (the Committee) 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 Committee is also responsible for securing continuous improvement in the way its functions are exercised.

In discharging this overall responsibility, the Committee 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.

London Councils has approved and adopted a code of corporate governance in the form of a framework, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of London Councils Corporate Governance Framework can be obtained from the Director of Corporate Governance at 59½ Southwark Street, London SE1 0AL. This statement explains how London Councils has applied this code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011.

The purpose of the governance framework

The governance framework comprises the systems, ~~and~~ processes, ~~and~~ culture and values, by which the Committee is directed and controlled and ~~its such~~ activities through which it accounts to, and engages with, its stakeholders. It enables the organisation 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 risks 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 Committee'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 London Councils for the year ended 31 March ~~2013-2014~~ and up to the date of approval of the statement of accounts.

The governance framework

The key elements of the Committee's governance framework include:

- **Identifying and communicating the Committee's vision of its purpose** – The Committee produces an annual Corporate Business Plan which sets out the organisation's priorities for the year. This is informed by on-going liaison with key borough stakeholders and specifically by a programme of meetings between the Chair and all Executive portfolio holders. The Corporate Business Plan is

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submitted to the Leaders' Committee. There are a number of ways in which the Committee communicates with relevant stakeholders which include member briefings, committee and ~~forum~~other meetings and events such as the London Councils' Summit.

- **Reviewing the Committee's vision** - The Committee produces an Annual Review at the end of each financial year. The review provides a summary of the key activities over the last year and highlights the key achievements.
- **Measuring the quality of services** - Data collected during the year feeds into the production of a key achievements report at the year end. London Councils Corporate Management Board (CMB), the London Councils Executive and the Grants and ~~T~~ransport and Environment~~C~~ Committees receive regular financial management reports that monitor actual income and expenditure trends against approved budgets. London Councils operates a complaints procedure which provides an opportunity to put things right if an error is made and assists in the search to improve the quality of services to member authorities and to Londoners. There are also a number of internal management mechanisms, such as 1:1 review meetings and a fully embedded performance appraisal framework which monitor on-going progress against objectives.
- **Defining and documenting roles and responsibilities** – The London Councils Agreement sets out the main functions and obligations of London Councils and its member authorities. The Agreement includes the standing orders and financial regulations which provide details of the delegation arrangements in place. There is a scheme of delegation in place which was last reviewed, updated and approved by the Leaders' Committee at ~~their~~its Annual General Meeting on ~~11~~14 June 2014~~3~~. There is an established protocol which provides guidance on the working relationships between elected members and officers. Additional information on the roles and responsibilities of London Councils ~~Executive, Leaders, Grants and TEC Committees~~Leaders' Committee, Executive, Grants Committee and Transport and Environment Committee are documented in their individual Terms of Reference. All London Councils officers are issued with a job description which confirms their duties within the organisation.
- **Developing, communicating and embedding codes of conduct** – All London Councils Staff have been made aware of the staff handbook which is located on the intranet site. The staff handbook sign posts staff to London Councils policies and procedures which are on the intranet, ~~specifically mentioning financial regulations and the code of conduct~~. All staff are encouraged to refer to the intranet when they require guidance on London Councils policies and procedures. Reference to ~~the~~ staff handbook is also included in the induction training of all new staff joining London Councils with their attention specifically drawn to the financial regulations, the code of conduct, data protection and London Councils whistle blowing policy.
- **Reviewing the effectiveness of the Committee's decision-making framework** - The standing orders and financial regulations are included within the London Councils Agreement. The standing orders were last reviewed ~~in June 2014~~ and the changes ~~were~~ approved by Leaders' Committee on 19 October

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[2012](#). The financial regulations were reviewed and the changes approved by the Executive in February 2009. Minutes of Committee meetings are posted on London Councils [internetweb](#)-site and provide an official record of decisions made.

- **Identifying and managing risks** - London Councils Risk Management Strategy and Framework was reviewed and updated in 2011/12 and approved by the Audit Committee in March 2012. London Councils Corporate Risk Register is primarily compiled from the Risk Registers for each of London Councils three Directorates. The Corporate Risk Register is reviewed in accordance with London Councils Risk Management Framework which includes an annual review by the Audit Committee and was last reviewed in September ~~2012~~[2013](#). The Directorate Risk Registers are reviewed by the Audit Committee each financial year. London Councils' Corporate Management Board ensures that the risk registers, both Directorate and Corporate, continue to support London Councils' corporate priorities, which provides members with assurance on how the risks identified are being managed. An internal audit review of London Councils risk management arrangements was carried out during 2011/12. The review established that risk management is an embedded governance control and there were no recommended improvements to the arrangements.
- **Anti-fraud and anti-corruption arrangements** – London Councils is committed to [having](#) an effective Anti-Fraud and Anti-Corruption strategy designed to promote standards of honest and fair conduct, prevent fraud and corruption, detect and investigate fraud and corruption, prosecute offenders, recover losses and maintain strong systems of internal control. There are two separate policies in place -[London Councils Whistle Blowing Policy which was last updated in November 2013 and London Councils Policy to Combat Fraud, Bribery and Corruption, which was agreed by London Councils Audit Committee in March 2014](#) – both ~~which~~ are available on London Councils' [intranet and](#) website.
- **Effective management of change and transformation** – London Councils has a framework for managing organisational change which is available to all staff on the intranet. The framework provides guidance on the statutory elements of managing change and issues that should be considered when implementing changes.
- **Financial management arrangements** – London Councils' financial management arrangements conform with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government.
- **Assurance arrangements** – London Councils' internal audit function is carried out by the City of London's internal audit team under a service level agreement for financial support services. These arrangements conform with the governance requirements of the CIPFA statement on the Role of the Head of Internal Audit in public service organisations.
- **Discharge of the monitoring officer function** – The City of London's Comptroller & City Solicitors Department (Public and Corporate Law) undertakes the monitoring officer function under a service level agreement for legal services.

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London Councils' Director of Corporate Governance is charged with ensuring that any monitoring officer duty is commissioned from the City of London. As with all Committee officers, the Director of Corporate Governance is issued with a job description which confirms her duties within the organisation. She is subject to London Councils appraisal arrangements which assess her performance against agreed objectives.

- **Discharge of the head of paid service function** – London Councils' Chief Executive is the head of paid service. As with all Committee officers, the Chief Executive is issued with a job description which confirms his duties within the organisation. He is subject to appraisal arrangements with Group Leaders who assess his performance against agreed objectives.
- **Audit Committee** – London Councils' Audit Committee has its own comprehensive Terms of Reference. The Terms of Reference were reviewed by the Audit Committee on 24 September 2010. The Audit Committee meets three times a year and is chaired by a leading member from a borough who ~~is not~~ can be a member of the ~~Leaders' Committee-Executive~~. The members of the Audit Committee will normally, but not necessarily, be members of London Councils Leaders' Committee and with the exception of its chair, are not members of the Executive.
- **Compliance with relevant laws and regulations** - London Councils has comprehensive financial regulations and a comprehensive set of human resources policies ~~and procedures~~, which are reviewed on a regular basis. These arrangements ensure compliance with all applicable statutes, regulations and other relevant statements of best practice in order to ensure that public funds are properly safeguarded and are used economically, efficiently and effectively and in accordance with the statutory and other authorities that govern their use.
- **Whistle-blowing** – London Councils has a whistle-blowing policy which is available to all staff on the intranet. The policy aims to encourage staff and others to feel confident in raising serious concerns by providing clear avenues through which those concerns can be raised and reassuring staff who raise concerns that they will not be victimised if they have a reasonable belief and the disclosure was made in good faith. It is also on the website and staff are encouraged to bring this policy and the policy to combat fraud, bribery and corruption to the attention of contractors and third parties.
- **Identifying the development needs of members and officers** – London Councils has access to a programme of training and development, which is available to all staff and can be found on the intranet. The aim of the programme is to assist in the achievement of the organisation's aims and objectives by providing opportunities for staff to gain the necessary skills and knowledge required to perform their tasks and duties effectively. London Councils also has a performance appraisal scheme which provides all staff with regular assessments of their performance and development needs in relation to their work objectives. Members have access to training in their own authorities. There is a member only section on London Councils' website which provides them with useful

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information, [regular briefings in specific policy areas](#) and a forum for information exchange.

- **Establishing clear channels of communication** – London Councils actively engages with relevant stakeholders when developing its vision and strategies. All Committee meetings are open to the public and consultations are undertaken where relevant. London Councils issues member briefings and arranges a number of events, conferences and seminars that also provide opportunities for stakeholder engagement. London Councils produces an Annual Review which provides a summary of the key achievements over the last year and annual statutory financial statements. Information on consultations, minutes of committee meetings and publications are posted on London Councils [internet website](#) [www.londoncouncils.gov.uk](#). [London Councils consults with Chief Officer groupings across boroughs in the development of its work.](#)
- **Enhancing the accountability for service delivery and effectiveness of public service providers** - All working arrangements with public service providers are subject to signed agreements/contracts which set out the terms of the service provided. All agreements/contracts are reviewed to ensure that the roles and responsibilities of the parties involved are clearly defined and the terms are beneficial to London Councils and its member authorities. Key performance indicators are incorporated into agreements where appropriate and monitored regularly. Nominated officers are responsible for managing the outcomes of the service and establishing clear lines of communication with providers.
- **Partnership arrangements** – London Councils has a set protocol for staff to follow when working in partnership with outside bodies. A checklist is [to be](#) completed for each new partnership or project. Partnership arrangements are also subject to signed agreements which include objectives, roles and responsibilities. The performance of partnerships are monitored in the same manner as other service providers. [London Councils does not currently have any material partnership arrangements.](#)

Review of effectiveness

London Councils 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 London Councils Corporate Management Board which has responsibility for the development and maintenance of the governance environment, the internal audit annual report and also by comments made by the external auditors in their annual audit letter and other reports. The review of the effectiveness of the governance framework includes:

- The work of Internal Audit, undertaken by the City of London under a Service Level Agreement, and the annual opinion of the Head of Audit & Risk Management at the City of London. Internal Audit plays a central role in providing the required assurance on internal controls through its comprehensive risk-based audit of all auditable areas within a five-year planning cycle, – with key areas being reviewed annually. This is reinforced by consultation with London Councils Corporate Management Board and London Councils' Audit Committee

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on perceived risk and by a rigorous follow-up audit regime. The Internal Audit Section of the City of London operates, in all aspects, in accordance with the CIPFA Code of Practice. An internal audit review of governance arrangements was carried out during 2012/13 with the outcome reported to the Audit Committee in March 2013.

- The Audit Committee's review of the governance arrangements in place during 2012/132013/14.
- London Councils Corporate Management Board considers an annual report on Corporate Governance, which includes work completed during the current year and highlights work planned for the following year.

Areas for development during 2013/142014/15

The review of the effectiveness of London Councils governance arrangements has revealed the following areas for development during 2013/142014/15:

Grants

An internal audit review of the Grants programme was undertaken in 2013/14. The audit reviewed the management controls which ensure that grants are issued in accordance with established priorities and the adequacy of due diligence checks, monitoring procedures and payment processes. The review also measured the extent to which the recommendations of the 2012 grant investigation had been implemented. The review established that, "there is a sound control environment with risks to system objectives being reasonably managed. Any deficiencies identified are not cause for major concern". There was one recommendation for the introduction of additional reference checks on organisations which have never been funded by London Councils or receive annual funding in excess of £1 million. The recommendation was implemented from April 2014.

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ICT Strategy, Security & Operational Control Information Security

~~A review of the Committee's information security~~ICT strategy, security and operational control -was undertaken during ~~2009/10~~2013/14 ~~by the Internal Audit Team.~~ The review revealed that whilst an adequate control framework was in place, there were a number of areas that required addressing such as updating the overall ICT strategy and the business continuity and disaster recovery plans. There were also recommendations on improvements to system security, hardware infrastructure, performance monitoring and staff data security awareness. The report acknowledged that management was already taking action to address a number of the issues that were raised. The outstanding recommendations will be implemented during 2014/15. ~~The main areas of development recommended by the review relate to seeking assurances on the adequacy of information security of partners/contractors, the classification of information held by the Committee, the transfer of data to and from partners/contractors, enhancing ICT security arrangements and the introduction of an information management policy. The delivery of London Councils' ICT function was transferred to the City of London in August 2011. As a result there have been significant changes to the operation of the ICT function which has affected key positions referred to in draft policy documents as well as security arrangements. Whilst good progress had been made towards implementing the~~

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~~recommendations of the original review, it is necessary to review these recommendations and draft policy again in the context of the new arrangements. A review of the strategy, security and operations of the ICT function will be carried out in 2013/14 and any additional recommendations identified during this review will be considered for implementation.~~

Inventory

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~~An internal audit spot check of petty cash, creditor payments, safe contents and inventory lists was carried out during 2013/14. The check included an examination of procedures over the petty cash imprest, safe access and security, inventory and a creditor depth test for a sample of transactions. The review revealed that the inventory list for furniture and equipment had not been updated on a regular basis. The recommendation included in the spot check report will be implemented during 2014/15.~~

London Lorry Controls Scheme

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~~An internal audit review of the London Lorry Control IT System was undertaken in 2013/14. The audit reviewed controls in relation to system strategy, management responsibility, configuration, security, operational procedures and resilience. The review provided assurance on the data integrity of the whole system. The recommendations included in the report relate to the incorporation of the debt registration functionality, performance monitoring reports, segregation of duties and system security protocols. A number of the recommendations have already been implemented with the remainder being implemented during 2014/15.~~

Parking and Traffic

A follow up review of the Parking and Traffic Division was carried out during 2011/12. The original review examined the controls in place to ensure that all charges are accurately identified and recharged to the relevant organisation, that payments to the main contractor and Parking Adjudicators are accurate and reflect services provided and the adequacy of procedures and systems for monitoring performance. The follow up review revealed that some of the recommendations had not been implemented due to prohibitive implementation costs. There are still some improvements to be made on operational procedure notes which have been delayed as a result of a change in the business object software used to compile management information. These improvements that will be implemented during 2013/14~~2014/15.~~

Taxicard Scheme

A follow up review of London Councils' Taxicard Scheme was completed in 2011/12. The original audit reviewed the management arrangements for the scheme as well as establishing and examining arrangements in place to monitor the contract held with Computer Cab. The follow up review revealed that there had been a delay in implementing a recommendation regarding the regular updating of procedure manuals. There has been progress made on the update of procedure manuals during 2013/14 but the exercise has not yet been completed as recent and proposed changes will have to be incorporated in the final version. These improvements will be completed during 2014/15. The implementation had been delayed due to the procurement and outsourcing of elements of the scheme. A revised target implementation date of December 2013 has

been set for the update of the procedural guidance once new working practices have had time to embed.

Freedom Pass

An internal audit review of the Freedom Pass concessionary fares scheme was carried out in 2012/13. The audit assessed controls in relation to the processing of applications, issuing of cards, verification and payment of claims submitted by transport companies and the adequacy of systems for budgeting and budgetary control. The review also considered the robustness of the process to agree settlements with transport companies. It was established that there is a sound control environment with risks to system objectives being reasonably managed. The recommendations included in the review relate to the need to obtain additional assurance from member boroughs, that do not use the Post Office service, that sufficient controls exist to check the identity and entitlement of applicants and progress the introduction of independent National Fraud Initiative data matching for freedom pass holder details. The recommendations will be implemented during 2013/14.

Governance Arrangements

An internal audit review of London Councils' governance arrangements was carried out in 2012/13. It established that there is a sound control environment with risks to system objectives reasonably managed. The Chairs of London Councils' committees provided suggestions on ways to improve reporting and the committee decision making processes. All the suggestions have been implemented.

Recruitment and Payroll Adjustments

An internal audit spot check of recruitment and payroll adjustments was carried out in 2012/13. The audit reviewed the controls in relation to the recruitment of new staff, the certification of payroll adjustments in respect of sickness absences and compliance with government guidelines on Statutory Sick Pay. It established that the controls were generally operating satisfactorily but there were some areas of development identified in relation to document retention. The recommendations made in the report will be implemented in 2013/14.

London Councils will take adequate steps over the coming year to address the above matters in order to further enhance its governance arrangements. London Councils is satisfied that these steps will address the improvement needs identified in the effectiveness review. London Councils will monitor their implementation and operation as part of our next annual review.

Significant governance issues

Grants

In July 2012 the Grants Committee considered a report which raised significant concerns about a grant commissioned to a particular organisation. An internal audit investigation was commenced and a report presented back to the Committee in November 2012. The internal audit report made seven recommendations to improve controls on the monitoring of projects, retention and archiving of records, management oversight,

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~~prompt response to projects with issues and protocols for notifying the Grants Committee, relevant senior officers and third parties where concerns exist.~~

~~As the internal audit report raised some serious issues and highlighted a potential breakdown in internal controls regarding the payments of grant to this particular organisation, London Councils Chief Executive commissioned a further, independent review to ascertain the circumstances as to why these events occurred and to form a view as to whether or not the responses to the recommendations of the internal audit report were sufficiently robust to provide a reliable system of internal control into the future. This review made further recommendations regarding:~~

- ~~• the review of the operation of commissioning arrangements;~~
- ~~• the priority to be afforded to securing outcomes and safeguarding public funds;~~
- ~~• monitoring processes involving officers and members;~~
- ~~• the triggers for warning senior managers and members;~~
- ~~• revisions to Financial Regulations; and~~
- ~~• protocols for referrals to the Metropolitan Police.~~

~~London Councils Chief Executive, Corporate Director of Services and Director of Corporate Resources fully accepted the conclusions and recommendations included in the report as well as those highlighted in the internal audit investigation. This was reported to both the Audit Committee and Grants Committee. A framework has been developed which incorporates the recommendations from both reviews. The procedures incorporated in the framework have been applied to all commissions since 1 April 2013. There are no significant governance issues.~~

John O'Brien
Chief Executive

September ~~2013~~2014

Mayor Jules Pipe
~~2014~~
Chair of London Councils

September ~~2013~~