

Gloucester City Council

Meeting:	Audit & Governance Committee	Date:	1 st July 2015
Subject:	Annual Governance Statement 2014/15		
Report Of:	Head of Finance on behalf of the Corporate Governance Group		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
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Appendices:	Appendix 1 - Draft Annual Governance Statement		

FOR GENERAL RELEASE

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 2014-15, as set out in Appendix 1, 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 Head of Paid Services and the Leader of the Council.
- 3.3 The 2014-15 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. The AGS has been compiled following 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 Heads of Service.

- 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 2014-15 Annual Governance Statement Action Plan have either been addressed or continue to be implemented.
- 3.6 In accordance with the best practice guidance issued by CIPFA in its publication 'Audit Committees – Practical Guidance for Local Authorities and Police 2013 Edition', the Annual Governance Statement should be reviewed and then approved by the Audit & Governance Committee prior to being signed by the Leader of the Council and the Acting Head of Paid Service.

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

6.0 Future Work and Conclusions

- 6.1 The 2014/15 Annual governance Statement has been produced for review and approval as per the requirements of the Accounts and Audit Regulations. There are no significant governance issues that need to be reported at this time. The Council will continually monitor the governance arrangements in place to ensure they are effective.

7.0 Financial Implications

- 7.1 There are no additional implications as a result of this report
(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.

(One Legal 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, therefore 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

DRAFT ANNUAL GOVERNANCE STATEMENT

Review of 2014/15 and Actions Required in 2015/16

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 Local Code of 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 Audit, Risk & Assurance Manager 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 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 2015, 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 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 2014/15 were detailed in the Council Plan. This is a 4 year Plan (2014 – 2017) 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 four key priorities of the Plan are:
1. Prosperity – Growing Gloucester's Economy
 2. People – Working with our communities
 3. Place – Pride in Our City and improving our environment
 4. Performance – Sound finances and strong performance

These four key priorities are underpinned by the following objectives:-

Prosperity – Attracting investment, nurturing and encouraging enterprise

- A City with skills and job opportunities
- A thriving centre and regeneration of the City

People – Listening to our residents

- An active, healthy and safe city for all to enjoy
- A City for Everyone

Place – A greener Gloucester

- A distinctive cultural offer for the City
- Affordable and decent housing for all

Performance – Sound Finances

- Improving performance

- 4.3 The Council's major policy objectives, as detailed in the Council Plan 2014-2017 were approved by Full Council at a meeting held on 8th April 2014. A copy of the Council Plan 2014-2017 can be found on the Council's website www.gloucester.gov.uk
- 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 were reviewed during the year by the Senior Management Team (SMT) and Members, and are published on the Council's website www.gloucester.gov.uk

- 4.5 An end of year annual performance report is was presented to SMT on 28th April 2015. This report is due to be presented to Overview & Scrutiny Committee at its meeting on 13th July 2015.
- 4.6 The Council Plan 2014-2017 was presented to Council on 8th April 2014 for comments and further recommendations, with a view to the final version being considered by full Council on 17 July 2014. At this meeting it was resolved that the final draft of the Council Plan 2014-2017 be approved and adopted.
- 4.7 The Forward Plan contains matters which will be the subject of a 'key decision' and 'decisions relating to the Budget and Policy Framework'. In the interests of transparency, it also includes matters which are non-key decisions. 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 website, www.gloucester.gov.uk
- 4.8 In order to 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. The system in use is called GovMetric and biannual reporting on the level of customer satisfaction is made through the Council Plan Performance Monitoring report. A copy of this report can be found on the Council's website www.gloucester.gov.uk

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.
- 5.3 In December 2013, the City Council was subject to a corporate peer challenge process facilitated by the Local Government Association (LGA) as part of the Council's commitment to ongoing improvement. Peer challenges are improvement

orientated and designed to complement the Council's own performance and improvement plans. A copy of the Corporate Peer Challenge report can be found on the Council's website (www.gloucester.gov.uk). An action plan has been developed by Members and officers to implement the recommendations made in the Peer Challenge report and there has been progress made on implementation of the recommendations – see paragraph 16.4.

- 5.4 Following the departure of the Chief Executive Officer in March 2014, the Organisational Development Committee reviewed the senior management arrangements and agreed to the deletion of the Chief Executive Post and to operate with a 'Two Director Model'. It was subsequently agreed by Council that the statutory Head of Paid Service role became the responsibility of both the Corporate Directors on a shared basis.
- 5.5 As a result of the operation of the 'Two Director Model', the opportunity was also taken to review the membership of, and attendance at, the Senior Management Team (SMT) meetings. The result was that SMT consisted of two Directors and eight senior managers who met on a weekly basis.
- 5.6 Following the departure of the Corporate Director of Resources in June 2014, the Organisational Development Committee agreed to the post of Corporate Director of Resources being advertised and recruited to, however, a replacement is still pending. In the interim period, in February 2015, the Council appointed a second Corporate Director, in a temporary capacity, for an initial six month period. The Committee also agreed to the Head of Paid Service role being assigned solely to the Corporate Director of Services & Neighbourhoods from 1st July 2014.
- 5.7 With the departure of 2 key senior roles within the City Council it was clear that a sustainable and resilient structure was required. The LGA helped facilitate discussions between the City Council and County Council political leaders and Senior Officers and a preferred option emerged. Both the City Council and the County Council took the decision to appoint a joint Managing Director and Commissioning Director to work at the highest levels in both organisations to provide a stronger focus on delivering services for the residents of the city.
- 5.8 Following a recruitment and selection process, in March 2015, the Council approved the appointment of a Managing Director and Head of Paid Service for Gloucester City Council. The appointed person would also take up the position of Commissioning Director for Gloucestershire County Council. The appointment is due to take effect from 6th July 2015.
- 5.9 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.
- 5.10 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 2014-15, which was based on recommendations by an independent "Members Remuneration" panel, was adopted by the Council in June 2014.

- 5.11 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 2014-15 was approved by Council in March 2014..

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. One complaint about breach of the Member Code of Conduct was received during 2014-15. In accordance with the Council's 'Arrangements for dealing with Standards allegations', the complaint was not formally investigated as the Monitoring Officer considered that a reasonable offer of informal resolution had been made and the public benefit would not be served by a formal investigation.
- 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 The Council has a complaints procedure that enables dissatisfied members of the public to raise concerns. A review of the Complaints Policy was carried out during the year, and the revised policy was agreed by Council in September 2014. 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. The Council's Audit and Governance Committee receives an annual report on complaints and compliments monitoring.

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 team 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 during the year, with the revised Risk Management Strategy being approved by Cabinet in January 2015. It contains the objectives of the strategy, linked to the Council's key aims, and guidance on the risk management cycle and scoring of risks.
- 7.6 The Senior Management Team and the Leader and Cabinet are responsible for reviewing the Council's Strategic Risk Register. Since January 2013, the Strategic Risk Register has become a standard monthly agenda item for the SMT meetings to ensure any risks associated with the Council's aims and objectives have been identified and are being managed. A review of the Strategic Risk Register was also undertaken by the Leader of the Council, Cabinet , and, the Audit & Governance Committee in March 2015 .
- 7.7 The Council has established an Audit and Governance Committee. The Terms of Reference for this Committee are in accordance with the best practice guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) entitled "Audit Committees – practical guidance for Local Authorities and Police", 2013 Edition.
- 7.8 Prior to the 1st April 2015, the Head of Legal and Policy Development & Monitoring Officer identified any forthcoming relevant legislation and, together with the relevant Director, was responsible for ensuring that the Cabinet was appraised of the implications and what action the Council might need to take. From the 1st April 2015, this role has been undertaken by One Legal, the Council's legal services provider, following the introduction of a formal shared service agreement.
- 7.9 The Council has an agreed Whistleblowing policy under which members of staff may raise any concerns. A review of the Whistleblowing policy, together with all the other Council anti-fraud policies was undertaken in March 2015.
- 8.0 Develop the capacity and capability of Members and officers to be effective**
- 8.1 The Council is developing an Organisational Development Plan covering the following key areas:-

- **Communication** – the inclusion of all staff. Clear and concise messages. We want our employees to have access to the information they need at the right time and in the right way.
- **Staff Engagement** – increase motivation, increase morale, reduce absences. We want employees to feel listened to, consulted and involved in the decision making and our culture and values to be understood and demonstrated throughout the Council.
- **Leadership and Management** - To develop management & leadership capacity. To build confidence in managers to lead changes and develop new behaviours for themselves and staff. We want our leaders and managers to demonstrate our values and portray the behaviours and characteristics that both support and motivate our employees whilst leading, driving forward, challenging and taking responsibility for continuous improvement through innovation and the ability to think 'out of the box'.
- **Workforce** - To build capability through developing the right skills to be a successful organisation. We want a committed and motivated workforce which is skilled and flexible, which can adapt to the changing needs of both our customers and the Council, and which feels valued and empowered.
- **Resourcing & Talent Management** - To attract and retain staff and maximise productive output. Succession planning. We want the right people, with the right skills at the right time, in the right place to be delivering excellent service

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 on an annual basis. Member training in 2014/15 included the following:

- A Welcome Event for new Councillors held on 2 June 2014
- A well-attended session on Individual Electoral Registration
- Sessions on Local Government Finance and Regeneration in Gloucester

8.3 In total 9 training courses were provided by the Council in 2014/15, including refresher training for Planning and Licensing. Attendance at training sessions is generally low, with some sessions being cancelled due to lack of interest. Higher attendance levels remain desirable.

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 and, with effect from 27 March 2014, the Council decided to allow the public to record its public meetings. A protocol setting out the Council's rules on recording has been adopted and is contained in the Council's Constitution.

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 the City Council's annual accounts. The Council's comprehensive Pay Policy Statement for 2014-15 was also approved by Full Council on 27th March 2014.
- 9.5 The Council has a strong track record of partnership working with the public, private and voluntary sectors. It has established: an arm's 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. In May 2014, the Council entered into a further partnership contract with Civica for the provision of IT managed services.
- 9.6 Monitoring arrangements for the major partnerships are delivered through a combination of client/contractor meetings, the Senior Management Team and Members (Cabinet and/or Overview and Scrutiny Committee).
- 9.7 Following the positive result of the tenants ballot earlier in 2014, in February 2015, the Council approved the transfer of its Housing stock to Gloucester City Homes. The Transfer was completed in March 2015. As a result of the transfer the Council received formal approval for the closure of the Housing Revenue Account effective from 1 April 2015 known as 'The Housing Revenue Account (Gloucester City Council) Direction 2015' conferred by Sections s 74(3)(d) and 87 of the Local Government Housing Act 1989

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 annual report of the Audit, Risk & Assurance Manager, and also by reports issued by the Council's external auditors and other review agencies and inspectorates.
- 10.2 The processes that have 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 2014/15, a number of further changes to the Constitution were made to ensure it remained up to date, principally to reflect changes required as a result of the departure of the Chief Executive and the sharing of the Head of Paid Service role between the two Corporate Director posts, These changes were agreed by Council,. 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 2014/15. 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 and Governance Committee

- 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 and governance elements of the Audit and Governance Committee cover the core functions of an audit committee as identified in the CIPFA guidance 'Audit Committees – Practical Guidance for Local Authorities, and revised during the year to reflect the CIPFA guidance (2013 Edition) entitled 'Audit Committees – Practical Guidance for local Authorities and Police. The Committee used an annual work programme to manage the business of the Committee during 2014/15.
- 13.3 The Council's committee, whose role is to promote and maintain high standards of conduct by Councillors and co-opted Members, is the Audit and Governance Committee. A review of the operation of the Council's standards arrangements is due to be considered by the Audit and Governance Committee in September 2015.
- 13.4 In accordance with good practice guidance for audit committees, the Annual Report (2014/15) of the Audit & Governance committee, which detailed the work and achievements of the Audit and Governance Committee during 2014/15, is due to be reported to Council on 23rd July 2015.

14.0 Overview and Scrutiny Committee

- 14.1 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 2014/15 is due to be reported to Council on 23rd July 2015.
- 14.2 The Committee used an annual work programme to manage the business of the Committee during 2014/15 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.

15.0 Internal Audit

- 15.1 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.
- 15.2 Gloucester City Council and Stroud District Council 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 Gloucester and 3 based at Stroud. In addition, the team is managed by the Head of Partnership, who is the GCC Audit, Risk & Assurance Manager.
- 15.3 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.
- 15.4 The review for 2014/15 consisted mainly of a self-assessment against the Public Sector Internal Audit Standards, and the results were reviewed by the Council's Head of Finance, and were reported to the Council's Audit & Governance Committee in June 2015. The overall conclusion from the review was that internal audit at the Council is effective. Although the self-assessment identified a number of 'gaps' in conformance with the Public Sector Internal Audit Standards, these did not materially effect the reliance the Council can place on the Audit, Risk & Assurance Manager's opinion on the adequacy of the control environment.
- 15.5 Internal Audit work is carried out to the standards outlined in the Public Sector Internal Audit Standards' (the Standards). The Standards require the Head of Internal Audit to 'provide a written report to those charged with governance timed to support the Annual Governance Statement'. The 2014-15 report by the Audit, Risk & Assurance Manager concluded:-

"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."

- 15.6 The Standards also state that, within this written report to those charged with governance, the Council's Head of Internal Audit should identify any issues that are relevant to the preparation of the Annual Governance Statement. The 2014-15 report by the Audit, Risk & Assurance Manager concludes:-

"From the risk based Internal Audit assignment work undertaken during 2014/15, there are no issues of which I am aware which I regard as sufficiently significant to be considered in relation to the preparation of the Council's Annual Governance Statement".

- 15.7 In March 2015, the Council approved a new internal audit shared service arrangement. The new arrangements, which came into effect on 1st June 2015, are similar to the existing arrangements except that the shared service now includes Gloucestershire County Council, who also became the host authority for the new shared service.
- 15.8 The governance arrangements for the new internal audit shared service include a Shared Services Board which consists of the s151 Officers from each of the three Councils. The role of this Board is to oversee the delivery of the internal audit function to each authority.

16. External Audit and Other Review/Assurance mechanisms

External Audit

- 16.1 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.
- 16.2 In September 2014, the Council's external auditor produced their 'Report to those charged with governance' (ISA 260) relating to their 2013/14 audit of the Council's financial statements. The headlines from the ISA 260 report were that:-
- The auditors anticipated issuing an unqualified audit opinion by the 30 September 2014. **NB** This was subsequently issued.
 - The audit identified two corrected and one uncorrected significant audit adjustments which related to reclassifications on the balance sheet but had no impact on the General Fund.
 - The auditors noted a further improvement in the quality of the accounts and the supporting working papers.
 - The auditors concluded that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- 16.3 In relation to 'audit matters of governance interest that arise from the audit of the financial statements' the report concluded "We have just one matter to note. As part of the Local Government Finance Act 2012, the Government implemented a Business Rate Retention Scheme from April 2013, whereby Non Domestic Rates (NDR) are collected and distributed locally via the Collection Fund (this has previously been distributed nationally). "

Corporate Peer Challenge

- 16.4 The Council's Corporate Peer Challenge was undertaken in December 2013 which made reference to positive outcomes and highlighted areas for improvement. On receiving the final report, the Council produced an Action Plan which detailed how the areas for improvement were to be addressed. During 2014/15 the implementation of the Action Plan has progressed and delivered against key areas:-
- Improved communications between Members, Senior Management and staff through regular weekly bulletins and updates. 'Café conversations' were set up to help engage all staff on key topics within the Council and information received was used to inform the Organisational Development Plan;
 - Workshops for Members and officers facilitated by the LGA to help improve organizational culture by developing improved relationships and understanding of the roles of both parties;
 - Involvement of Members, officers and partner organizations in budget consultations to identify budget pressures and savings to help address the financial challenges facing the authority;
 - Development of a new approach to staff appraisals using a 'coaching style' format to improve dialogue and performance;
 - Linking of the physical and social regeneration of the city through the joint funding of 'community builders' and through the development of the City Plan.
- 16.5 The Council is still working to the Action Plan and is arranging for the Peer Review team to revisit during September/October 2015 to check on progress made.

Gloucestershire Airport

- 16.6 The Council is a 50% shareholder of Gloucestershire Airport, which is a company limited by shares, and is subject to the requirements set by the Companies Act. There is a Board of Directors, including a Managing Director and Head of Operations, which monitors the company's performance and is responsible for internal control activities. The statutory accounts are audited each year by a private firm of accountants, and presented to the board and shareholders; they are approved at the AGM. The Council's Corporate Director of Resources or designated representative receives regular management accounts for the airport.
- 16.7 The City Council commissioned a strategic review of the airport in 2013, findings of which also included recommendations that the shareholding councils should carry out a further review of governance arrangements. A report on the governance arrangements was issued by York Aviation in June 2014 and the recommendations from the report were approved by Council in July 2014. Work has been ongoing since this time to negotiate, agree and implement the required governance changes.

Head of Finance Statement (s151 Officer)

- 16.8 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 Head of Finance, has confirmed that the authority's financial management arrangements conform with the CIPFA Statement, and have also made the following comments in paragraphs 16.9 to 16.14, below:

16.9 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.

16.10 The 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.

16.11 The arrangements for internal audit are as set out in the Annual Governance Statement (paragraph 15) 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.

16.12 During 2014-15 the Council has continued to implement and improve the ownership and accountability for financial management. All budget holders receive regular monthly budget meetings to ensure delivery and value for money. Formalised regular reporting to and subsequent formal scrutiny by members has also been embedded

16.13 Significant improvements have been implemented as part of the Financial Services Improvement Plan. The Council has completed its financial statements for the last three consecutive financial years earlier than ever before in the life of the council. The challenge was to make these changes sustainable - the revised Financial Services team following restructure and recruitment has been in place for 12

months and this stability has assisted in delivering improved financial management and reporting for the Council. This has ensured both short term and long term service resilience.

- 16.14 Risk Management is the process by which risks are identified, evaluated and controlled, and is a key element of the governance framework. Ongoing reviews of the strategic risk register has been undertaken throughout the year to ensure any risks associated with the achievement of the Council's aims and objectives in the Council Plan 2014- 2017 have been identified. Regular reviews of service plans and risk registers and the Strategic Risk Register are carried out by SMT supported by the Officer Risk Management Champion.

Other sources of Assurance

- 16.15 A further source of assurance has been obtained from the use of Management Assurance Statements. These Statements have been issued to all Directors and Senior 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.

17.0 Significant governance issues

- 17.1 There are no significant governance issues that need to be reported at this time. The Council will continually monitor the governance arrangements in place to ensure they are effective.

Signed

Paul James
Leader of the Council

Martin Shields
Acting Head of Paid Service

