

Gloucester City Council

Meeting:	Audit & Governance Committee	Date:	24th June 2013
Subject:	Annual Governance Statement 2012/13		
Report Of:	Corporate Director of Resources on behalf of the Corporate Governance Group		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Peter Gillett, Director of Resources		
	Email: Peter.Gillett@gloucester.gov.uk	Tel: 396400	
Appendices:	1. Annual Governance Statement		

1.0 Purpose of Report

- 1.1 To advise Members of the requirement to prepare, and approve, an Annual Governance Statement.

2.0 Recommendations

- 2.1 Audit & Governance Committee is asked to **RESOLVE** that the Annual Governance Statement for 2012-13 be approved.

3.0 Background and Key Issues

- 3.1 The Accounts and Audit Regulations 2011 (“the Regulations”) require the Council to conduct a review, at least once each year, of the effectiveness of its system of internal control. The findings of the review must be considered by the members of the body meeting as a whole or by a committee. At the Council, the Audit and Governance Committee is the committee with responsibility for this review.
- 3.2 The Regulations further state that, following this review, the Committee must approve an annual governance statement (AGS) and ensure that this statement accompanies the Statement of Accounts. The AGS must be signed by the Chief Executive and the Leader of the Council
- 3.3 The 2012-13 Annual Governance Statement (AGS) has been prepared by the Corporate Governance Group and is based on best practice guidelines issued by the CIPFA Finance Advisory Network. It includes an Action Plan detailing the significant governance issues identified, together with actions to be undertaken during 2013-14 to improve the overall governance arrangements. These have been identified from a review of compliance with the Council’s Local Code of Corporate Governance and other review/assurance mechanisms such as the Assurance Statements completed by Corporate Directors and Group Managers.

3.4 Governance comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities.

3.5 Actions arising from the 2011-12 Annual Governance Statement Action Plan have either been addressed or continue to be implemented.

4.0 Alternative Options Considered

4.1 There are no alternative options that are relevant to this matter.

5.0 Reasons for Recommendations

5.1 The Council is required to produce an annual governance statement under Regulation 4 of the Accounts and Audit Regulations 2011 and, under the Council's Constitution, the Audit and Governance Committee has responsibility for approving the Statement. The Corporate Governance Group has prepared the statement in accordance with best practice guidelines and taking into account matters relevant to the 2012-13 year

6.0 Future Work and Conclusions

6.1 A monitoring report on the achievement of the Action Plan will be presented to Audit Committee members at the next meeting in September

7.0 Financial Implications

7.1 There are no direct financial implications.

(Financial Services have been consulted in the preparation this report.)

8.0 Legal Implications

8.1 The Accounts and Audit Regulations 2011 require the Council to conduct a review, at least once each year, of the effectiveness of its system of internal control and to publish a statement on internal control each year with its financial statements.

(Legal Services have been consulted in the preparation this report.)

9.0 Risk & Opportunity Management Implications

9.1 Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It is important to recognise that the purpose of the annual governance statement is not just to be 'compliant', but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required.

10.0 People Impact Assessment (PIA):

10.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, there a full PIA was not required.

11.0 Other Corporate Implications

Community Safety

- 11.1 There are no specific Community Safety implications arising from the recommendation in this report.

Sustainability

- 11.2 There are no specific Sustainability implications arising from the recommendation in this report.

Staffing & Trade Union

- 11.3 There are no specific Staffing and Trade Union implications arising from the recommendation in this report.

Background Documents: None

ANNUAL GOVERNANCE STATEMENT

Review of 2012/13 and Actions Required in 2013/14

ANNUAL GOVERNANCE STATEMENT

1.0 Scope of responsibility

- 1.1 Gloucester 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, properly accounted for, and used economically, efficiently and effectively. Gloucester City 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.
- 1.2 In discharging this overall responsibility, Gloucester City Council is responsible for putting in place proper arrangements for the governance of its affairs, to facilitate the effective exercise of its functions.
- 1.3 Gloucester City 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 is on our website at www.gloucester.gov.uk, is included in the Council's Constitution (Part 5 – Codes & Protocols), or can be obtained from the Council's Group Manager Audit & Assurance or the Monitoring Officer. This statement explains how Gloucester City Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

2.0 The purpose of the governance framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and it's the activities through which it accounts to, 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.
- 2.2 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 Gloucester City 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.
- 2.3 The governance framework has been in place at Gloucester City Council for the year ended 31st March 2013, and up to the date of approval of the Statement of Accounts.

3.0 The governance framework

- 3.1 Governance is about how the Council ensures it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

3.2 The Council has adopted a Local Code of Corporate Governance that is based around a number of key principles. These principles are identified below, together with a commentary on the current level of organisational compliance.

4.0 Focus on the purpose of the authority and on outcomes for the community and creation and implementation of a vision for the local area

4.1 The Council's major policy objectives in 2012/13 were detailed as part of the corporate plan, entitled 'Transforming Your City'. This Plan, which followed on from the Blueprint for Change in 2005 and building a Better Gloucester in 2008, is a 4 year plan (2011-2015) designed as a framework for delivering Gloucester's future, reflecting the unique nature of the city's character and the challenges faced by the Council.

4.2 The three key priorities of the strategy are:

1. Prosperity – Strengthening Gloucester's Economy
2. People – A City for Everyone
3. Place – Creating Pride in Our City

These three key priorities are underpinned by the following five principles:-

Leadership – We will provide strong, ambitious and enthusiastic leadership, putting the interests of the city first and we will act in an open and transparent way.

Sound Finance – We will strive for value for money and only spend what we can afford.

The Environment – We will consider the impact on the environment of everything we do.

Your Services – We will strive for top-performing services, built around you the customer, in partnership with the public, private and voluntary sectors.

People – We will consult and engage with the community to help shape the decisions we take, giving everyone a voice and looking after the most vulnerable in society.

4.3 The Council's major policy objectives, as detailed in 'Transforming Your City' were approved by Full Council at a meeting held on 24th March 2011. A copy of the 'Transforming Your City' Corporate Plan 2011-2014 can be found on the Council's website.

4.4 In order to ensure that progress is being made against the aims and objectives detailed in the Corporate Plan, monthly performance reports are produced to highlight achievements and address any challenges. These reports are reviewed by the Chief Executive and Directors (GLT), and Members.

- 4.5 An end of year, annual performance report was presented to GLT on 30th April 2013 and was presented to Cabinet on 15th May 2013.
- 4.6 The Forward Plan contains matters which will be the subject of a ‘key decision’ and ‘decisions relating to the Budget and Policy Framework’. Proposals relevant to the Budget and Policy Framework are subject to a period of consultation and the Overview and Scrutiny Committee has the opportunity to respond in relation to the consultation process. Forward Plans are prepared by the Leader of the Council, and cover a rolling period of twelve months. They are prepared on a monthly basis and subsequent plans cover a period beginning with the first day of the second month covered in the preceding plan. A copy of the Forward Plan is also published on the Council’s web site.
- 4.7 In order provide services to meet the needs of the community, the Council needs to obtain the views of those being served. This will allow the Council – and Members – to provide sound evidence for the decisions that are made, as well as enabling redirection of resources where necessary. In June 2013, Cabinet agreed to the introduction of a new system to aid the gathering of customer feedback on service delivery, at the point of interaction.

5.0 Members and officers work together to achieve a common purpose with clearly defined functions and roles

- 5.1 Members are responsible to the electorate and serve as long as their term of office lasts. Officers are responsible to the authority and carry out the Council’s work under the direction of the Council, Executive and Committees.
- 5.2 The relationship between Councillors and officers is essential to the successful working of the Council. This relationship within the authority is characterised by mutual respect, informality and trust. The Council has adopted a ‘Councillor – Officer Relations’ protocol to help councillors and officers perform effectively by giving guidance on their respective roles and expectations, and, on their relationship with each other. The Peer Review in Autumn 2013 will further consider the Council’s approach in this matter.
- 5.3 The Council has adopted a Scheme of Delegation detailing the delegation of responsibilities and functions to the Council, Cabinet, individual Cabinet Members, Committees, and, officers.
- 5.4 Under the Local Authorities (Members Allowances) (England) Regulations 2003, local authorities are required to have in place a scheme which sets out payments of allowances to councillors. The City Council formally adopts its allowances scheme for the forthcoming year at Annual Council. The Scheme for 2012-13, which was based on recommendations by an independent “Members Remuneration” panel, was adopted by the Council in May 2012.
- 5.5 Under Section 38 of the Localism Act 2011, the Council must approve and publish a senior pay policy statement before the start of the financial year to which it applies. The Council is expected to keep the statement under review and publish a new version each year. The Senior Pay Policy Statement for 2012/13 was approved by Council in March 2012.

6.0 Promote values for the authority and demonstrate the values of good governance through the upholding of high standards of conduct and behaviour.

- 6.1 The Council has adopted codes of conduct for Members and Officers. The code of conduct for Members was amended during 2012/13 to take account of changes required by the Localism Act 2011. The revised Member Code of Conduct was approved by Council in July 2012. No complaints about breach of the Member Code of Conduct were received during 2012-13. .
- 6.2 Staff are also expected to maintain high standards of behaviour at all times. The standards of behaviour and other related matters are set out in an officer Code of Conduct which is based on a national model. A copy of this Code is contained in the Council's Constitution. The Council's Constitution also contains a number of protocols in respect of Member/Officer and Member/Member relations, and a whistle-blowing policy for employees.
- 6.3 During the year, a number of investigations were carried out under the Council's Disciplinary Procedure relating to the recruitment and selection of staff. The investigations included the investigation of allegations made against a number of officers within the Council.
- 6.4 The Council has a complaints procedure that enables dissatisfied members of the public to raise concerns. The Council views all comments, whether they are complaints or compliments, as a valuable way of collecting continual feedback about services and identifying how it can improve the services it provides. Complainants may also refer matters to the local government ombudsman for investigation once they have been through the Council's complaint system if they are dissatisfied with the Council's response.

7.0 Take informed and transparent decisions, which are subject to effective scrutiny and managing risk.

- 7.1 The Council is committed to efficient and effective decision-making and for ensuring that those responsible for decision-making are clearly identifiable to local people and that the decision-makers explain the reasons for their decisions.
- 7.2 In accordance with the statutory requirement, the Council has established an overview and scrutiny function. The Overview and Scrutiny function is a central element of the Council's aims and objectives and a key part of the democratic structure. The Overview and Scrutiny Committee meets in public to discuss and make recommendations on the development of policies and to hold the Cabinet and Cabinet Members to account for both their actions and performance.
- 7.3 The Council's Democratic Services section maintains the up to date Register of Members' Interests on behalf of the Monitoring Officer and also ensures that Members are reminded at least annually to update their record. Declarations of Interest are a standard agenda item for each main Committee meeting. The requirement for staff to declare interests is included in the Officers' Code of Conduct – Council Constitution Part 5, Codes and Protocols.
- 7.4 Risk Management is essentially about good management practice and effective decision making. It can be defined as:

'A logical and systematic method of establishing the context, identifying, analysing, evaluating, treating monitoring and communicating risks associated with any activity, function or process in a way that will enable organisations to minimise losses and maximise opportunities'.

- 7.5 The Council recognises that all aspects of business risk must be managed. The Council has a Risk Management Strategy, the purpose of which is to provide a framework for the effective management of risks within the authority. The Strategy was reviewed in March 2012. It contains the objectives of the strategy, linked to the council key aims, and guidance on the risk management cycle and scoring of risks.
- 7.6 The Gloucester Leadership Team and Cabinet are responsible for reviewing the Council's Strategic Risk Register. A review (May 2012) of the Register was undertaken to ensure any risks associated with the achievement of the Council's aims and objectives in the corporate strategy 'Transforming Your City' had been identified. Since January 2013, the Strategic Risk Register has become a standard agenda item for the joint monthly meetings between GLT and Group Managers.
- 7.7 The Council has established an Audit Committee. The Terms of Reference for the Audit Committee cover the core functions of an audit committee as identified in the CIPFA guidance 'Audit Committees – Practical Guidance for Local Authorities'. In July 2012, and as a result of changes introduced by the Localism Act 2011 relating to standards committees, the Council approved the expansion of the Audit Committee's responsibilities to include responsibility for standards policy and procedures and to rename the Audit Committee as the "Audit and Governance Committee".
- 7.8 The Group Manager Legal and Democratic Services identifies any forthcoming relevant legislation and, together with the relevant Director, is responsible for ensuring that the Cabinet is appraised of the implications and what action the Council may need to take.
- 7.9 The Council has an agreed Whistleblowing policy under which members of staff may raise any concerns. Following a recommendation by the Audit & Governance committee, a review of the Whistleblowing policy was undertaken in June 2013.
- 8.0 Develop the capacity and capability of members and officers to be effective.**
- 8.1 The Council has the Investor in People (IIP) award, which is a national standard that sets a level of good practice for the training and development of people to achieve business goals.
- 8.2 Access to Member Development is a key element of the Local Code of Corporate Governance. From the Annual Council meeting in May 2012, the Constitutional and Electoral Working Group became responsible for reviewing, developing and setting the Council's Member development programme. An 18 month ongoing programme of Member development was agreed by the Group on 3rd July 2012. In response to feedback from the Group, the number of formal development sessions were reduced, with other sessions being offered to the political groups in their individual Group meetings. Member training in 2012/13 included the following:
- An induction pack for successfully elected Councillors.

- A Members' Handbook issued to all Members of the Council.
- A comprehensive extended induction programme featuring a wide range of topics.

8.3 In total 9 training courses were provided by the Council in 2012/13 and the total number of attendances was 73. Higher attendance levels remain desirable. .

8.4 In addition to the programme of internal development, Members have been provided with a quarterly Member Development Bulletin detailing the following:

- forthcoming in-house training sessions for all Councillors
- opportunities for individual development from external providers
- courses available to all Councillors through the Modern Councillor e-learning package

8.5 In 2012/13, the Council subscribed to the Modern Councillor e-learning package, which offered a range of relevant courses and online resource area where Members could access key documents from any device with internet access. The intention was to provide an alternative method for delivering training, recognising that attendance at evening sessions on site is difficult for some Members. Following a review of the usage of the e-learning package by Members and their feedback on its usefulness, the decision was taken by the Constitutional and Electoral Working Group on 12th March 2013 not to continue to subscribe. Alternative options for increasing take-up of Member development opportunities are being investigated.

9.0 Engage with local people and other stakeholders to ensure robust public accountability.

9.1 Council, Cabinet and Committee meetings are open to the public with agendas and minutes being publicly available. Members of the public are able to ask questions at such meetings.

9.2 The Council publishes a leaflet with its Council Tax demands which summarises financial performance and, at the end of each financial year, publishes its Statement of Accounts. A comprehensive annual budget consultation process is also undertaken with residents, voluntary sector groups and local businesses.

9.3 The Council has agreed and published a petitions scheme which details guidance and procedures for the way in which it deals with petitions from members of the public which may include a debate at Council or the matter being considered by the Cabinet, appropriate Committee, or a Forum.

9.4 In order to increase transparency and accountability in local government, central government introduced a legal requirement for councils to report upon the remuneration of senior employees. This information was published as part of its annual accounts. The Council's comprehensive Pay Policy Statement for 2012-13 was also approved by full Council on 22nd March 2012.

9.5 The Council has a strong track record of partnership working with the public, private and voluntary sectors. It has established: an arms length management organisation, Gloucester City Homes (GCH), to manage, maintain and improve the council housing stock, a charitable trust, Aspire Sports and Cultural Trust, to manage its leisure

services, a separate legal entity, Marketing Gloucester Ltd, to promote the City, and, has entered into two strategic partnership contracts with the private sector for the provision of Streetcare services (street cleansing, waste collection, grounds maintenance and public conveniences), and the delivery of Revenues and Benefits services.

- 9.6 Monitoring arrangements for the major partnerships are delivered through a combination of client/contractor meetings, the Gloucester Leadership Team and members (Cabinet and/or Overview and Scrutiny Committee).

10.0 Review of effectiveness

- 10.1 Gloucester City 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 senior management team within the authority who have responsibility for the development and maintenance of the governance environment, the Group Manager Audit & Assurance annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 10.2 The process that has been applied in maintaining and reviewing the effectiveness of the governance framework are as follows:-

11.0 The Council

- 11.1 The Council has adopted a Constitution that controls how the Council is structured and the decision-making procedure laid out in the Constitution details the procedures designed to support open and accountable decision-making. During 2012/13, a number of further changes to the Constitution were made, and agreed by Council, to ensure it remained up to date. A copy of the Constitution can be found on the Council's website at www.gloucester.gov.uk.

12.0 The Cabinet

- 12.1 The Council determines the budgetary and policy framework. The principal decision-making body is the Cabinet (Executive). The Cabinet took all Key Decisions in 2012/13. Key Decisions are subject to pre-scrutiny by the Overview & Scrutiny Committee.
- 12.2 The key statutory document that sets the agenda for a rolling programme of future key decisions is the Forward Plan; hence this is a critical factor in the Council's overall decision-making process.
- 12.3 Executive decisions taken by Cabinet and individual Cabinet Members are published and may be subject to a call-in process for examination by the Overview & Scrutiny Committee.

13.0 The Audit Committee (renamed Audit & Governance committee from July 2012)

- 13.1 Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's corporate and

service objectives. Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors.

13.2 The Terms of Reference for the Audit Committee cover the core functions of an audit committee as identified in the CIPFA guidance 'Audit Committees – Practical Guidance for Local Authorities'. In July 2012, and as a result of changes introduced by the Localism Act 2011 relating to standards committees, the Council approved the expansion of the Audit Committee's responsibilities to include responsibility for standards policy and procedures and to rename the Audit Committee as the "Audit and Governance Committee".

13.3 As a result of the receipt of a number of anonymous allegations made against Members and senior officers, the Audit and Governance Committee received reports from both the Internal Auditor and an external investigator in February 2013 to consider the governance issues arising out these allegations. The Committee agreed to :-

- Review the Council's Whistleblowing policy, in consultation with staff and trade unions, to make it clear that the Council has the right not to investigate anonymous allegations which appear frivolous or malicious and are unsupported by credible evidence; and
- To request that the Chief Executive and Monitoring Officer commission a review of the Council's corporate governance arrangements, as part of a peer review process during 2013/14.

13.4 As stated in paragraph 7.9 above, following the recommendation by the Audit & Governance committee, a review of the Whistleblowing policy was undertaken in June 2013.

14.0 Standards Arrangements

14.1 The Council's standards committee, whose role is to promote and maintain high standards of conduct by Councillors and co-opted Members, is the Audit and Governance Committee. In July 2012, the Council adopted a Code of Conduct and standards arrangements, as required under the Localism Act 2011. A review of the operation of the Council's standards arrangements was considered by the Audit and Governance Committee on 24th June 2013.

15.0 Overview and Scrutiny Committee

15.1 As part of the Council's Overview and Scrutiny arrangements, it was agreed that the Overview and Scrutiny committee would 'provide and co-ordinate the input to an annual report to Full Council on such issues or topics as the Committee saw fit'. The Annual Report setting out the work and achievements of the Council's Overview and Scrutiny function during 2012/13 was reported to Council in 18th July 2013.

15.2 The Committee used an annual work programme to manage the business of the Committee during 2012/13 and there was an agreed programme of reviews to be

carried out by Task & Finish Groups, with regular reporting on progress being made to the full Committee.

16.0 Internal Audit

- 16.1 Internal Audit is a legislative requirement of the Accounts and Audit (England) Regulations 2011. This requires the authority to undertake an adequate and effective internal audit of its accounting records and of its system of internal control.
- 16.2 Gloucester City Council (GCC) and Stroud District Council (SDC) have formed the Gloucestershire Audit & Assurance Partnership (**G A A P**) in order to deliver a professional, cost effective, efficient internal audit function to the partner organisations. The provision of the Internal Audit Service is by a team consisting of 6 staff; 3 based at GCC and 3 based at SDC. In addition, the team is managed by the Head of Partnership, who is the GCC Group Manager Audit & Assurance.
- 16.3 The 2011 Accounts and Audit Regulations also require the authority to review the effectiveness of its internal audit function at least once a year, and that the findings of this review should be included in the Annual Governance Statement.
- 16.4 This review consisted mainly of a self-assessment against the CIPFA Code of Practice for Internal Audit in Local Government in the UK 2006, and the results were reviewed by the Council's Corporate Director of Resources, and will be reported to the Council's Audit & Governance Committee in June 2013. The overall conclusion from the review was that internal audit at GCC is effective. Although the self-assessment identified a number of 'gaps' in compliance with the CIPFA Code of Practice, these do not materially effect the reliance the Council can place on the Group Manager Audit & Assurance's opinion on the adequacy of the control environment.
- 16.5 Internal Audit work is carried out to the standards outlined in the CIPFA 'Code of Practice for Internal Audit in Local Government in the United Kingdom 2006' (the Code). The Code requires the Head of Internal Audit to 'provide a written report to those charged with governance timed to support the Annual Governance Statement'. The 2012-13 report by the Group Manager Audit & Assurance concludes:-
- "My overall opinion is that a satisfactory level of assurance can be given that there is generally a sound system of internal control, designed to meet the Council's objectives, and that controls are generally being applied consistently."
- 16.6 The identified weaknesses identified from internal audit work during the year which resulted in an 'unsatisfactory level of assurance' would normally be referred to in the appropriate section of this Annual Governance Statement. However, no specific reference has been made this year, as these areas, together with other control issues identified within financial services, have been dealt with by the actions identified by the Director of Resources in this Statement – see paragraphs 17.10 & 17.11 below.
- 16.7 The 1st April 2013 saw the introduction of the new United Kingdom Public Sector Internal Audit Standards (PSIAS) that apply across the whole of the public sector. The PSIAS are based on the Institute of Internal Auditors (IIA) Standards, with a limited number of additional requirements and interpretations that allow the PSIAS to be adopted for the public sector. These new Standards are intended to promote further improvement in the professionalism, quality, consistency, and, effectiveness of internal

audit across the public sector. The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced a Local Government Application Note to provide guidance to local authorities on how to apply the new Standards. Although there would not appear to be many significant changes between the PSIAS and the previous CIPFA Code, a detailed review of the new Standards has been undertaken to identify all changes.

17. External Audit and Other Review/Assurance mechanisms

External Audit

- 17.1 External Audit is part of the process of accountability for public money. It makes an important contribution to the stewardship of public resources and the corporate governance of public services. The scope of External Audit work covers not only the audit of financial statements but also aspects of corporate governance.
- 17.2 During 2012/13, the Council's External Auditor reported regularly 'those charged with governance' relating to the 2011/12 audit of the Council's financial statements. These reports concluded specific recommendations for improvement, many of which had also been identified by the Financial Services Team. All of these recommendations, along with those made by Internal Audit, have been included in the "Financial Services Improvement/Action Plan" which will be tabled at the meeting, and will be presented to each meeting of the Audit and Governance Committee during the year ahead as well as being monitored by the Corporate Director of Resources and GLT.
- 17.3 The main issues identified in the ISA 260 report related to the quality and timeliness of the draft accounts, of the 11 agreed audit adjustments to the council's accounts.
- 17.4 The audit of the financial statements in previous years resulted in a greater amount of resource from KPMG to complete their work. This was partly due to vacancies in the financial services team in the period leading up to and during the production of the statements and during the audit itself. For the 2009/10 and 2010/11 accounts and audit process, the Council put further effort and resource into improving its financial reporting arrangements however, further technical resources have been approved by the Director of Resources to cover the 2011/12 year end to mitigate against more recent vacancies and technical skills gaps.
- 17.5 Despite the approval of additional resources by the Director and GLT, the Accountancy Services team did not embed the Director's required improvements – which resulted in a delay to the Director's sign-off of the 2011/12 accounts - and a delay to the completion of the external audit.

Director of Resources

- 17.6 To comply with the CIPFA Code of Practice on Local Authority Accounting, a specific statement is required to be reported in the Annual Governance Statement on whether the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) to ensure an effective system of internal control is maintained and operated in connection with the resources concerned. The Director of Resources has confirmed that the authority's financial management arrangements

conform with the CIPFA Statement, subject to the Director's statement in the following paragraphs 17.7 to 17.14, below:

17.7 The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the council. In particular, the system includes:

- Budget systems
- Reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- Setting targets to measure financial and other performance
- The preparation of financial reports which indicate actual expenditure against the forecasts;
- Capital expenditure arrangements and project management disciplines.

17.8 My review of the effectiveness of the system of internal financial control is informed by:

- The work of managers within the council
- The work of internal auditors as described above, and
- The external auditors in their annual audit letter and other reports

The system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

17.9 The arrangements for internal audit are as set out in the Annual Governance Statement (paragraph 16) and I am satisfied that they operate to a defined standard. A review of the effectiveness of internal audit has been undertaken and reported to the Audit Committee. The Head of Internal Audit has also provided an independent opinion in his annual report stating that he is satisfied the council has an adequate control environment in place.

17.10 The work of both Internal and External Audit has further confirmed my own view, endorsed by GLT and the Corporate Governance Group, that essential ongoing improvement to ownership and accountability for financial management issues need to be fully embedded across the Council and better supported by the financial services team. This includes further improving financial monitoring arrangements, to include the production of the council's annual financial statements and improved modelling of future budget options within services.

17.11 Further improvements in financial control must be implemented. This work is ongoing – and remains essential and fundamental to enable the further step change in Financial Management across the authority, that I have identified and stated as being necessary for the council to achieve. This includes the need to further bolster the technical accountancy resource within the council and to improve ongoing resilience. The delays experienced in enabling me to sign off the annual accounts for 2011/12 and the commencement of the annual audit were not acceptable. Significant improvements have been implemented as part of the financial services improvement plan. The draft core financial statement for 2012/13 were completed in Mid May 2013.

The Challenge, however, is to make these improvements sustainable. A restructuring of financial services is being implemented to ensure appropriate levels of both resourcing and skills are maintained within the service. I have established an interim team of additional resources, and which will overlap with recruitment to the necessary posts, to ensure both short and medium term resilience.

- 17.12 Risk Management is the process by which risks are identified, evaluated and controlled, and is a key element of the governance framework. A current review (June 2013) of the Register is being undertaken to ensure any risks associated with the achievement of the Council's aims and objectives in the corporate strategy 'Transforming Your City' have been identified. Regular reviews of service plans and risk registers and the Strategic Risk Register are carried out by GLT supported by the Officer Risk Champion.

Other sources of Assurance

- 17.13 A further source of assurance has been obtained from the use of Management Assurance Statements. These Statements have been issued to all Directors and Group Managers, and they have been requested to complete, and to identify any significant internal control issues within their portfolio. There were no significant control issues identified.

18.0 Significant governance issues

- 18.1 We have been advised of the implications of the result of the review of the effectiveness of the governance framework by the Corporate Governance Group. A plan to ensure continuous improvement of the system is in place and key actions identified is appended to this statement.
- 18.2 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

Paul James
Leader of the Council

Julian Wain
Chief Executive

Annual Governance Statement Action Plan 2013-14

No.	Core Principle	Governance issue	Responsible Officer	Action Required
1	Promote values for the authority and demonstrate the values of good governance through the upholding of high standards of conduct and behaviour.	Governance issues arising out of the investigation of anonymous allegations.	Chief Executive and Monitoring Officer	Commission a review of the Council's corporate governance arrangements, as part of a peer review process during 2013/14.
2	Take informed and transparent decisions, which are subject to effective scrutiny and managing risk.	Essential and ongoing improvements in financial management are necessary, as identified in the Annual Governance Statement by the Director of Resources, and detailed within the Financial Services Improvement Plan	Corporate Director of Resources	<p>Improve the ongoing technical accounting skills within the financial services team.</p> <p>Further implementation of the LEAN process review across the council to embed ongoing improvements.</p> <p>Restructure of Financial Services to help embed improvements and to ensure an overlap between the interim team and recruitment to new roles within financial services.</p> <p>Implement improved reporting arrangement to ensure key routines are delivered within financial services.</p> <p>Implementation of the Financial Services Improvement Plan.</p>
3	Develop the capacity and capability of members and officers to be effective.	Take-up levels for Member development opportunities.	Monitoring Officer	Investigate options for increasing take-up of Member development opportunities.