

## CITY OF PLYMOUTH

**Subject:** Annual Governance Statement 2009/10

**Committee:** Audit Committee

**Date:** 28 June 2010

**Cabinet Member:** Councillor Bowyer

**CMT Member:** Director for Corporate Support

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**Ref:** CRM/MJH

**Part:** I

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### **Executive Summary:**

Regulation 4 of the Accounts and Audit Regulations 2003 required a Statement on Internal Control (SIC) to be published with the annual Statement of Accounts.

The purpose of the SIC is to provide evidence of a continuous review of the Council's internal control and risk management processes, to provide assurance as to their effectiveness and to produce a management action plan to address any key weaknesses identified.

The Accounts and Audit (Amendment) (England) Regulations 2006 also introduced a requirement to include an annual review of the effectiveness of the internal audit system.

In 2007 CIPFA/SOLACE issued an updated version of the 2001 document *Corporate Governance; A Keystone for Community Governance (Framework and Guidance Note)*

The revised CIPFA/SOLACE framework document *Developing Good Governance in Local Government* now includes a requirement for Authorities to produce an Annual Governance Statement (AGS) which replaces the Statement on Internal Control with effect from the 2007/08 reporting year (i.e. from 1<sup>st</sup> April 2007).

This report outlines the process followed in order to produce the AGS for 2009/10 and recommends approval of the Statement prior to signature by the Leader, the Chief Executive and the Director for Corporate Support.

The proposed Statement for 2009/10 is attached to the report.

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**Corporate Plan 2010/13:**

Maintaining sound systems of internal control and risk management enables the Council to monitor and review the key risks that may prevent it from achieving its corporate objectives.

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**Implications for Medium Term Financial Plan and Resource Implications:  
Including finance, human, IT and land:**

None arising specifically from this report.

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**Other Implications: e.g. Section 17 Community Safety, Health and Safety, Risk Management etc.**

The Risk Management Strategy specifically supports the processes which underpin the production of the Annual Governance Statement.

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**Recommendations & Reasons for recommended action:**

The Audit Committee is recommended to :

- a) Note the processes adopted for the production of the 2009/10 Annual Governance Statement.
  - b) Endorse the adequacy and effectiveness of the system of internal audit.
  - c) Approve the Annual Governance Statement prior to signature by the Leader, Chief Executive and Director for Corporate Support.
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**Alternative options considered and reasons for recommended action:**

Not applicable.

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**Background papers:**

Accounts and Audit Regulations 2003  
Accounts and Audit (Amendment)(England) Regulations 2006  
CIPFA/SOLACE document *Developing Good Governance in Local Government*

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**Sign off:**

Fin	SW	Leg	D.S.	HR		Corp Prop		IT		Strat Proc	
Originating SMT Member: Assistant Director for Democracy and Governance											

**Report of Director for Corporate Support to Audit Committee**  
– 28th June 2010

**Annual Governance Statement 2009/10**

**1. Introduction**

**1.1** This report outlines the background to the statutory requirement to produce an Annual Governance Statement (AGS) as a replacement for a Statement on Internal Control and describes the process followed in producing the AGS for 2009/10 for publication with the Annual Statement of Accounts.

**2. The Council's Statutory Responsibility**

**2.1** Regulation 4 of the Accounts and Audit Regulations 2003 (amended 2006) required a Statement on Internal Control (SIC) to be published at the same time as the annual Statement of Accounts.

**2.2** There is also a requirement under the Accounts and Audit (Amendment) (England) Regulations 2006 for the SIC to include a review of the effectiveness of the internal audit system.

**2.3** CIPFA describes the purpose of the process of compiling a Statement on Internal Control as follows;

*“The purpose of the SIC process is to provide a continuous review of the effectiveness of an organisation's internal control and risk management, so as to give assurance on their effectiveness and/or to produce a management action plan to address identified weakness in either process”.*

**2.4** The SIC is required to be approved at a committee of the Council and this sits most comfortably with Audit Committee, as its terms of reference include both internal control and risk management.

**2.5** In 2007 CIPFA/SOLACE issued an updated version of the 2001 document *Corporate Governance; A Keystone for Community Governance (Framework and Guidance Note)*.

**2.6** The revised CIPFA/SOLACE framework document *Developing Good Governance in Local Government* now includes a requirement for Authorities to produce an Annual Governance Statement which replaces the Statement on Internal Control (SIC) with effect from the 2007/08 reporting year (i.e. from 1<sup>st</sup> April 2007).

**2.7** The proposed Annual Governance Statement for 2009/10 is attached to this report.

### **3. Effective Review and the Control of Risk**

- 3.1** The statutory responsibility to publish an Annual Governance Statement requires the Council to review its key risks, and to identify and publish the actions that it intends taking to improve or resolve those risks.
- 3.2** These risks primarily relate to the achievement of the Council's core objectives and, therefore, the AGS provides an opportunity to demonstrate progress in those key areas.
- 3.3** The process should also include an annual review of the Council's performance against its local Code of Corporate Governance.

### **4. Scope of the AGS**

- 4.1** The AGS spans the whole range of local authority activities and includes those controls designed to ensure:
- the authority'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,
  - governance arrangements are in place for significant partnerships
  - human resources and other resources are managed efficiently and effectively
- 4.2** In establishing and defining the system of internal control the AGS provides a mechanism by which the authority can maintain, review and keep up to date its control environment. It links internal audit findings, external audit and inspection reports and the risk management process and provides an effective review of the Council's risk management and control mechanisms.
- 4.3** The Council's control environment is managed through a number of core processes and procedures which are defined within the body of the AGS.
- 4.4** The AGS has been compiled by carrying out an annual review of the control environment which has involved researching and formally recognising and recording the processes already in place across the Authority. In moving forward, the AGS provides a framework by which to continuously monitor and review those processes.
- 4.5** Recognising that preparation of the AGS is a wide-ranging and corporate issue that should not be owned by any one individual, a Working Group of key officers has been established to oversee the process. This Group comprises:
- Head of Corporate Risk and Insurance

- Asst Head of Devon Audit Partnership
- Assistant Director for Corporate Support (Finance)
- Head of Policy, Performance and Partnerships
- Head of Legal Services

**4.6** The Working Group is responsible for producing the AGS which is then approved by the Corporate Management Team and Cabinet Planning prior to ratification by the Audit Committee.

**4.7** As part of their Use of Resources assessments, auditors will consider the arrangements in place to enable preparation of the AGS, including the degree to which the Council recognises and can demonstrate corporate ownership of its governance arrangements.

## **5. The Assurance Gathering process**

**5.1** Those with responsibility for signing the AGS need to feel confident that the information used to review the control environment is complete and accurate. The AGS is required to be signed by the most senior officer and the most senior member (ie the Chief Executive and the Council Leader). It is also signed by the Director for Corporate Support as the officer responsible for overseeing the production of the AGS.

**5.2** Although the production of the AGS is required by the Accounts and Audit Regulations, and the AGS is included with the Statement of Accounts, the responsibility for securing effective internal control does not rest solely with Finance staff.

**5.3** Preparation of the AGS has therefore involved a variety of people charged with delivering corporate governance:

- Directors, Heads of Service and managers assigned with the ownership of risk and the delivery of services
- the Chief Financial Officer who is responsible for the accounting control systems and records and the preparation of the statement of accounts
- the Monitoring Officer in meeting his statutory responsibilities
- Elected Members (e.g., through Audit or Scrutiny Committees)
- others responsible for providing assurance (eg Internal Audit and Risk Management)

**5.4** The primary source of information which informs the content of the AGS comes from Assurance Questionnaires completed by Directors, Heads of Service and other senior managers covering key questions around the internal control and governance framework.

**5.5** When completing these questionnaires respondents were asked to review a number of sources where internal control/governance weaknesses may be identified:

- Risks identified in Strategic and Operational Risk Registers

- Issues arising from Internal Audit Reviews completed in 2009/10
- Issues arising from external inspections
- Audit Commission Annual Audit and Inspection Letter
- CAA Corporate Assessment Report

## **6. Code of Corporate Governance Self-Assessment/Annual Review**

- 6.1** In accordance with the CIPFA/SOLACE framework document *Good Governance in Local Government*, the Council has adopted a local Code of Corporate Governance which was approved by Audit Committee on 31<sup>st</sup> March 2008.
- 6.2** The framework recommends that the Council carries out a self-assessment of the extent to which it complies with the six core principles of good governance set out in the Code.
- 6.3** A corporate Officer Group completed work on this and a full report outlining the results of the self-assessment together with an action plan to address any gaps in compliance was presented to Audit Committee on 24<sup>th</sup> September 2008.
- 6.4** The self-assessment indicated that the Council was able to demonstrate compliance in 50 out of 58 specific requirements in the Code of Practice, representing a “score” of 86%..
- 6.5** In accordance with the Code of Practice the first annual review of the self-assessment was carried out in May 2009 and indicated an improvement in the compliance score to 91%.
- 6.6** A further review was carried out in May 2010 and this revealed a further improvement in compliance to 95%.
- 6.7** A full report outlining the result of this annual review will be presented to Audit Committee on 24<sup>th</sup> September 2010.

## **7. Review of Internal Audit System**

- 7.1** Continuous review of the effectiveness of the Council’s internal audit system is conducted by the Audit Committee whose terms of reference (paragraph 2.2) include, specifically, inter alia:
- To agree the annual Internal Audit Plan
  - To monitor the progress and performance of Internal Audit.....
  - To consider the Chief Auditor’s annual report, and comment annually on the adequacy and effectiveness of internal control systems within the Council
- 7.2** The Chief Auditor’s annual report is being considered at the same time as this report and invites Members to endorse the adequacy and effectiveness of the system of internal audit for the year ending 31<sup>st</sup> March 2010.

**7.3** It is recommended that this endorsement forms part of the Annual Governance Statement for 2009/10.

## **8. Partnerships Governance**

**8.1** The Council has drawn up a register of partnerships which are assessed for significance.

**8.2** The most significant partnerships have their own risk registers and manage risk as a routine part of performance management.

**8.3** A draft Code of Good Practice for partnership management has been produced and is due to be consulted upon and will be used to improve consistency and provide a standard approach to managing partnerships and, in particular, managing risk and sharing good practice.

## **9. Identifying control weakness significant for the purpose of the AGS**

**9.1** Whilst there is no absolute definition of the term, the following indicators (provided by CIPFA) have been used to help in considering whether or not an issue is significant enough to be reported on in the AGS:

- it seriously prejudices or prevents achievement of the principal objective of the authority;
- it has resulted in the need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
- it has led to a material impact on the accounts
- the Audit Committee advises it should be considered significant for this purpose;
- the Head of Internal Audit reports on it as significant, for this purpose, in the annual opinion on the internal control environment;
- the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
- the issue has resulted in formal action being undertaken by the Chief Financial Officer and/or the Monitoring Officer

## **10. Conclusion**

**10.1** The attached AGS identifies the outcome of the review of the effectiveness of Plymouth City Council's governance arrangements, covering internal audit, internal control and risk management systems and also identifies significant governance issues together with details of actions being taken to address them.



## **11. Recommendations**

**11.1** Members of the Audit Committee are recommended to:

- a) Note the processes adopted for the production of the 2009/10 Annual Governance Statement.
- b) Endorse the adequacy and effectiveness of the system of internal audit.
- c) Approve the Annual Governance Statement prior to signature by the Leader, Chief Executive and Director for Corporate Support.