

**BRISTOL CITY COUNCIL
AUDIT COMMITTEE**

6th March 2015

Report of: the Chief Internal Auditor

Report Title: Annual Governance Statement 2013/14 – Action Plan Update

Ward: Citywide

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RECOMMENDATION

The Audit Committee note the progress of actions undertaken to address the significant issues as identified in the 2013/14 Annual Governance Statement, as detailed in this report and the attached action plan.

SUMMARY

The City Council is required by the Accounts and Audit Regulations 2011 to prepare an Annual Governance Statement (AGS) to accompany its published financial statements. The Statement to detail any issues which would have a significant impact on the Control, Risk and Governance environment within the Council.

The 2013/14 AGS identified twelve significant issues where remedial actions to address them were in place but had not yet reached conclusion. The issues and actions were presented in the form of an action plan. This report provides an update on those actions, together with a direction of travel on the level of risk, and where appropriate details of further actions required.

The significant issues in the report are:

- the requirement for the Annual Governance Statement
- summary of the update review outcomes
- the updated Action Plan at Appendix A, detailing the actions taken and any further actions required, together with the movement of the risk level for each significant issue.

Policy

Publication of an Annual Governance Statement is a requirement of the Accounts and Audit Regulations 2011. 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: Executive Member, Strategic Leadership Team (SLT), Section 151 Officer, Audit Committee, other relevant officers (Chief Internal Auditor)

External: None necessary

1. Introduction

- 1.1 Arising from the Accounts and Audit Regulations 2011, 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. 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 Annual Governance Statement must be a fair reflection of the internal control and governance environment during 2013/14 up to the date of being signed by the Mayor, City Director and Section 151 Officer alongside the 2013/14 Annual Statement of Accounts in September. The final statement was duly signed by all parties and the remedial actions to address the identified significant issues were agreed.
- 1.3 Whilst the AGS is published on an annual basis it is considered a living document and as such periodic update is an important part of ensuring that remedial actions to improve the Control, Risk and Governance environment are implemented and where this has failed, the matter is appropriately escalated.
- 1.4 The attached action plan provides the Committee with details of the progress made towards improving the issues identified in the 2013/14 Statement as well as further actions currently in progress.

2. Action Plan Update

- 2.1 The 2013/14 AGS identified twelve issues which if not addressed could have a significant impact on the Control, Risk and Governance environment within the Council. However, as all of the twelve matters arising already had remedial actions in progress the level of risk for each was considered **Medium**, giving an overall level of risk for the AGS of **Medium**.
- 2.2 A review of the progress for each of the actions has been undertaken in conjunction with senior management and key officers and whilst the actions are generally still in progress and as such the level of risk remains the same, good progress has been made in many incidences with a very positive direction of travel being evident.

2.3 A summary of the findings from the update review is provided below, with some explanatory narrative where required. More detailed findings are in Appendix A which is attached to this report.

2.4 Issues identified which have demonstrated a positive direction of travel and a subsequently decreasing level of risk. Further explanation is provided in paragraph 2.5 below:

- Item 1 : Capital Projects
- Item 2 : Metrobus
- Item 3 : Performance & Management Reporting
- Item 4 : Change Programme
- Item 6 : Use of Interims/Consultants
- Item 7 : Scrutiny Function
- Item 11: Quality of service / Complaints

2.5 A number of actions have progressed well, however as some of the actions have only recently been introduced and have not yet had time to achieve maximum impact, the risk for these items whilst reducing is not as yet considered low.

2.6 Issues identified where remedial actions have progressed well, but the level of risk remains the same or where the target date for actions has not yet been reached. Further explanation provided below in paragraph 2.7:

- Item 5 : Financial Governance
- Item 8 : Policies and Procedures
- Item 9 : Partnership Governance
- Item 10: Commercial Contract Management
- Item 12: Schools Corporate Governance

2.7 For those items which have demonstrated some positive movement in the proposed actions, there remains a body of work to be completed in order to reduce the risk further. However, it is recognised that the majority of the issues have not remained static and that proposed actions are in train to ensure improvements, be it that some have only just been introduced. Additionally, we fully recognise that in some incidences the agreed completion date has not yet been reached, this is particularly relevant for items 8 & 9– Policies and Procedures and Partnership Governance.

3. Conclusion

3.1 Overall, good progress has been made in addressing the matters arising from the 2013/14 AGS, with many of the matters continuing to reduce in risk and as such improving the Control, Risk and Governance environment within the Council. However, work is still required to ensure that all of the proposed actions are effectively and efficiently completed in order to ensure maximum impact on the Governance arrangements within the Council.

Other Options Considered

None necessary

Risk Assessment

Failure to publish an appropriate and accurate Annual Governance Statement would be a breach of the Accounts and Audit Regulations 2011 and would attract adverse comment from the Council's external auditors.

Failure to address the issues as identified in the current AGS may have a significant impact on the Council control, Risk and Governance environment.

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 document has also been discussed with Corporate Communications prior to publication.

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, however resource implications may arise if the Council fails to maintain a robust Control, Risk and Governance environment.

Appendices

Appendix A – Annual Governance Statement 2013/14 - Action Plan Update.

LOCAL GOVERNMENT ACCESS TO INFORMATION

Background Papers: Audit Committee Terms of Reference

Risk Management Policy Statement

CIPFA/SOLACE Guidance on the Annual Governance Statement

Corporate

Risk

Register

Appendix A

ANNUAL GOVERNANCE STATEMENT (AGS) ACTION PLAN UPDATE 2014/15

Each issue has been RAG rated both from an inherent risk and a residual risk prospective, the key to the rating is as follows:

Red - Significant issue immediate action required to resolve

Amber- Remedial action has progressed well, but has not yet fully resolved the issue or the impact/benefits of actions have not yet been fully realised.

Green- Issue resolved, no longer considered a significant governance item.

Key: Risk is increased



Risk remains the same




Risk is decreased





Issues identified in 2012/13


Item No	Matters Arising In 2012/13	Inherited Risk	Current Risk	Action taken or to be undertaken in 2014/15, and Responsible Officer	Update on 14/15 Actions
1 (CRR 4,6)	<u>Capital projects</u> A number of significant programmes had slipped in terms of expected time-scales and costs, and have not yet been delivered.			The Capital Programme Board continues to enhance control and challenge over the capital programme which is fully set out in the Medium Term Financial Strategy (MTFS). The Board will be paying particular attention to deep dive assessments and ensuring that budget managers have the ability to appropriately	Quarterly budget monitors and monthly flash reports are provided to SLT, scrutiny and cabinet. These reports provide details of the revenue and capital budgets, treasury management activity, the reserves and bad debt position. Links to the most recent cabinet reports are provided below.


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				<p>forecast capital project spend.</p> <p>Target Date: January 2015</p> <p>Reporting on capital projects now forms part of the regular financial reports to SLT and Cabinet alongside Revenue, Treasury and Reserves movements.</p> <p>Strategic Director, Place</p>	<p>https://www.bristol.gov.uk/committee/2014/ua/ua00/0902_9.pdf</p> <p>https://www.bristol.gov.uk/committee/2014/ua/ua00/1202_11.pdf</p> <p>RO = P Gillett</p> <p>The Capital Programme Board, consisting of the Strategic Leadership Team and senior officers from Finance and Place, met frequently to ensure capital investment is effectively prioritised to programmes and projects aimed at delivering and maintaining a sustainable infra-structure. Meetings to be incorporated into the meeting pulse which will allow for regular monthly meetings.</p> <p>RO = Strategic Director – Place</p> <p>A Capital clinic was held in December 2014 to reassess the Capital commitment and Project slippage. Each project was reviewed to deliver the latest 2014/15 out-turn forecast. Current year underspends were carried forward to future years without impeding the total project cost expectation.</p> <p>The output report was in the form of an action plan for monitoring going forward, with a summary of the pro-</p>

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					<p>posed changes presented to the Business Change Scrutiny Board on 12th January 2015. Report link provided below –</p> <p>https://www.bristol.gov.uk/committee/2015/sc/sc045/0112_8.pdf</p> <p>Roll out of budget monitoring on projects so Project Managers can forecast going forward.</p> <p>Target Date – 31/3/15</p> <p>RO – Service Director - Finance</p>
2 (CRR4)	<p><u>MetroBus (BRT) project-</u></p> <p>Significant issues identified in project including:</p> <ul style="list-style-type: none"> • Funding gap • Governance arrangements • Damage to Council reputation 			<p>Planning permission for all routes was approved by the Development Committees in August 2014.</p> <p>As this is an ongoing major programme, monitoring will continue going forward.</p> <p>Strategic Director, Place</p>	<p>Joint Local Transport Plan is due to be refreshed for 2015/16. Study work is planned jointly with the four regional local authorities.</p> <p>Legal agreements with partner authorities are in place for the MetroBus programme.</p> <p>The Sept 2011 Cabinet report identified funding for the MetroBus. This was from Bristol Futures and from Local Transport Plan and Community Infrastructure Levy, in addition to the 2014/15 Mayor's budget the remaining funds were identified from prudential borrowing.</p>

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					<p>This then met the total funding requirement for this project.</p> <p>Initial work on the refresh of the Joint Local Transport Plan has commenced. The current plan runs until early next year.</p>
3 (CRR 3)	<p><u>Performance Management/reporting</u></p> <p>Lack of timely performance, financial risk information to enable effective decision making.</p> <p>Improvement needed in compliance with the performance management framework.</p>			<p>A review of the existing performance indicators is currently underway with a view to more closely aligning the indicators with the Council's strategic objectives and Mayor's vision for Bristol.</p> <p>Target date: Ongoing throughout year</p> <p>Service Director: Policy, Strategy & Communications</p> <p>Service Director, Finance</p>	<p>Good progress has been made in mapping performance indicators to the nine Corporate Plan themes.</p> <p>A report detailing performance to the end of quarter three which captures progress of performance against each of the Corporate Plan themes is currently being drafted for presentation to the Strategic Leadership Team mid-February then onto Scrutiny at the end of February 2015.</p> <p>Target date: February 2015</p> <p>Service Director: Policy, Strategy & Communications</p>
4 (CRR2)	<p><u>The Change Programme</u></p> <p>(CP) is a consolidation of a number of projects. Managed as a series of separate largely directorate led</p>			<p>The formal business case for the Change Programme was presented to the Cabinet in July 2014.</p> <p>Delivery is still in early stages, but key restructure activity is on track to</p>	<p>Good progress – Project phase 1 moves (out of City Hall and into Temple/Park view etc) are now complete. Phase two moves are being planned and will need continued leadership by Strategic Directors to focus on the necessary business change.</p>


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	<p>programmes.</p> <p>CP is expected to deliver more than half of the required budget savings; therefore, failure to deliver projected benefits could have severe impact on the Council's ability in achievement of long term corporate objectives.</p> <p>The impact of having so many change project streams in progress at the same time could have a significant impact on the overall control environment, if the environment is not preserved appropriately.</p> <p>In particular the loss of experience and organisational knowledge, as a result of the current corporate re-structure, could in the short term impact on the control foundation within the Coun-</p>			<p>deliver majority of the net target savings for 2014/15 albeit future year targets increase. Lessons learned are being applied to the next element of the project.</p> <p>ABW has been enhanced to provide sufficient information for Management to monitor and forecast their budgets.</p> <p>The programme will be subject to 6 monthly performance and financial reporting to both SLT and Cabinet, with more frequent reporting to the Assistant Mayor for Business Change,</p> <p>The Change Board, chaired by the Strategic Director for Business Change meets weekly to address risks and issues.</p> <p>The Change Programme has already delivered £22m (full year effect) savings for 2014/15 demonstrating the commitment to the project and the delivery and realisation of savings and service improvements.</p>	<p>Progress - Infrastructure is in place for delivery of digital services – demo'd by development of residents parking permit digital delivery.</p> <p>Change programme projects all have a member of Architecture and Design Team on them to ensure standards are applied and fit within the wider strategic picture.</p> <p>The Applied Service Redesign Programme for Service Improvement aims to ensure that service redesign is led by Service Managers and incorporates use of technology and digital delivery. The programme will ensure Service Managers have the necessary skills to drive continuous improvement of skills. The programme is currently being rolled out with the first cohort commencing 27th January 2015.</p> <p>There is strong corporate focus on delivering the savings in the financial plan by both SLT and the Change Programme.</p> <p>Restructure was formally closed in October 2014 and performance indicators show a low impact on service delivery.</p> <p>Plans are also in place for a further £12m of savings, primarily through the Category Management work stream.</p>

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	cil.			<p>The restructure process has created a defined corporate structure which, alongside an enhanced reporting structure, has more clearly defined roles and responsibilities in the senior management team.</p> <p>The Corporate restructure completed by 31st October 2014.</p> <p>Strategic Director, Business Change</p> <p>Service Director, Business Change & ICT</p>	<p>Financial implications (savings and costs) of the Change Programme are monitored and reported to the Change Board monthly and will in future be reported to Cabinet 6 monthly</p> <p>RO = Strategic Director – Business Change & Service Director – Finance.</p> <p>An Internal Audit review of the Governance arrangements within the Change Programme is currently in progress. Findings and conclusions to be reported in April 2015.</p> <p>RO – Chief Internal Auditor</p>
5 (CRR3)	<p><u>Financial Governance</u></p> <p>While good progress towards improvement in internal control of financial systems has been achieved, the new financial system is still not fully operating to the required level in order to fully achieve ex-</p>			<p>Focus on key controls and appropriate reconciliations will be more structured and monitored to enhance control of debt, cash and access.</p> <p>Financial Regulations and Scheme of Delegations being revised to reflect the new directorate management structure.</p> <p>Target Date: System fully func-</p>	<p>Strengthen Financial governance:</p> <ul style="list-style-type: none"> • Further refinement of budget holders and cost centres has continued with the aim of having the full structure complete by year end. (April 2015) • Extensive budget management training has been made available to all budget holders. • Review of financial regulations and schemes of


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	pected benefits and controls.			tional by 2014/15 year end. Service Director: Finance	delegation currently remains outstanding. (April 2015) <ul style="list-style-type: none"> Implement upgrade of main financial system to incorporate HR and Payroll functions. (December 2015) In year changes to the budget or financial plan are centrally controlled and subject to Finance Director Approval. (Ongoing) Service Director: Finance
6	<u>Consultants/Interims</u> Lack of transparency in the use of consultants and poor monitoring of their performance.			It is accepted that the use of consultants/interims is an integral part of the Council's programme of re-structure and that the use of this option is unlikely to change at this time. Work is ongoing as part of the People and Non-Pay Panels remit, to ensure the cost of this resource/expertise can be appropriately monitored and controlled. Target date: Ongoing monitoring Service Director: Finance & Service Director: HR	The appointment of Consultants and Interims is subject to rigorous challenge both by Directorate Leadership Teams and the Corporate Panels – People Panel and Non- Pay panel. The cost of consultants can be effectively monitored through the Finance system with a separate account code being available; however there is still confusion as to the definition of a Consultant as opposed to an Interim whose cost should be monitored through payroll. Therefore the effective monitoring Consultants costs remain an issue. New arrangements for the procurement of agency and interim staff will be put in place from 1 st April 2015 and monitored through the People Panel. These arrange-


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					<p>ments will replace the existing contract with Randstad that will offer both better value, a wider choice of agencies meaning the requirement for off contract spend is minimised or eliminated and consequently greater ability to control the use and cost of interim and agency staffing</p> <p>RO – Service Directors: Finance and HR</p>



Issues identified in 2013/14

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7	<p><u>Scrutiny Function</u></p> <p>The Scrutiny arrangements need improvement to ensure robust challenge of executive decisions by Members.</p>			<p>As with the Constitution, revised arrangements to clarify and enhance the role of scrutiny commissions were agreed by Council at its AGM in June 14. These included:</p> <p>The roll of the Overview and Scrutiny Management Board (OSMB) to be strengthened so that it takes ownership of the Scrutiny Work Programme.</p>	<p>Complete</p> <p>Due to the infrequency of the OSMB meetings (Once a quarter) this has not year been fully achieved. All Work Programme amendments are currently proposed by Scrutiny Chairs, who are</p>


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				<p>Corporate visions/objectives as detailed in Corporate Plan to inform the Scrutiny work programme.</p> <p>Corporate Plan considered and signed-off by OSMB and Full Council in July 2014.</p> <p>A detailed review of the Council's policies and strategies is currently underway to identify relevant policies and procedures and to ensure they effectively align with the Mayor's priorities as set out in the Corporate Plan.</p> <p>Proposals to reduce the number of Commissions and meetings during the municipal year have been agreed by Full Council. This will see 4 Scrutiny commissions, one for each directorate, each of which will meet 10 times per year. Plus the OSMB meeting four times a year.</p> <p>Proposals were agreed that will separate out the Mayoral Question Time questions from Members and those of the public which will be dealt with in</p>	<p>themselves Members of OSMB, with the OSMB Chair informally approving them. Consideration is being given to how the situation could be improved for 15/16.</p> <p>Complete</p> <p>Complete</p> <p>Positive steps have been taken, but further work will be undertaken to better inform the Scrutiny priorities in 15/16.</p> <p>Target date April 2015 – Policy review.</p> <p>Complete</p> <p>Complete</p>

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				<p>separate meetings.</p> <p>Target date: OSMB to review scrutiny arrangements in January 2015.</p> <p>Monitoring Officer & Members and Service Manager- Policy & Research</p>	
8	<p><u>Policy and Procedure</u></p> <p>Many key Policies and Procedures are out of date and not reflective of recent changes concerning the new financial system and its surrounding operation.</p>			<p>Detailed review of financial regulations is underway, and a revised scheme of delegation is being prepared for review and implementation by SLT and Cabinet.</p> <p>Target Date: Roll out complete and in use by 31/3/15</p> <p>Following the restructure of the Performance, Communications and Scrutiny section, a detailed review of the Council's policies and strategies is currently underway to identify relevant policies and procedures and to ensure they effectively align with the Mayor's priorities as set out in the Corporate Plan.</p> <p>Target date: Ongoing throughout year.</p> <p>Service Director: Policy, Strategy & Communications</p> <p>Service Director, Finance</p>	<p>Review delayed, but to be completed by April 2015</p> <p>Current review to be completed by April 2015</p>

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9	<p><u>Partnership Governance</u></p> <p>Partnership governance outside of strategic partnerships may not be robust which may result in the Council not achieving maximum benefits through partnership working.</p>			<p>Further develop an effective accountability framework for wider partnership working to ensure it is clear what each partner is expected to contribute.</p> <p>Target Date: 31/3/15</p> <p>Identify strategic and other partners and implement an accountability framework. Gain an understanding of differing priorities of each partner.</p> <p>Target Date: 31/3/15</p> <p>Develop a stronger evidence base which demonstrates the benefits of partnership working.</p> <p>Target Date: 31/3/15</p> <p>Members and senior management to meet in informal settings to debate opportunities for partnership working and provide leadership which promotes a culture change towards delivering services jointly wherever possible and appropriate.</p> <p>Target Date: Ongoing</p> <p>The Strategic Leaders Board met for the first time in July 2014.</p> <p>City Director, Service Director – Policy, Strategy and Communication.</p>	<p>Area under review. Update to be provided closer to target date which has not yet been reached.</p>

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10	<p><u>Commercial Contract Management.</u></p> <p>Poor contract management and monitoring.</p>			<p>Overall review of Commercial Contract Management to be undertaken in order to strengthen control issues.</p> <p>Target date: January 2015</p> <p>Strategic Leadership Team (SLT)</p>	<p>Work is in progress by Strategic Commissioning & Procurement Services (SC&PS) to develop a model for strategic relationship management which will draw upon the performance data/reports generated by the operational contract management teams to identify best practice, lessons learned and key risks. This data will be used to develop strategic supplier relationship with BCC key/high risk suppliers.</p> <p>RO = Interim Head of Procurement</p> <p>A review by Internal Audit of the level and effectiveness of contract monitoring is currently in progress and will be reported on in due course. Outcomes from the review will be shared with the SC&PS.</p> <p>RO= Chief Internal Auditor.</p>
11	<p><u>Quality of Service /Complaints system</u></p> <p>Inefficient Complaints system</p> <p>Lack of reliable, readily available information of complaints/ complaints received.</p> <ul style="list-style-type: none"> • Failure to learn from mistakes/good practice. • Lost opportunity for im- 			<p>As part of the change programme a project has been taking place to review and redesign the corporate non statutory complaints process. The programme includes:</p> <ul style="list-style-type: none"> - Authorisation for a new process which will see the current 3 stage process change to a 2 stage process to streamline and simplify the process for citizens. This is based on best 	<p>Initial design and capacity issues delayed the implementation of the new Freedom of Information (FOI) and Complaints system; however implementation is now progressing well.</p> <p>The new system will go live in 3 phases as follows:</p> <ol style="list-style-type: none"> 1. FOI module will be live for public use from Early March 2. Non-statutory Complaints module is currently being testing, but will be live by end

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	<p>provement</p> <ul style="list-style-type: none"> Missed opportunity for greater transparency 			<p>practice and the national standard</p> <ul style="list-style-type: none"> New improved on line experience with better information and a new on line form Replacement of the current IT system with the new Salesforce Customer Relationship system. This will significantly automate and improve reporting to support a much more robust and informed approach to identify themes and learning to drive improvement and service re-design. Roll out is planned from Aug – October 2014 Update to management team planned for June 2014. <p>Target date: October 2014</p> <p>RO = Service Manager – Customer Services.</p>	<p>of May 2015 at the latest.</p> <p>3. Statutory Complaints module is scheduled for testing shortly and providing no issues are identified will also be live by end of May 2015.</p> <p>The new system will improve accuracy of data and provide for more effective reporting, allowing for trend analysis and hot spot identification. This in turn will provide greater opportunity for Customer Relations to work with service providers to identify improvements and action improvements to service provision.</p> <p>The more streamlined non-statutory complaints process will free up resource for increased service focus support, thereby improving the customer experience and ultimately the Council's service offer.</p> <p>Long term proposal is to publish FOI and Complaints data in order to aid transparency and potentially reduce the number of FOI requests and duplicate Complaints.</p> <p>The new system when fully live will :</p> <ul style="list-style-type: none"> Identify good practice Identify opportunities for improvement Provide greater transparency.

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					RO= Service Manager – Customer Relations Target date: 31st May 2015
12	<u>Schools Corporate Governance</u> A number of issues have arisen with regard to financial governance within schools, these include: <ul style="list-style-type: none"> • Failure to maintain an up-to-date Financial Regulations for Schools • Lack of clarity with regard to the roles and responsibilities of the Trading with Schools function. • Issues identified by Internal Audit with regard to governance, both finance and operational, within schools. 			<p>Schools Financial Regulations and Delegations are currently under review, with a draft Scheme to be presented to the Schools Forum.</p> <p>Target Date: End of September 2014.</p> <p>Appointment of a permanent Trading With Schools Service Manager - Complete</p> <p>Guidance for Schools who may be in financial difficulty to be rolled out.</p> <p>Target Date: End of October 2014</p> <p>Roles and Responsibilities to be refreshed and rolled out.</p> <p>Target Date: End of October 2014</p>	<p>A review of the Financial Regulations for locally managed schools is currently underway. The first draft having been reviewed by Internal Audit and whilst progress has been made, there remain a number of areas which still require amendment.</p> <p>A body of work has been completed on the Schools Scheme of Delegations; however this will not be effective until the Financial Regulation update has been completed.</p> <p>Target Date: 31 March 2015</p> <p>RO = Service Director - Finance</p> <p>Work has been completed in these areas, but it has yet to be evidenced to Internal Audit.</p> <p>RO= Service Director- Education</p>

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				<p>TWS to provide greater support to Schools who are experiencing difficulties.</p> <p>Target Date: Ongoing Service Director for Education Service Director: Finance</p>	<p>Internal Audit is currently reviewing the TWS arrangements, the findings of which will be reported on by 31st March 2015.</p> <p>RO = Chief Internal Auditor</p>