

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

25 JUNE 2010

Report of: the Service Director: Finance

Report Title: Annual Governance Statement 2009/10

Ward: Citywide

Officer presenting report: Richard Powell, Chief Internal Auditor

Contract Telephone Number: 0117 92 22448

RECOMMENDATION

The Audit Committee approve the Annual Governance Statement as a fair reflection of the internal control and governance environment during 2009/10 and to date, prior to it being signed by the Leader of the Council, the Chief Executive and the s151 Officer.

SUMMARY

The City Council is required to prepare an Annual Governance Statement in its published financial statements. A review of the internal control, risk management and governance arrangements has taken place and the draft Statement is attached to the report.

The significant issues in the report are:

- the requirement for the Annual Governance Statement
- the review process undertaken to enable the Statement to be made
- the draft Annual Governance Statement is attached and includes details of the most significant control and governance issues identified and action plans for improvement in these areas.

Policy

Publication of an Annual Governance Statement is a requirement of the Accounts and Audit Regulations 2003 and 2006. Additionally, the Council's Risk Management Policy Statement requires the Audit Committee to review the Annual Governance Statement to ensure it accurately reflects the internal control, risk management and governance arrangements in place.

Consultation:

Internal: Strategic Leadership Team (SLT), s151 Officer, Audit Committee, Standards Committee, other relevant officers (Monitoring Officer, Service Director: Strategy and Performance)

External: None necessary

1. Introduction

- 1.1 Arising from the Accounts and Audit Regulations 2003 and 2006, the Council is required to conduct an annual review of its system of internal control, and publish an Annual Governance Statement (AGS) with the annual Statement of Accounts. As in 2008/9, a detailed review process has been undertaken to support the production of the Statement, and to assess weaknesses in both financial and operational areas. The process is a key mechanism for ensuring that the Council has an effective system of internal control and governance, and that any shortfalls are identified and addressed.
- 1.2 The review is now complete and the evidence to support the resulting draft AGS (attached at Appendix A) has been compiled. The Statement must be signed by the Leader of the Council and the Chief Executive, before publication alongside the 2009/10 Annual Statement of Accounts. In addition, the AGS is to be signed by the Service Director: Finance (as Section 151 Officer), as it incorporates the Statement on Internal Financial Control.
- 1.3 The Accounts and Audit Regulations 2003/2006 also specify that the AGS is considered by “the organisation itself, or a Committee of the organisation”, and this requirement is being met by this submission to the Audit Committee.

2. Draft AGS

- 2.1 The AGS describes the Council's governance framework, and the review of this. It then sets out, in section 5 a total of 6 significant issues regarding the governance and internal control environment. In determining the issues to disclose, in the absence of specific AGS guidance, account has been taken of the previous Chartered Institute of Public Finance & Accountancy (CIPFA) guidance on the forerunner to the AGS, the Statement on Internal Control. This includes considering whether the issues had:

- seriously prejudiced or prevented achievement of a principal objective
- resulted in the need to seek additional funding to allow it to be resolved or had resulted in a significant diversion of resources from another aspect of the business
- a material impact on the accounts
- the audit committee or equivalent had advised that it should be considered as significant for this purpose
- attracted significant public interest or had seriously damaged the reputation of the Council
- resulted in formal action being taken by the Section 151 Officer/Monitoring

Officer

- received significant adverse commentary in external inspection reports and which the Council has not been able to address in a timely manner.

2.2 The Statement reflects last year's AGS, follows the format set out in the CIPFA/ Society of Local Authority Chief Executives (SOLACE) Guidance, and describes the Council's arrangements for meeting the core principles of Governance as set out in that Guidance, namely :

- Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- Developing the capacity and capability of members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

2.3 As for 2008/9, the review process examined a wide range of internal control and governance processes. It included:

- obtaining assurance statements from Strategic Directors and other key officers within the Council
- obtaining and reviewing all External Audit and Inspection reports, Internal Audit reports and management monitoring reports
- a review of all corporate risk register items
- the scrutiny and evaluation of the information obtained
- determining significant control issues within the definition agreed for disclosure
- consultation with the Audit Committee, the Standards Committee and SLT.

2.4 In addition to enabling the drafting of the AGS, this process has provided an opportunity for the review and evaluation of control issues throughout the Council. Where appropriate, the issues identified in the AGS will be included in the Corporate Risk Register (CRR), and progress on the actions to address the issues will be monitored by the Deputy Chief Executive, and reported to SLT and Cabinet.

2.5 A number of other issues have been identified as potential causes of concern by External Audit, Internal Audit or through the Strategic Directors' assurance process. If not effectively addressed, these items may need to be included in the AGS in the future. These items will be monitored through corporate and departmental risk registers and by the Strategic Director (Resources) and the Chief Internal Auditor.

2.6 Following their review of the 2008/9 AGS, the Council's external auditors concluded that the arrangements for preparing the AGS were sufficiently robust and no adjustments were required to its presentation. By following the previous years' process, it is anticipated that the 2009/10 AGS preparation will similarly satisfy the external auditor's expectations.

Other Options Considered

None necessary

Risk Assessment

Failure to publish an Annual Governance Statement would be a breach of the Accounts and Audit Regulations 2003/2006 and would attract adverse comment from the Council's external auditors.

Disclosures of significant control weaknesses in a public statement could result in adverse press coverage. Hence the wording of the disclosures has been discussed with the SLT to minimise this risk. The Service Director: Communications & Marketing has also been provided with a copy of the draft statement.

Equalities Impact Assessment

None necessary for this report

Environmental Impact Assessment

None necessary for this report

Legal and Resource Implications

Legal - none sought.

Resources - none arising from this report

Appendices

Appendix A - Draft Annual Governance Statement 2009/10

LOCAL GOVERNMENT ACCESS TO INFORMATION

Background Papers	Audit Committee Terms of Reference Risk Management Policy Statement CIPFA guidance on the requirements re the SIC. CIPFA/SOLACE Guidance on the Annual Governance Statement
-------------------	--

Bristol City Council**Draft
Annual Governance Statement
2009/10****1. Scope of Responsibility**

- 1.1 Bristol City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging these overall responsibilities, the Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, including arrangements for the management of risk.
- 1.3 This statement explains how the Council endeavours to deliver good governance and reviews the effectiveness of these arrangements. It also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) Regulations 2006, which require the Council to publish a statement on internal control in accordance with proper practice. Proper practice has been defined as an Annual Governance Statement (AGS).

2. The Council's Governance Framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and by which it accounts to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives and to consider whether this has 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 can not eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's 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 In January 2009, the Council approved and adopted a local Code of Corporate Governance, which provides in-depth details of the framework the Council has in place to meet the six core principles of effective governance, as prescribed by the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society Of Local

Authority Chief Executives (SOLACE) guidance ' Delivering Good Governance in Local Government.

- 2.4 The following paragraphs summarise Bristol City Council's Governance Framework which has been in place for the year ended 31st March 2010 and up to the date of approval of this Statement and the Statement of Accounts.

3. Determining the Council's Purpose, its vision for the local area and intended outcomes for the community

The Council aims to deliver high quality services that provide value for money and which are aligned to the needs and priorities of the local community.

The Council is involved in a number of partnerships including being a lead member of the Bristol Partnership. The Bristol Partnership has agreed a Community Strategy setting out a vision and priorities for Bristol. The Council sets out its priorities, in the context of the Community Strategy, in a Corporate Plan 2008 -2011. A Local Area Agreement has also been developed between the Council, the Bristol Partnership and the Government which reflects the priorities in the Community Strategy.

3.1 Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision of the local area.

- The Council has in place high level action plans to deliver each of the aims of the Corporate Plan. This work is coordinated with the work of the Bristol Partnership. Progress is monitored by the Strategic Leadership Team (SLT).
- All service units are required to produce a service delivery plan which includes clear objectives and targets which reflect the Corporate Plan priorities. These plans are updated annually and progress against the targets is monitored throughout the year.
- The Council has a Medium Term Financial Plan (MTFP) which currently covers the period 2010 - 2013. The plan sets out the Council's spending plans for the next three years on a rolling basis. Due to the current political and economic uncertainty the assumptions on which the plan has been based are kept under review.

3.2 Members and officers working together to achieve a common purpose with clearly defined functions and roles.

- The Council's Leader allocates portfolio responsibilities to the individual Executive Members appointed by the majority party.
- The Council appoints a number of committees to discharge the Council's regulatory and scrutiny responsibilities.
- The Council has a Constitution which clearly sets out the leadership role and the delegated responsibilities of officers. The Constitution also includes a Member/Officer protocol which describes and regulates the way in which Members and Officers should interact to work effectively together.
- All committees have a clear terms of reference and work programmes which set out their roles and responsibilities.
- There is a Strategic Leadership Team (SLT) made up of the Chief Executive, Deputy Chief Executive and Strategic Directors that meets each week to discuss matters

which are of strategic and operational importance to the Council.

- The Service Director Finance (Section 151 Officer) and the Head of Legal Services (the Monitoring Officer) are not members of SLT but have open invitations to attend when necessary and receive all papers. Both have a direct reporting line and have monthly meetings with the Chief Executive (Head of Paid Service) in relation to governance issues. Both also attend Cabinet and Cabinet briefings. The Service Director Finance is the lead officer for the Audit Committee and attends all meetings as well as reporting regularly to the Resources Scrutiny Commission.

3.3 Promoting the Council's values and upholding high standards of conduct and behaviour.

- The Council supports a culture of behaviour based on its statement of values. This guides both how the long term vision is put into effect and how members and officers behave in their day-to-day work.
- Members' and Officers' behaviour is governed by Codes of Conduct which include the requirement for declarations of interest to be completed by all Members annually, by all new staff, and biennially by staff working in sensitive areas or paid above a certain grade.
- The conduct of Members is monitored by a Standards Committee.
- The Council has a robust complaints procedure.

3.4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

- The Council has a Constitution which clearly sets out how it operates and the process for policy and decision making. The Constitution is available to the public on the Council's website.
- Cabinet meetings where key decisions are made are open to the public and available via web cast through the Council's website.
- The Leader's Forward Plan of key decisions to be taken over the next four months is published on the Council's website.
- The decision-making process is scrutinised by a scrutiny function which also undertakes some pre-decision and policy development work.
- Policies and procedures governing the Council's operations include Financial Regulations, Procurement Regulations and a Risk Management Policy Statement.

3.5 Developing the capacity and capability of Members and officers to be effective.

- The Council recognises the value of well trained and competent people in effective service delivery, and as such aims to ensure that Members and managers within the Council have the skills, knowledge and capacity they need to discharge their responsibilities.
- There is a Councillors' Development Policy which assists Members to strengthen their capacity as confident and effective political and community leaders.
- The Council's Performance Management and Development Scheme for all staff ensures performance is managed and development needs for each member of staff are identified.

3.6 Engaging with local people and other stakeholders to ensure robust public accountability

- The Council's planning and decision making processes are designed to include consultation with stakeholders and the submission of views by local people. These include the Citizen's Panel, Ask Bristol e-communication, petitions and e-petitions and the provision of a public forum at the majority of committee meetings.
- All Members are expected to offer, as best practice, surgeries, or equivalent means of providing assistance, for their constituents and key partners (eg. Police) could be involved where appropriate.
- The free Council newsletter 'Our City' communicates the Council's vision and priorities and this is delivered to homes across Bristol. Information is also available on the Council's website.
- The Council works extensively in partnership. The Bristol Partnership informs a Community Strategy which drives the Council's own Corporate Plan and is implemented through Partnership Delivery Groups.
- The Council is currently engaged in a review of its website with a view to further enhancing the level of services and information which can be accessed through the site, than is currently available on the existing website and to make it more customer focussed.

4. Review of Effectiveness

- 4.1 Bristol City Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the internal auditors and by comments made by the external auditors and other inspection agencies.
- 4.2 Both in-year and year-end review processes have taken place. In-year review mechanisms include:
- the Executive is responsible for considering overall financial and performance management and receives comprehensive reports on a quarterly basis. It is also responsible for key decisions and for initiating corrective action in relation to risk and internal control issues.
 - there is a well resourced Scrutiny function which holds the Executive to account. The Resources Scrutiny Commission is responsible for maintaining an overview of service and financial performance, efficiency and effectiveness.
 - the Standards Committee have met regularly throughout the year to consider and review issues relating to the conduct of Members. Their work has included reviewing the Code of Conduct for Members, reviewing local protocols for Licensing and Planning matters and implementing procedures for dealing with complaints at a local level.

- the Audit Committee met throughout the year to provide independent assurance to the Council in relation to the effectiveness of the risk management framework and internal control environment. The Committee met six times during the year, receiving regular reports on risk management, internal control and governance matters.
- Internal Audit is an independent and objective assurance service to the management of the City Council, who complete a programme of reviews throughout the year to provide an opinion on the internal control, risk management and governance arrangements. In addition, the Section undertakes fraud investigation and proactive fraud detection work which includes reviewing the control environment in areas where fraud or irregularity has occurred. Significant weaknesses in the control environment identified by Internal Audit are reported to senior management, the Executive and the Audit Committee.
- the Audit Commission's Annual Audit and Inspection Letter is considered by the Audit Committee, the Executive and the SLT. A number of external audits and inspections have also taken place.
- the External Auditors completed their Comprehensive Area Assessment (CAA) Use of Resources Key Lines of Enquiry assessment in during the year and awarded the Council's internal control arrangements a score of 2, as a result of concerns in relation to risk management and partnership governance.
- the Performance and Improvement Team monitor Best Value and Key Performance Indicators on a quarterly basis and recommend improvements to SLT and senior Members.
- The Corporate Risk Register (CRR) is reviewed quarterly by SLT, with the Strategic Director (Resources) taking the lead on the Register and periodically the CRR is taken to Cabinet Briefings for review and approval. The Risk Management Group meet quarterly to review the effectiveness of the Council's Risk Management Framework.

4.3 The year-end review of the governance arrangements and the control environment included:

- obtaining assurances from Strategic Directors that key elements of the control framework were in place during the year in their directorates. They were also asked to identify areas where control weaknesses had resulted in significant issues arising for the directorate and their comments are reflected in this Statement. The Statement itself was considered by SLT on 8th June 2010 and is supported by them as an accurate reflection of the governance arrangements in place for the year
- obtaining assurances from other senior management, including the s151 Officer, the Monitoring Officer and the Head of Policy, Performance and Equalities, that internal control and corporate governance arrangements in these essential areas were in place throughout the year.

- obtaining assurances from Strategic Directors with regard to the governance arrangements in place for key partnerships.
- validating assurances obtained by reference to documentation held and by comparing the assurances provided to an evaluation of the effectiveness of the control environment.
- reviewing external inspection reports received by the Council during the year, the opinion of the Chief Internal Auditor in his annual report to management and an evaluation of management information in key areas to identify any indications that the control environment may not be sound.
- consulting the Audit and Standards Committee regarding any potential issues they felt could indicate a problem with the control environment as a result of their work during the year and consideration by the Audit Committee, in preparation of its annual report to Council, of the assurances it was able to provide in respect of risk management and internal control, including the Internal Audit function.

5. Significant Governance Issues

5.1 The review process has highlighted a number of new significant issues regarding the governance and internal control environment. Additionally, there are a number of issues which were highlighted in the 08/09 AGS which have not progressed sufficiently to be excluded from this year's statement. For each issue, detailed action plans have been determined by a responsible officer and a summary of the key elements of these are included in the table below.

5.2 Conversely, there are a number of items which were included in the 08/09 Statement which have been excluded this year as significant progress has been made in addressing the issues such that they are no longer considered a threat to the governance and control environment. These items are:

- Business transformation programme - Transformation portfolio in place. Clear programmes in place for major change. Early wins delivered.
- Educational attainment - improved performance, national challenge programmes in place where necessary.
- Information security - Information Security Policy produced, awareness sessions rolled out to staff and arrangements for monitoring breaches being piloted.
- Capital projects and programme - Corporate control over capital projects governed through the Infrastructure & Development Board.
- Project Management - Portfolio, programme and project management centre of excellence in place.

5.3 The table below summarises the significant issues and the proposed action to be taken to address those issues:

Issue	Action to be undertaken in 2010/11, and Responsible Officer
<p>Health and Social Care (HSC) Directorate senior management changes - address the impact on management capacity, performance and continued overspends.</p>	<ul style="list-style-type: none"> ● Experienced interim Strategic Director in place for 10 months who brings many years of experience, credibility with members and support to staff whilst new Director sourced. ● Objectives set for the Strategic Director which include budget constraint and challenges, capacity, service improvement and also senior team development. ● Restructure of senior management team within HSC to split out commissioning from service provision. Interim 2nd tier recruited to fill Service Director: Older People Services position. ● Support will be considered for the Strategic Director as they take forward the HSC transformation. Senior programme management may be required. ● Two procurement staff seconded to HSC to 31/03/11 to support the new Strategic Director re: the change programme. <p style="text-align: center;">Chief Executive</p>
<p>Housing Benefits - strengthen arrangements to improve performance</p>	<ul style="list-style-type: none"> ● Action plan being developed in response to draft Audit Commission Inspection report. ● Put in place 'Process Owner' arrangements, at Service Director level, to oversee implementation of Business Process Re-engineering (BPR) phase 1. ● BPR phase 2 project board set up, which will design improved process for all other areas within Benefits. Project executive at Service Director level. <p style="text-align: center;">Strategic Director: Neighbourhoods</p>

Issue	Action to be undertaken in 2010/11, and Responsible Officer
Value for money - strengthen arrangements for improving Value For Money (VFM).	<ul style="list-style-type: none"> ● Implement VFM strategy, including specific service priorities, the Transformation Programme and MTFP efficiency targets ● Implement the Enabling Commissioning strategy ● deliver tactical efficiencies target <p style="text-align: center;">Strategic Director: Resources</p>
Performance management - strengthen performance management arrangements.	<ul style="list-style-type: none"> ● Review and update Performance Management Strategy: embed quarterly reporting on Bristol 20:20 Plan, Corporate Plan and 'organisational health' measures ● implement revised Service Delivery Plan process, with strengthened directorate objective setting and performance targets ● maintain regular benchmarking using PWC <p style="text-align: center;">Deputy Chief Executive</p>
Partnership working - Continue to strengthen arrangements for partnership working including Bristol Partnership, West of England Partnership and Neighbourhood Partnerships.	<ul style="list-style-type: none"> ● Maintain focus on delivery, underpinned by strengthened performance management and risk systems ● Deliver LAA and MAA outcomes ● Ensure that there is sufficient capacity and clear accountability to deliver programmes of work ● roll out and develop Neighbourhood Partnerships, ensuring effective routes for neighbourhood information to influence service planning and delivery <p style="text-align: center;">Deputy Chief Executive</p>
Procurement - risk of increased costs to the Council through failure to apply Procurement and E.U. Regulations, leading to possible legal challenge, this risk will increase in light of the recent Remedies Directive.	<ul style="list-style-type: none"> ● Revised Procurement Regulations (Legal Services) ● Updated and more comprehensive Procurement Manual (Corporate Commissioning and Procurement Service (CCPS))

Issue	Action to be undertaken in 2010/11, and Responsible Officer
	<ul style="list-style-type: none"> ● More pro-active role for CCPS, particularly for EU procurement processes ● Targeted training sessions from Legal Services / CCPS ● Enhanced Internal Audit coverage ● More rigorous approach to procurement project management <p>Strategic Director: Resources</p>

6. Certification

6.1 To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year with the exception of those areas identified in Section 5. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangement. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

Leader of the Council: Barbara Janke _____ Date: _____

Chief Executive: Jan Ormondroyd _____ Date: _____

s151 Officer : Peter Robinson _____ Date: _____