

Audit Committee

23rd September 2016



Report of: Interim Chief Executive

Title: Final Annual Governance Statement 2015/16 (Draft)

Ward: City-Wide

Officer Presenting Report: Melanie Henchy-McCarthy/ Alison Mullis – Chief Internal Auditor (J/S)

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Recommendation:

The Committee is recommended to approve the draft Final Annual Governance Statement as a fair reflection of the internal control and governance environment during 2015/16 and to date, prior to it being finalised and signed by the Mayor and the Interim Chief Executive following this, 23rd September 2016, meeting.

This update was presented to the Cabinet Member for Finance, Governance & Performance on 12th September 2016.

Summary

The City Council is required by the Accounts and Audit Regulations 2015 to prepare an Annual Governance Statement to accompany its published financial statements. A review of the governance and internal control arrangements has taken place and the resulting draft Statement and Action Plan is attached to this 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 Final Annual Governance Statement is attached together with an Action Plan which details the most significant governance and internal control issues relevant to 2015/16 and to date; together with the actions for improvement which are in progress.

Policy

1. Publication of an Annual Governance Statement is a requirement of the Accounts and Audit Regulations 2015. 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**2. Internal**

Strategic Leadership Team (SLT), Section 151 Officer, Audit Committee, other relevant officers (Monitoring Officer, Chief Internal Auditor).

3. External

Not applicable

4. Context

- 4.1 Arising from the Accounts and Audit Regulations 2015, the Council is required to conduct an annual review of its governance and internal control systems, 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 effective systems of governance and internal control, and that any shortfalls are identified and addressed.

The Accounts and Audit Regulations 2015 also specify that the AGS is considered by “the organisation itself, or a Committee of the organisation”; this requirement is being met by this submission to the Audit Committee.

The AGS must be a fair reflection of the governance and internal control environment during 2015/16 and up to the date of being signed by the Mayor and Interim Chief Executive alongside the 2015/16 Annual Statement of Accounts. The External Auditor reviews the draft AGS in detail as part of their audit of the Statement of Accounts for 2015/16.

Appended to the AGS is an Action Plan which sets out significant issues together with remedial action undertaken and the issue’s current status. The Action Plan is a living document which rolls on from year to year, with the Audit Committee receiving regular updates. As many of the current actions within the Action Plan are the same or similar to the mitigations in the Corporate Risk Register (CRR), the Action Plan is presented at the same time as the CRR, where

possible.

4.2 The AGS (Final Draft)

The AGS details the Council's governance and internal control framework and the review process undertaken for 2015/16. It also describes the Council's key governance arrangements including:

- The Constitution;
- Strategic and decision making governance;
- Operational governance;
- Assurance mechanisms in place to ensure governance arrangements are functioning appropriately.

As in previous years, the review process examined a wide range of internal control and governance processes, including:

- Obtaining written assurances from senior managers within the Council who had responsibility for the governance and internal control framework in place during the year;
- Obtaining written assurances from senior and statutory officers that corporate governance and internal control arrangements in key areas were in place throughout the year;
- Reviewing external inspection reports received by the Council during the year, the opinion of the Chief Internal Auditors in their annual report to management and the Audit Committee and an evaluation of management information in key areas to identify any indications that the control environment may not be sound;
- A review of corporate risk register items;
- The scrutiny and evaluation of the information obtained;
- Consultation with the Senior Leadership Team, the appropriate delegated Cabinet Member and the Audit Committee.

The Action Plan, appended to the AGS, sets out significant issues regarding the governance and internal control environment which were identified in previous years, those identified during 2015/16 and those that have arisen subsequently, prior to the signing of the Statement; together with details of remedial action which has taken place and the issue's status at this time.

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 Statement on Internal Control (the forerunner to the AGS). This includes considering whether the issues:

- 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;
- Been considered as significant for this purpose by the audit committee or equivalent;

- 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.

In summary the matters arising in the AGS and appended Action Plan are as follows:

- **Items no longer considered a significant governance issue and removed from the AGS Action Plan in 2015/16:**
 - Capital Projects
 - MetroBus (funding and transparency issues)
 - Performance Management
 - Use of Consultants/Interims
 - Scrutiny Function
 - Policies and Procedures
 - Quality of Service/Complaints System
 - Schools Corporate Governance.
- **Items no longer considered a significant governance issue, but remaining on the AGS Action Plan for monitoring purposes:**
 - Delivering Democracy (AP6) – the multiple elections for which the Council was responsible have now been delivered.
- **Items brought forward from 2014/15 where the level of risk is increasing, together with new items with a high level of risk:**
 - Financial Governance (AP1) – slippage against a number of key projects/plans. Heavy reliance on interim staff. Significant budget reduction in 2016/17.
 - Change Programme (AP11) – the Programme has been unable to deliver its projected savings and as such governance weaknesses are therefore apparent.
- **Items brought forward from 2014/15 where the level of risk has not changed:**
 - Partnership Governance (AP2) – work in this area has continued however there remains a body of work to ensure the revised approach to partnerships is embedded and lessons are learned from past issues arising.
 - Commercial Contract Management (AP3) – the team has been restructured and work is ongoing to ensure the service is robust going forward.
 - Organisational Knowledge/Capacity (AP4) – key vacancies at both statutory and senior officer level remain, together with unknown impact of current staff reductions due to restructure.

- Traded Companies (AP5) – reporting and assurance arrangements are being finalised.
- **Issues added to the AGS Action Plan in 2015/16 and post year end:**
 - Devolution (AP7) – impact of the devolution deal on the Council’s governance framework.
 - MetroBus Project (AP8) – issues raised by the Audit Committee with regard to project governance.
 - Control of Council Assets (AP9) – public concern with regards to the governance of disposal of Council assets.
 - Future Planning (AP10) – Consistent planning processes need to be rolled out across the council.

Following their review of the 2014/15 AGS, the Council's external auditor concluded that the arrangements for preparing the AGS were sufficiently robust and no adjustments were required to its presentation. It is anticipated that the 2015/16 AGS preparation will similarly satisfy the new external auditor's expectations.

Proposal

5. The Committee is recommended to approve the draft Final Annual Governance Statement as a fair reflection of the governance and internal control environment during 2015/16 and to date, prior to it being finalised and signed by the Mayor and the Interim Chief Executive following this meeting.

Other Options Considered

6. *Not applicable*

Risk Assessment

7. The need to maintain a robust Risk, Governance and Control environment is pivotal to the effective operations of the Council’s functions, a statutory requirement of the Accounts & Audit Regulations 2015 and an implied requirement of the External Auditor.

Failure to maintain and where required improve this environment will not only impact on the proper practices of the Council, but will also be in breach of the Accounts & Audit Regulations 2015 and may attract an adverse opinion from the External Auditor.

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.

Public Sector Equality Duties

- 8a) Before making a decision, section 149 Equality Act 2010 requires that each decision-maker considers the need to promote equality for persons with the following “protected characteristics”: age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation. Each decision-maker must, therefore, have due regard to the need to:
- i) Eliminate discrimination, harassment, victimisation and any other conduct prohibited under the Equality Act 2010.
 - ii) Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to --
 - remove or minimise disadvantage suffered by persons who share a relevant protected characteristic;
 - take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of people who do not share it (in relation to disabled people, this includes, in particular, steps to take account of disabled persons' disabilities);
 - encourage persons who share a protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
 - iii) Foster good relations between persons who share a relevant protected characteristic and those who do not share it. This involves having due regard, in particular, to the need to –
 - tackle prejudice; and
 - promote understanding.
- 8b) No equalities Impact Assessment necessary for this report as matters concerning internal control, risk and governance only.

Legal and Resource Implications

Legal

Not Applicable

Financial

(a) Revenue

Not applicable

(b) Capital

Not applicable

Land

Not applicable

Personnel

Not applicable

Appendices:

Appendix A – Annual Governance Statement 2015/16 and Updated Action Plan.

LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

Background Papers:

None.