Coventry City Council

Report to

Joint Meeting of Scrutiny Board 1 and the Audit Sub Group	25 June 2008
Council	30 June 2008

Report of

Director of Finance and Legal Services

Title

Annual Governance Statement 2007-08

1 Purpose

1.1 The purpose of this report is to seek approval for the Annual Governance Statement, which forms part of the 2007-08 Statement of Accounts. Best practice, as reflected in the Corporate Performance Assessment of Use of Resources, requires that the approval of this Statement is considered separately from the Statement of Accounts.

2 Recommendations

2.1 The joint meeting of Scrutiny Board 1 and the Audit Sub Group are recommended to consider the findings of the review and forward to the report to Council for consideration

2.2 Council are recommended to approve the Annual Governance Statement for 2007-08 (attached as Appendix One) and to authorise the Leader and Chief Executive to sign it on behalf of the City Council.

3 Background

3.1 Coventry 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. Coventry City 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, Coventry City 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.

3.2 In discharging this responsibility, the Council was previously required to produce a Statement on Internal Control (SIC) and include this statement within its annual accounts. In 2006-07, the SIC was reviewed by the Audit Sub Group at a joint meeting with Scrutiny Board 1 in June 2007 and subsequently approved by Full Council later the same day.

3.3 In June 2007, CIPFA in conjunction with the Society of Local Authority Chief Executives (SOLACE) published 'Delivering Good Governance in Local Government: A Framework'. This Framework, and the accompanying guidance notes, replaces the previous CIPFA/SOLACE Framework, 'Corporate Governance in Local Government – A Keystone for Community Governance: A Framework', which was published in 2001.

3.4 There have been significant reforms to local government since the first CIPFA / SOLACE Governance Framework was published in 2001, including the introduction of the executive and scrutiny functions, which are designed to improve local accountability and engagement. The 2007 Framework builds upon recent developments in corporate governance and is based on six core principles:

- Focusing 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.

3.5 The key requirement of the guidance is the introduction, from 2007/08, of the requirement for local authorities to produce an Annual Governance Statement, which subsumes the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2003 (as amended by the Accounts and Audit (Amendment)(England) Regulations 2006) for the production of a SIC.

4   Sources of Assurance

4.1 The assurance gathering process developed to inform the Annual Governance Statement for 2007-08 included:

- A formal assessment of the Council's compliance against the CIPFA / SOLACE Framework.

- An annual assessment of the adequacy of internal controls / governance arrangements by each Director.

- The outputs from the Internal Audit Service which reports on a quarterly basis to the Audit Sub Group. The results are reflected in an annual report which will identify those issues, which in the opinion of the Internal Audit Manager, should be considered when producing the Annual Governance Statement.

- A review of the effectiveness of the Council's system of Internal Audit.

- Reports from external bodies received in the year, including those from the Council's external auditors, the Audit Commission.

- Assessing progress against the key internal control issues highlighted in the 2006-07 SIC .

5 Significant Governance Issues

5.1 Section 5 of the Annual Governance Statement attached at Appendix One highlights those areas that the Council considers require improvements to the systems of internal control / governance. The key findings that support the disclosures are detailed below.

5.2 **Internal Audit Manager's Annual Report 2007-08** – In his report, the Internal Audit Manager has concluded that moderate assurance can be provided that there is generally a sound system of internal control designed to meet the organisation's objectives. The audit work carried out in the financial year 2007-08 has highlighted some weaknesses in the design or the inconsistent application of controls, which may put the achievement of particular objectives at risk, although management assurance that the majority of audit recommendations have been implemented during the year has reinforced the opinion highlighted above.

Based on the work carried out in 2007-08, the Internal Audit Manager has identified a number of issues in audits during this period that, in his opinion, needed to be considered when the Council produced its Annual Governance Statement. The issues raised are:

- Whilst progress has been made during 2007-08 in rolling out the Financial Management Standard in Schools Assessment to primary schools, a need still exists for more robust systems / processes to be developed by the Council to ensure that all Coventry schools comply with the Financial Management Standard in Schools by the target date of March 2010.

- Whilst audit work in 2007-08 has highlighted progress around IT security arrangements within the Council, especially in respect of any new systems introduced, the work to establish a formal Council-wide framework for information security management is still in its infancy.

- It is clear that progress has been made in enhancing existing procedures in place to support the Council's recruitment process. However, audit work in 2007-08 has found that procedures have not yet been fully embedded into practice. High levels of non compliance with procedures still existed in certain areas in respect of pre-employment checks and are now being addressed vigorously.

- The review of sickness absence identified enhancements in monitoring procedures covering sickness absence, although there was limited evidence available to assess the effectiveness of such changes.

- To address the recommendations resulting from the Corporate Governance Review, to ensure that the Council's governance arrangements reflect recommended practice, as stated in the CIPFA / SOLACE guidance. (see 5.3 for more detail).

5.3 **Assessment Against the CIPFA / Solace Framework** - The review by Internal Audit, in conjunction with support by senior officers, concluded that despite the fact that the Council has yet to develop its own code of corporate governance, the Council generally complies with the framework guidance. A number of areas for improvement were identified including:

- The need to develop a local code of corporate governance.

- To develop protocols to support the area of partnerships.

- To develop an assurance framework to support reviewing the effectiveness of the Council's governance arrangements.

5.3 **Significant Control Issues 2006-07** - Whilst this process considers new issues facing the Council, it also assesses whether significant issues identified in the 2006-07 SIC were still relevant for inclusion in the 2007-08 Annual Governance Statement. Within the 2006-07 SIC, nine areas were identified that required focus and development. Based on developments in 2007-08, we are proposing to exclude two of the nine areas on the basis that these areas are no longer regarded as significant. The two excluded areas are detailed in Table One below.

Table One: Issues Removed from the 2006-07 SIC

Description of Internal Control Issue	Update
To further roll out embedded procedures in relation to certain areas of grants to ensure robust information and audit trails exist to support grant claims submitted by the Council.	Grant verification work carried out by Internal Audit in 2007-08 found comprehensive information to support grant claims made. The Audit Commission has not raised any concerns around the quality of information / audit trails during 2007-08 to support grant claims that they have audited.
Work is continuing to ensure robust risk management processes are fully embedded throughout the Council.	Recent Use of Resources work by the Audit Commission increased the risk management score from 2 to 3. As a result, risk management was no longer considered a risk and was dropped from the 2007-08 External Audit Plan. Work by Internal Audit has highlighted progress in embedding risk management at directorate levels. Where issues have been identified, prompt action has been taken to address the issues raised in response to audit findings.

For the issues that remain from the 2006-07 SIC, it is worth acknowledging that progress has been made over the last year on improving controls in all the areas identified. The key reasons why they remain are that they are high profile areas

closely aligned to delivering Council priorities, cover Council-wide activities where improvements will take time to embed into practice, or are expanding areas (e.g. partnerships). In all cases, the nature of the challenges has changed in the last year.

6   Other specific implications

	Implications (see below)	No implications
Value for Money	✓	
Children & young people		✓
Comparable benchmark data		✓
Corporate parenting		✓
Coventry Community Plan		✓
Crime and disorder		✓
Equal opportunities		✓
Finance	✓	
Health and safety		✓
Human resources		✓
Human Rights Act		✓
Impact on partner organisations		✓
Information and communications technology		✓
Legal	✓	
Property		✓
Neighbourhood Management		
Race equality scheme		✓
Risk management	✓	
Climate Change & Sustainable Development		✓
Trade union consultation		✓
Voluntary sector – the Coventry Compact		✓

7.   Legal Implications

The City Council is required by the Accounts and Audit Regulations 2006 to approve, and subsequently publish, the Annual Governance Statement within the Statement of Accounts.

8.   Value for Money, finance and risk management

The governance framework / Internal control systems have clear and direct effects in all three areas, as well as potential impact on other implications listed. Since

these vary widely, it is not useful to attempt to summarise them here, beyond noting that all internal control systems are designed to help managers improve either:

- ✓ Value for money obtained;
- ✓ Probity and propriety of financial administration, or
- ✓ Management of operational risks.

9. **Timetable**

The audited Statement of Accounts, including the Annual Governance Statement will be published by the end of October 2008 to meet the statutory requirement.

	Yes	**No**
Key Decision		X
Scrutiny Consideration (if yes, which Scrutiny meeting and date)	Scrutiny Board 1 - Audit Sub Group 25 June 2008	
Council Consideration (if yes, date of Council meeting)	30 June 2008	

List of background papers

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Papers open to public inspection

Description of paper   **Location**

None

Appendix One – Draft Annual Governance Statement 2007-08

1.   Scope of responsibility

1.1   Coventry 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. Coventry City 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 this overall responsibility, Coventry City 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.

1.3   Coventry City Council has not as yet, adopted a code of corporate governance. However, it has recently assessed current arrangements reflected in existing strategies, policies and procedures against the principles reflected in the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

1.4   This statement explains how Coventry City Council has complied with the CIPFA/SOLACE guidance and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts an Audit (Amendment) (England) Regulations 2006, in relation to the publication of a statement on internal control.

2.   The purpose of the governance framework

2.1   The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have 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 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 system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Coventry City Council 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.

2.3   The governance framework has been in place at Coventry City Council for the year ended 31 March 2008 and up to the date of approval of the statement of accounts.

3.   The governance framework

The key elements of the systems and processes that comprise the authority's governance arrangements are as follows:

3.1   There is a governance / internal control environment that supports the Council in establishing, implementing and its monitoring policies and objectives. The

Council's overarching objectives are contained in the published policy documents listed below:

- The Community Plan
- The Corporate Plan
- Other statutory plans

These high level plans are supported by Cabinet Member Strategic Plans, operational plans, detailed work programmes and individual employee / Member appraisals during 2007-08.

3.2   Coventry's second Community Plan, published in July 2004, set out strategic aims reflecting both national and local priorities, was revised in January 2006 to incorporate the Local Area Agreement. The Community Plan was drawn up by the Coventry Partnership (Coventry's Local strategic Partnership) after consultation with the local community, partners and staff. It is based on an assessment of the needs of the community and an evaluation of alternative options for improvement. The Local Area Agreement is designed to be a contract between central and local government to deliver both central and local priorities, and is the vehicle for allocating area based funding.

3.3   The Council is an active participant in the Coventry Partnership, which recognises that it cannot deliver the aims of the Community Plan without the support of a range of other groups and organisations. The Partnership involves many organisations and individuals with different aims and working arrangements, but linked together through a commitment to deliver the Community Plan. The Council is involved in a number of partnerships, of varying significance and is in the process of developing protocols covering all aspects of partnership working.

3.4   The Corporate Plan for the three years from 2007/08 to 2009/10 sets out the Council's vision and core values, including its contribution to the Community Plan, and affirms its commitment to continuous service improvement. The plan is part of a comprehensive performance management framework designed to help the Council improve its services and the way it works, in a planned and systematic way. This is supported by Cabinet Member Strategic Plans which have a three year horizon, and which focus on the strategic objectives allocated to individual Cabinet Member portfolios.

3.5   Throughout this process, clear channels of communications exist with all sections of the community and other stakeholders to ensure the Council considers local needs and communicates both expected and actual outcomes for citizens and service users.

3.6   The control environment to ensure delivery of the Council's plans and objectives is laid down in the Council's Constitution and performance management framework. The Constitution sets out how the Council operates, including roles and responsibilities of both Councillors and officers, shows how decisions are made and the procedures to ensure that these are efficient, transparent and accountable to local citizens. The Council facilitates policy and decision-making via a Cabinet structure with Cabinet Member portfolios. There are scrutiny boards covering all portfolios and an overarching Scrutiny Co-ordination Committee.

3.7   Coventry City Council has developed a comprehensive set of policies and procedures, including those relating to the expected behaviours of members and staff. These are subject to regular review to ensure the Council continues to enhance and strengthen its internal control environment. Systems exist to ensure

compliance with policies and procedures, including statute and regulations. This is supported by Internal Audit who complete an annual risk based plan, which assesses compliance with key procedures and policies.

3.8   The Council's Risk Management Strategy includes processes for identifying, assessing, managing and monitoring financial and operational risks. Risk Registers at directorate and corporate level are updated and reviewed regularly by senior managers and elected Members. The Council is looking for continuous improvement throughout the Council in the management of risks, and this is being monitored through the Corporate Risk Management Group.

3.9   The Council, through its Whistleblowing and Complaints Policies, has introduced procedures in place to deal with concerns raised by both employees and members of the public. These policies have been widely communicated and are subject to regular review to ensure they are working effectively.

3.10   An Audit Sub Group provides independent assurance to the Council on risk management and control, and the effectiveness of the arrangements the Council has for these matters. The Audit Sub Group's terms of reference were developed in conjunction with CIPFA guidance and the Group carries out an annual self-assessment to measure the effectiveness of the Audit Sub Group, based on recommended CIPFA practice.

4.   Review of effectiveness

4.1   Coventry City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2   The Council has developed a comprehensive framework for overseeing its governance environment. This includes:

- Regular and detailed monitoring of the Council's performance by both Management Board and Members against targets and objectives set in the Community and Corporate Plans.

- Ongoing reviews of the Council's Constitution, overseen by the Standards Committee.

- Regular reviews of Council's strategies and procedures to ensure they continue to reflect the needs of the Council.

4.3   The review of effectiveness has also been informed by:

- The outcome of the Internal Audit review of the Council's current governance arrangements reflected in existing strategies, policies and procedures, against the principles reflected in the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

- An annual assessment of the adequacy of internal controls / governance arrangements by each Director.

- The work of the Internal Audit Service during 2007-08. The Service works to a risk based audit plan, which is approved annually by Scrutiny Board 1 – Audit Sub Group. An annual report is also produced and presented to the Group. The report identifies those issues, which in the opinion of the Internal Audit Manager, should be considered when producing the Annual Governance Statement.

- A review of the effectiveness of the Council's system of Internal Audit.

- The work plan and reports submitted to both Scrutiny Board 1 – Audit Sub Group and the Standards Committee.

- Reports from the external auditors and other inspection agencies.

4.4 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Scrutiny Board 1 - Audit Sub Group, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Significant governance issues

5.1 All significant control / governance issues are included on the Council's corporate and directorate risk registers. These registers also include appropriate management actions to minimise the risk. The Corporate Risk Register is also subject to regular review by the Council's Management Board, Cabinet and Scrutiny Board 1- Audit Sub Group.

5.2 Furthermore, the Council is seeking to continuously improve its management arrangements to improve service delivery, efficiency and value for money, whilst achieving its objectives. Key challenges include:

a) Ensuring the delivery of the Council's vision and corporate objectives in line with the Medium Term Financial Strategy.

b) Working closely with partners and Government to deliver the Local Area Agreement.

c) The Council's approach to delivering improved value for money, which is derived from its Value for Money Strategy, approved in 2006. The Council entered into a Value for Money Partnership with PricewaterhouseCoopers in 2007, with a key objective of delivering service improvement and cost reduction. A programme of reviews has been developed, with a number of reviews currently in progress. Value for Money self-assessments were undertaken to contribute to service plans in 2007/08, and continue to contribute to the embedding of value for money principles in its ongoing service activities. The Council will continue to implement its Strategy, both through the work of the Partnership and within individual services, with the key aim of linking together finance, performance and risk management.

d) Addressing the actions highlighted in Internal Audit's review of the Council's governance arrangements against the principles reflected in the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. The review concluded that overall the Council's current arrangements in the main are consistent with the CIPFA principles. A number of areas for improvement were identified including:

- The need to develop a local code of corporate governance.

- To develop protocols to support the area of partnerships.

- To develop an assurance framework to support reviewing the effectiveness of the Council's governance arrangements.

5.3 The review of internal control has also highlighted a number of areas for improvement. In each case, actions plans have been agreed to address issues identified. These include:

a) To monitor enhancements in procedures covering sickness absence to assess the effectiveness of such changes.

b) To enhance systems in place to ensure that all Coventry Schools comply with the Financial Management Standard in Schools by March 2010.

c) To establish a formal Council-wide framework for information security management to ensure that risks associated with the security and administration of the Council's IT Systems are effectively managed.

d) To further enhance procedures covering the area of recruitment to ensure that all appropriate pre-employment checks are completed prior to employees commencing work.

5.4 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.