

**Audit & Standards Committee – 18<sup>th</sup> September 2014**

**Report of the Treasurer**

**Annual Governance Statement**

**Purpose of the Report**

1. This report deals with the Annual Governance Statement [AGS] that is to accompany the accounts for the financial year 2013/2014.

**Background**

2. The requirement to produce an AGS is contained in the Accounts and Audit Regulations 2011, guidance from the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA) issued in 2007, and classification to what constitutes “proper practice” from the Department for Communities and Local Government.
3. The AGS encompasses all aspects of good governance.
4. CIPFA/SOLACE guidance on good governance identifies six core principles, focusing on the systems and processes for the direction and control of the organisation and its activities, through which it accounts to, engages with and leads the community, i.e. :-
  - a. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
  - b. Members and officers working together to achieve a common purpose with clearly defined functions and roles
  - c. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
  - d. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
  - e. Developing the capacity and capability of members and officers to be effective
  - f. Engaging with local people and other stakeholders to ensure robust accountability
5. CIPFA/SOLACE provide further guidance in the form of a series of stated expectations around the role of officers and members in the organisation in supporting the governance framework. The Code of Corporate Governance, which sets out the Council’s overall Governance Framework, was approved by Audit & Standards Committee in April 2014.

6. CIPFA also provided technical guidance on the preparation of the AGS in relation to the corporate governance and the guidance was followed in preparing the AGS and principally involves completion of extensive checklists.

In 2010 CIPFA provided guidance on the role of the Chief Finance Officer [CFO] in local government. They produced a series of principles which should define the core activities and behaviours for the CFO. An assessment against current practice indicates the majority of the principles are applied in Dudley. The principles include a requirement that the CFO is a key member of the Leadership Team and should report directly to the Chief Executive with status at least equivalent to other members. They also state that if this is not the case then the reasons should be explained publicly in the AGS. It is considered in Dudley that whilst the Treasurer does not directly report to the Chief Executive he does have a reporting line. He is a full member of Corporate Board and has equivalent status to other members in terms of decision making and access to all confidential papers/matters. The Council is currently consulting on a reorganisation of senior management. Reporting arrangements for the Treasurer and other statutory officers will be considered as part of this exercise.

7. In December 2012 CIPFA/SOLACE issued an addendum review of their original guidance to ensure it remained 'fit for purpose', which they deemed it did. They stated that local government has been undergoing significant change and the environment in which it works is increasing in complexity. In addition to economic and financial challenge, the Localism Act and other key legislation has brought new roles and opportunities and greater flexibility for authorities.

They went on to say that local authorities are changing the way in which they operate and undertake service provision including services delivered directly, through partnerships and collaboration and through commissioning. The introduction of new structures and ways of working provide challenges for managing risk, ensuring transparency and demonstrating accountability. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with control and the management of risk. A one-size-fits-all approach to governance is inappropriate.

8. The new guidance from CIPFA/SOLACE reiterated that the AGS should provide a brief communication regarding the review of governance that has taken place and the role of the governance structures involved (such as the Audit & Standards Committee). It should be high level, strategic and written in an open and readable style. It should be focused on outcomes and value for money and relate to the authority's vision for the area.
9. CIPFA guidance on the AGS assurance gathering process is illustrated in Appendix A, and a map of the assurance process is provided at Appendix B. A Corporate Governance Group of senior officers has assisted the process of producing the proposed AGS set out at Appendix C. The Corporate Governance Group is tasked with :-
  - a. Collating and reviewing reports from external inspection agencies in terms of impact on control and governance
  - b. Collating and reviewing information on any significant governance weaknesses, including details of remedial action
  - c. Reviewing the Code of Corporate Governance.

10. The AGS summarises the governance framework within the Council and highlights any areas of concern. The governance framework includes matters such as :-
- |                               |  |
|-------------------------------|--|
| Performance management        | Business strategy and planning process |
| Annual budget                 | Budgetary control                      |
| People strategy               | Information Governance                 |
| Code of Corporate Governance  | Constitution                           |
| Risk management strategy      | Confidential Reporting policy          |
| Standing Orders               | Financial Regulations                  |
| Anti-Fraud and Corruption     | Ethical governance                     |
| Financial policies/procedures | Codes of conduct                       |
11. The aim of the various elements of the framework is to ensure that :-
- The Council's policies are put into practice
  - The organisation's values are met
  - Laws and regulations are complied with
  - Required processes are adhered to
  - Financial statements and other published information are accurate and reliable
  - Human, financial and other resources are managed efficiently and effectively
12. This review of the Council's overall governance arrangements has not identified any significant governance issues requiring attention.

### **Finance**

13. This report has no direct financial implications.

### **Law**

14. The Account and Audit Regulations 2011 require that the relevant body shall conduct a review at least once a year of the effectiveness of its system of internal control and the findings of the review shall be considered by a committee of the relevant body. Following that consideration, they shall approve an AGS, prepared in accordance with proper practices. CIPFA have provided guidance to the effect an AGS will incorporate the review of internal control.

### **Equality Impact**

15. This report does not raise any equal opportunities issues.
16. Whilst children and young people are not directly consulted on, or involved with the development of the AGS, it will help ensure their interests are protected.

**Recommendations**

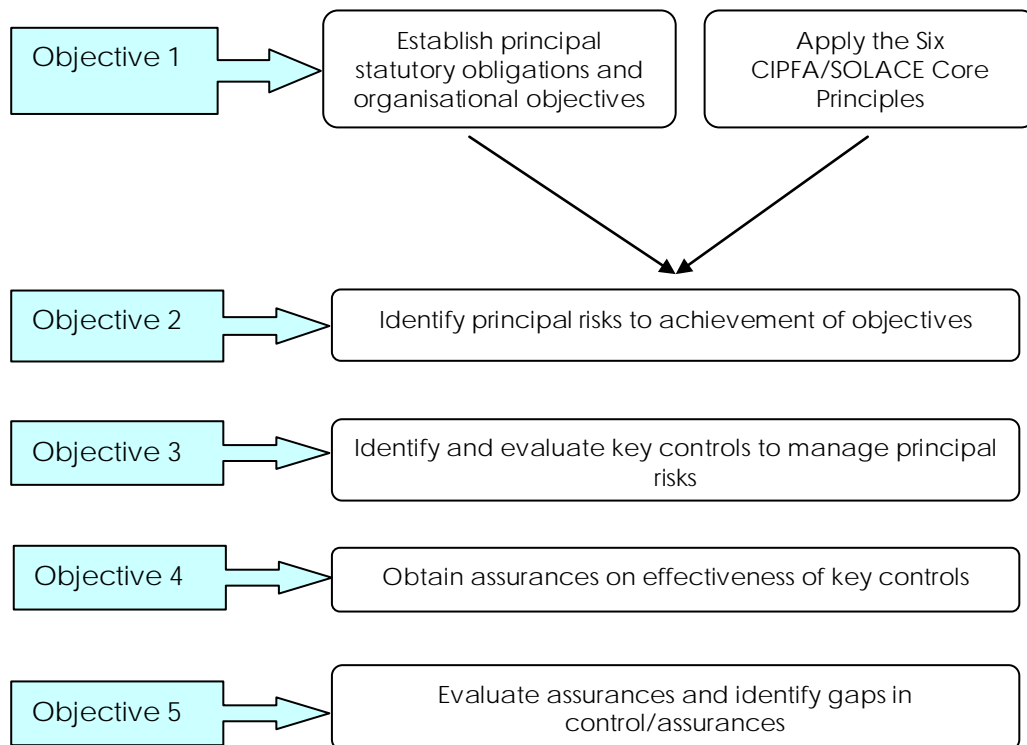
17. The Committee is recommended to approve the Annual Governance Statement as set out at Appendix C and refer it to the Leader of the Council and Chief Executive for signature.



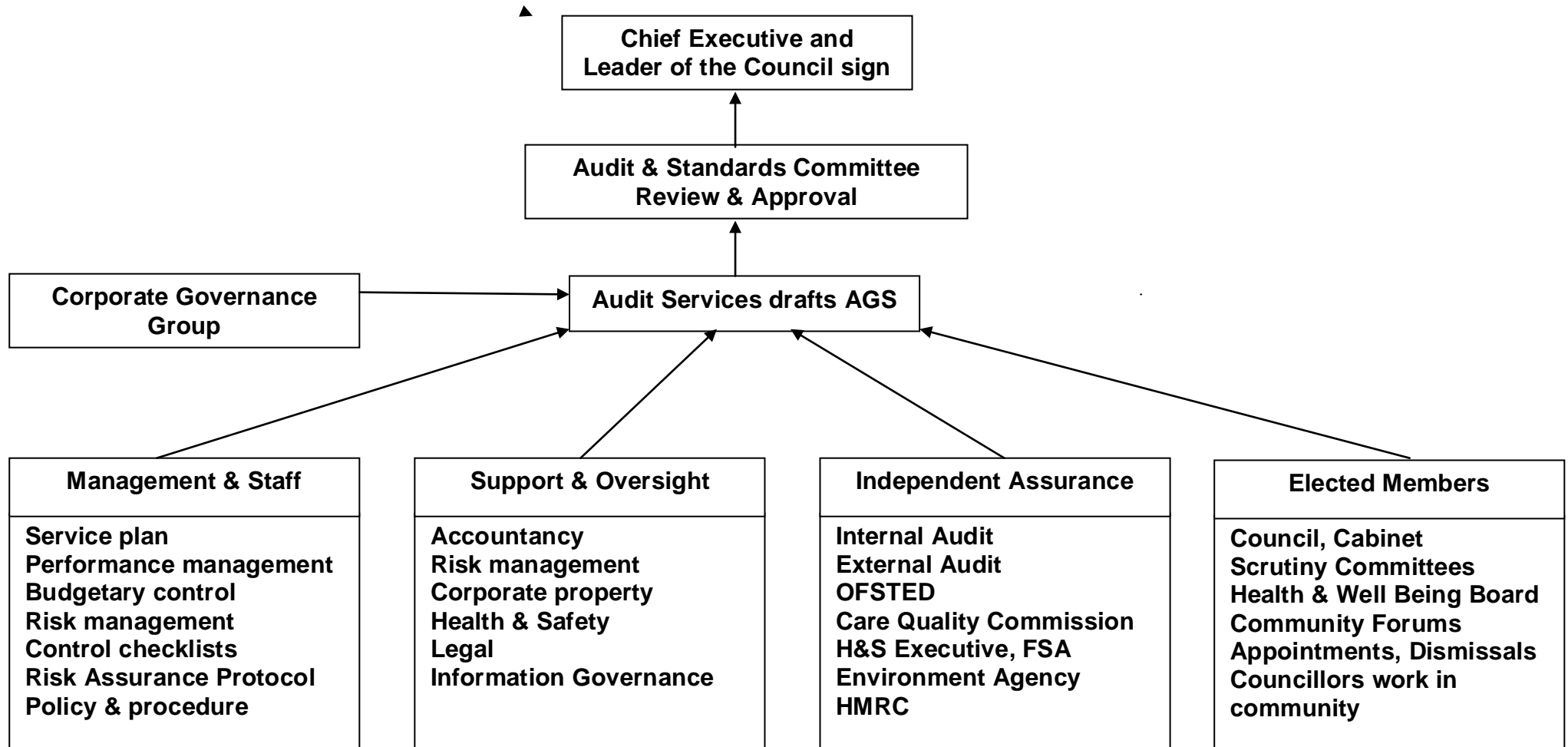
.....  
**Iain Newman**  
**Treasurer**

Contact Officer : Les Bradshaw 4853, [Les.Bradshaw@dudley.gov.uk](mailto:Les.Bradshaw@dudley.gov.uk)

**Appendix A : Review of Annual Governance Statement and the Assurance Gathering Process**



**Appendix B : Assurance Framework in support of the Annual Governance Statement [AGS]**



## **Appendix C : Draft Annual Governance Statement 2013/14**

### **1. Scope of Responsibility**

Dudley Metropolitan Borough 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.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Audit & Standards Committee has now approved a revised Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government, and also the Localism Act. A copy of the Code has been placed on the website following full Council approval.

This statement explains how the Council meets the requirements of the Accounts & Audit Regulations 2011, which requires the publication of an annual governance statement.

### **2. The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

Risk management and internal control are a significant part of the governance framework and are designed to manage risk to a reasonable level. They 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 systems of risk management and internal control are based on an ongoing process designed to identify and prioritise the risks to the achievement of the 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.

A governance framework has been in place at the Council for the year ended 31 March 2014 and up to the date of approval of this statement.

### **3. The Governance Framework**

The cornerstone of the governance framework is the Council's Constitution, which sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by law, while others are a matter for the Council to determine. The Council's Constitution also contains detailed codes and protocols, such as Standing Orders (defining how contracts must be let) and Financial Regulations (setting out procedures and principles for proper financial management).

The Constitution defines and documents the roles and responsibilities of the Cabinet, other Member Committees and senior officer functions, with clear delegation arrangements. The key senior officers identified in the Constitution include statutory positions :-

- a. Head of the Paid Service (Chief Executive) must ensure that the Council is properly organised and staffed
- b. Monitoring Officer (Director of Corporate Resources) must ensure the lawfulness and fairness of decision-making
- c. Chief Finance Officer (Treasurer) must ensure the lawfulness and financial prudence of decision-making. The Treasurer is also responsible for the proper administration of the Council's financial affairs.

In 2010 CIPFA provided guidance on the role of the Chief Finance Officer [CFO] in local government. They produced a series of principles which, should define the core activities and behaviours for the CFO. An assessment against current practice indicates the majority of the principles are applied in Dudley. The principles include a requirement that the CFO is a key member of the Leadership Team and should report directly to the Chief Executive with status at least equivalent to other members. They also state that if this is not the case then the reasons should be explained publicly in the AGS. It is considered in Dudley that whilst the Treasurer does not directly report to the Chief Executive he does have a reporting line to him. He is a full member of Corporate Board and has equivalent status to other members in terms of decision making and has access to all confidential papers/matters.

Responsibility for reviewing and updating all elements of the Constitution have been delegated to senior officers e.g. the Monitoring Officer has responsibility for operating the Scheme of Delegation.

In identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and services users, the Council engages with all parts of the community, and this now includes a larger number of Community Forums.

The Council's most important objectives are consolidated in the Council Plan, and an associated assurance framework is in place whereby the key objectives of the Council now include formal consideration and documentation of any risks which might prevent objectives being achieved.



In reviewing the authority's vision and its implications for the authority's governance arrangements, the Council carries out an annual review of the Council Plan to ensure it remains focused on current and long term issues. The Constitution is reviewed at least annually to ensure the governance framework is fit for purpose.

The Council Plan is supplemented by strategies and plans within each Directorate.

In measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources the Council uses a Corporate Performance Management system. This is monitored by Corporate Board and Cabinet each quarter. Each Directorate will also set, and monitor, quality of service measures for each service as part of the Corporate Strategic Planning framework.

The Council recognises it has a legal duty to secure economy, efficiency and effectiveness in its use of resources and continuous improvement in its services. This duty is recognised in establishing the Council's policy agenda.

Effective financial management is an essential aspect of the Council's governance framework. This is achieved in particular through :-

- a. Comprehensive revenue and capital budgeting and reporting systems
- b. A medium term financial planning process
- c. Regular reporting and monitoring of actual performance against forecast;

Responsibility for developing, communicating and embedding codes of conduct, which define the standards of behaviour for members and staff has been delegated to the Audit & Standards Committee, which also monitors the Council's Confidential Reporting Policy and Fraud Hotline. The Council also operates a complaints system for the public and the use of the system is monitored by Senior Officers and Members.

The Council has an Audit & Standards Committee with a remit to oversee the effective operation of both the internal and external audit function, and to ensure that appropriate action is taken in relation to audit recommendations. It also has responsibility for corporate governance arrangements, and the promotion and maintenance of high standards of conduct within the Council.

The Audit & Standards Committee annually endorses the Risk Management Strategy which incorporates a Risk Assurance Protocol which requires Senior Officers to regularly certify that risks have been reviewed and mitigating controls are operating as intended. The results are collated and monitored centrally. The Audit & Standards Committee also receive additional reports on risk management throughout the municipal year.

Corporate Board and Cabinet also review the most significant risks in the Corporate Risk Register each quarter.

There is a statutory requirement for the Council to undertake an adequate and effective internal audit of its accounting record and system of internal control. This is a responsibility delegated to the Treasurer. Internal Audit operates as an independent, objective assurance and consulting service designed to add value and improve an organisation's operations. It operates a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit is under the day-to-day control of the Head of Audit Services who ensures the service operates in accordance with the Public Sector Internal Audit Standards. Internal Audit has a rolling programme of audits that, over a period of years, is intended to review all significant areas of risk, control and governance within the Council. The priority of different areas of the programme is determined by Internal Audit's own assessment of risks [including the Corporate Risk Register], controls and overall assurance framework. Internal Audit plans are approved by the Audit & Standards Committee.

The Account and Audit Regulations 20011 require the Council to conduct a review at least once a year of the effectiveness of its internal audit and that the findings of the review shall be considered by a committee of the relevant body. The Head of Audit Services has carried out the review and it has been subject to review by the Treasurer, Corporate Governance Group and Audit & Standards Committee. The review determined that Internal Audit is operating effectively. The Audit & Standards Committee also periodically undertakes an exercise to judge its own effectiveness using a toolkit supplied by CIPFA. The latest review concluded that it was operating effectively.

The Council has a number of Scrutiny Committees that carry out a programme of reviews of Council services and decisions.

The Council operates a comprehensive performance review system for identifying the development needs of senior officers and action plans are produced as appropriate. The Constitution also requires all political groups to identify any development needs of Members and a comprehensive training programme is available to meet their needs.

External Audit conduct annual audits of the Council and external inspectorates perform a number of reviews of Council services. All of these bodies contribute to the Council's governance framework.

#### **4. Review of Effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework. The review of effectiveness is informed by the work of the Members and Senior Officers within the Council who have responsibility for the development and maintenance of the governance framework.

The Corporate Risk Register currently includes a number of significant risks which could affect the ability of the Council to achieve its objectives. These risks include :-

- a. Information governance
- b. Property strategy
- c. Energy and carbon reduction
- d. Medium term financial strategy
- e. Welfare reforms
- f. Looked after children
- g. Fraud

Reports on these matters are presented to Corporate Board, Cabinet, or Scrutiny Committees as appropriate. A number of the risks are also subject to review by Internal/External Audit and the Audit & Standards Committee.

During 2013/14 Internal Audit carried out 141 planned audit reviews as part of their plan. The findings were reported to relevant line managers and senior management, and appropriate action agreed.

The Audit & Standards Committee receives an annual report summarising the performance of Internal Audit in the previous financial year, and plans for future years. The Committee also receives a series of reports setting out the results of Internal Audit work in each of the Council's Directorates. These reports detail the higher importance findings, any unimplemented recommendations, and management feedback about the action they have taken. The Committee also receives more detailed reports on other areas where they consider it necessary. The Treasurer will, under the Anti-Fraud and Corruption Strategy, report major losses, resulting from fraud and corruption, to the Audit & Standards Committee. No such report was necessary during 2013/14. A report on the prevention and detection of fraud was presented to the Committee, who also approved a revised Anti Fraud & Corruption Strategy.

Audit & Standards Committee approved a revised Code of Corporate Governance in April 2014 and have requested that they be kept informed of the status of actions identified in the Code. The first report will be presented to the September meeting.

When the External Auditors have completed their audit for 2013/14, their Annual Audit and Inspection Letter will be presented to the Audit & Standards Committee and the Cabinet. The Annual Audit and Inspection Letter for the 2012/13 accounts presented an unqualified opinion on the accounts.

A number of other external bodies carried out reviews during the year, including Ofsted and the Care Quality Commission. The findings of their reports were also considered.

The Council's Scrutiny Committees also carried out an extensive programme of reviews of the Council's activities and decisions, and they report their work and findings to the Council. Their work has also been reviewed.

During the year, a number of the documents making up the governance framework were reviewed and any amendments were subject to approval by full Council or delegated Committees e.g. :-

- a. Code of Corporate Governance
- b. Codes of Conduct
- c. Anti Fraud & Corruption Strategy
- d. Standing Orders

In carrying out its review of the governance framework, the Council has considered the evidence provided by all of the sources referred to above and has not identified any strategically serious deficiencies that would warrant mention in Section 5 of this report. We aim to ensure continuous improvement of the framework is in place.

There are a number of significant developments affecting local government such as the transfer of public health, welfare reforms, financial cuts, etc. The effects of these developments on the governance of the Council is being monitored.

### **5. Significant Governance Issues**

The review of the effectiveness of the governance framework has not identified any additional strategically significant issues which are not already covered by existing management and/or Member review. We will monitor the situation in 2014/15 to ensure the changes in local government operations do not impact adversely on the governance framework.

Councillor D.Sparks  
Leader of the Council

J.Polychronakis  
Chief Executive