



Coventry City Council

# 8.2.2

## Public report

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### Report to

Audit Committee  
Council

26 June 2009  
29 June 2009

### Report of

Director of Finance and Legal Services

### Title

Annual Governance Statement

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## 1 Purpose

- 1.1 The purpose of this report is to seek approval for the Annual Governance Statement, which forms part of the 2008-09 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 To approve the Annual Governance Statement for 2008-09 (attached as Appendix One) and to authorise the Leader and Chief Executive to sign it on behalf of the City Council.

## 3 Background Information

- 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. This changed with effect from 2007-08 with local authorities required to produce an Annual Governance Statement instead.
- 3.3 This requirement was based on guidance issued by CIPFA in conjunction with the Society of Local Authority Chief Executives (SOLACE) titled 'Delivering Good

Governance in Local Government: A Framework' in 2007. The 2007 guidance replaced earlier guidance issued in 2001 and 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.

3.4 The assurance gathering process developed to inform the Annual Governance Statement for 2008-09 included:

- Internal Audit work around the area of Corporate Governance including assessing 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 are reflected in an annual report which will identify those issues, which in the opinion of the Audit and Risk 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.

3.5 **Significant Governance Issues** - 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 disclosures come from the following sources:

3.5.1 **Senior Officers** – As part of the development of the Annual Governance Statement, senior officers are asked to consider any areas which they feel are appropriate for disclosure. Areas identified are included in the statement at section 5.2 (a), (b) and (c)

3.5.2 **Internal Audit** – There are two different aspects of audit work that have contributed to the disclosures made:

- Corporate Governance Reviews – Two pieces of work have been undertaken in 2008-09 namely:

- A follow up of progress made against actions identified from the 2007-08 assessment of the Council's compliance against the CIPFA / SOLACE Framework. Since the 2007-08 review, significant progress has been made in enhancing governance arrangements within the Council. This has included the development of the Council Code of Corporate Governance which is consistent with recommended CIPFA / Solace guidance.
- A review of the effectiveness / awareness of corporate governance arrangements covering Whistleblowing, register of interests and hospitality.

The disclosures as a result of this work are attached in section 5.2 (d) of the statement.

- Audit and Risk Manager's Opinion 2008-09 – Based on the work carried out in 2008-09, the Audit and Risk Manager has identified four issues in audits during this period that, in his opinion, needed to be considered when the Council produced its Annual Governance Statement. These are included in section 5.3 of the statement – (a) to (c).

3.5.3 **External Auditors** – During 2008-09, various reports have been presented to the Council by the Audit Commission with the Annual Audit and Inspection Letter providing an overview of activity during the year. Whilst a number of areas for improvements were identified including issues already reflected in the statement, the review that highlighted the need for greatest improvement related to the area of Business Continuity Management. This is expanded upon in section 5.3 (e) of the statement.

3.6 The majority of issues remain from the 2007-08 Annual Governance Statement although 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).

#### 4 **Proposal and Other Option(s) to be Considered**

4.1 To approve the Annual Governance Statement for 2008-09 (attached as Appendix One) and to authorise the Leader and Chief Executive to sign it on behalf of the City Council.

#### 5 **Other specific implications**

5.1

	<b>Implications (see below)</b>	<b>No implications</b>
Best Value	✓	
Children & young people		✓
Climate Change & Sustainable Development		✓
Comparable benchmark data		✓
Coventry Sustainable Community Strategy		✓
Corporate parenting		✓

	<b>Implications (see below)</b>	<b>No implications</b>
Crime and disorder		✓
Equal opportunities		✓
Finance	✓	
Health and safety		✓
Human resources		✓
Human Rights Act		✓
Impact on partner organisations		✓
Information and communications technology		✓
Legal	✓	
Neighbourhood Management		✓
Property		✓
Race equality scheme		✓
Risk management	✓	
Trade union consultation		✓
Voluntary sector – the Coventry Compact		✓

## 5.2 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.

## 5.3 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.

## 6 Monitoring

- 6.1 Progress against the significant issues highlighted in the Annual Governance Statement will be reported to the Audit Committee in January 2010.

## 7 Timescale and expected outcomes

- 7.1 The audited Statement of Accounts, including the Annual Governance Statement will be published by the end of October 2009 to meet the statutory requirement. The disclosures within the Annual Governance Statement will be progressed during the year with the Audit Committee monitoring the outcomes.

	<b>Yes</b>	<b>No</b>																		
<b>Key Decision</b>	X																			
<b>Scrutiny Consideration (if yes, which Scrutiny meeting and date)</b>	Audit Committee 26 <sup>th</sup> June 2009																			
<b>Council Consideration (if yes, date of Council meeting)</b>	29 <sup>th</sup> June 2009																			
<p>List of background papers</p> <p><b>Proper officer:</b> Chris West, Director of Finance and Legal Services</p> <p><b>Author:</b> Stephen Mangan, Audit &amp; Risk Manager, Finance and Legal Services (All enquiries to <a href="mailto:stephen.mangan@coventry.gov.uk">stephen.mangan@coventry.gov.uk</a>, or 024-7683-3747)</p> <p>Other contributors:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 80%;">Lisa Commane, Acting Head of Special Projects Finance</td> <td style="text-align: right;">(024-7683-1970)</td> </tr> <tr> <td>Gill Carter, Principal Lawyer, Legal &amp; Democratic Services</td> <td style="text-align: right;">(024-7683-3116)</td> </tr> <tr> <td>Jon Venn, Acting Senior Human Resources Manager</td> <td style="text-align: right;">(024-7683-3241)</td> </tr> <tr> <td>Fran Collingham, Communications and Media Relations Manager</td> <td style="text-align: right;">(024-8683-1081)</td> </tr> <tr> <td>Helen Abraham, Head of Democratic Services</td> <td style="text-align: right;">(024-7683-1551)</td> </tr> <tr> <td>Suzanne Bennett, Governance Service Team Leader</td> <td style="text-align: right;">(024-7683-3072)</td> </tr> <tr> <td>John Handley, Governance Service Manager</td> <td style="text-align: right;">(024-7683-3111)</td> </tr> </table> <p>Papers open to public inspection</p> <table style="width: 100%; border: none;"> <thead> <tr> <th style="text-align: left;"><b>Description of paper</b></th> <th style="text-align: left;"><b>Location</b></th> </tr> </thead> <tbody> <tr> <td>None</td> <td></td> </tr> </tbody> </table>			Lisa Commane, Acting Head of Special Projects Finance	(024-7683-1970)	Gill Carter, Principal Lawyer, Legal & Democratic Services	(024-7683-3116)	Jon Venn, Acting Senior Human Resources Manager	(024-7683-3241)	Fran Collingham, Communications and Media Relations Manager	(024-8683-1081)	Helen Abraham, Head of Democratic Services	(024-7683-1551)	Suzanne Bennett, Governance Service Team Leader	(024-7683-3072)	John Handley, Governance Service Manager	(024-7683-3111)	<b>Description of paper</b>	<b>Location</b>	None	
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## Appendix One: Annual Governance Statement

### 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 approved and adopted a code of corporate governance, which is consistent with the principles reflected in the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the Code is on our website at <http://www.coventry.gov.uk/ccm/content/chief-executives-directorate/corporate-policy/code-of-corporate-governance.en> or can be obtained from Democratic Services.
- 1.4 This statement explains how Coventry City Council meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and 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 2009 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:

- Coventry Sustainable Community Strategy
- Coventry Local Area Agreement
- Corporate Plan

These high level plans are supported by Cabinet Member Portfolio Priority Plans, strategies, operational plans, detailed work programmes and individual employee / Member appraisals during 2008-09.

- 3.2 Coventry's Sustainable Community Strategy was adopted in March 2008 sets the long term strategic objectives and outcomes for the city and short term priorities to help deliver them. The Sustainable Community Strategy was drawn up by the Coventry Partnership (Coventry's Local strategic Partnership) after consultation with the local organisations; communities and local people. It is based on a strategic assessment of the needs of the community; a twenty year vision for Coventry and the strategies, plans and mechanisms that will achieve the agreed long term outcomes for the city. The Coventry Local Area Agreement sets out a range of key priorities designed to deliver the long term outcomes of the Sustainable Community Strategy and the targets that have been agreed with central government to deliver both central and local priorities.
- 3.3 The Council is an active participant in the Coventry Partnership, which recognises that it cannot deliver the aims of the Sustainable Community Strategy 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 Sustainable Community Strategy. 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 2008-09 to 2010-11 sets out the Council's vision and core values and its contribution to the Sustainable Community Strategy and Local Area Agreement and affirms its commitment to continuous service improvement. Based on a corporate balanced scorecard 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 Portfolio Priority Plans, which set out how each portfolio will deliver the Local Area Agreement and the Corporate Plan.
- 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. The Council adopted its "Inform, Consult and Involve" Strategy in April 2009, which aims to improve the engagement of local people and communities in the Council's decision making.
- 3.6 The control environment to ensure delivery of the Council's 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 standards expected 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. Internal Audit who complete an annual risk based plan that assesses compliance with key procedures and policies supports this.
- 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 and Corporate Management Board.
- 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 (replaced by the Audit Committee with effect from June 2009) provides independent assurance to the Council on risk management and control, and the effectiveness of the arrangements the Council has for these matters. The Committee's terms of reference were developed in conjunction with CIPFA guidance and the Group carries out an annual self-assessment to measure its effectiveness, based on recommended CIPFA practice.
- 3.11 Where the Council is in a group relationship with another entity to undertake significant activities, the Annual Governance Statement includes a review of the effectiveness of the system of internal control within such group activities. The following describes the group activities for the year ended 31 March 2009:
- Coventry and Solihull Waste Disposal Company is owned jointly by Coventry City and Solihull Metropolitan Borough Councils. A formal agreement sets out the operating arrangements between Coventry and Solihull. The Company is subject to the Waste Incineration Directive and the conditions of its Integrated Pollution Prevention and Control License issued by the Environment Agency. Furthermore, the Company monitors its activities through an accredited Environmental Management System. The Company has appointed Ernst & Young LLP as its external auditors. The last published Annual Report and Financial Statements, for the year ended 31<sup>st</sup> March 2008, did not highlight any significant concerns.
  - North Coventry Holdings (NCH) Limited is a wholly owned subsidiary of the Council. The Directors of the Company are also senior officers of Coventry City Council. The Company has appointed PricewaterhouseCoopers as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31<sup>st</sup> March 2008. Its purpose is to hold shares in the following two companies.
  - Coventry North Regeneration (CNR) Limited is a wholly owned subsidiary of NCH Limited. The main activity of the Company has been the construction of the Ricoh Arena. The Directors of the Company are also senior officers of Coventry City Council. All transactions are processed using the Council's financial systems and such activities are subject to an annual audit by the Council's Internal Audit Service. The Company has appointed



PricewaterhouseCoopers as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31<sup>st</sup> March 2008.

- Arena Coventry Limited (ACL) is a joint venture between NCH Limited and Football Investors Limited (a company owned by the Alan Edward Higgs Charity). The Company is engaged in the management of the Ricoh Arena. Arrangements for the governance of the Company are set out in the Articles and Memorandum of Association of the Company and also the joint venture agreement between NCH Limited and the Company. The Company has appointed Deloitte & Touche as its external auditors. There was an unqualified audit opinion for the last published Annual Report and Accounts, for the year ended 31<sup>st</sup> May 2008.

#### **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 Audit and Risk Manager's on the overall adequacy and effectiveness of Coventry City Council's internal control environment, 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 Local Area Agreement and Corporate Plan.
- Ongoing reviews of the Council's Constitution, overseen by the Standards Committee. This review includes areas such as standing orders, financial procedures and the scheme of delegation.
- 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 Internal Audit reviews of the Council's current governance arrangements.
- An annual assessment of the adequacy of internal controls / governance arrangements by each Director.
- The work of the Internal Audit Service during 2008-09. The Service works to a risk based audit plan, which is approved annually by the Council's Audit Committee. An annual report is also produced and presented to the Committee. The report identifies those issues, which in the opinion of the Audit and Risk 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 during 2008-09.
  - 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 the Audit Committee, 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 the Audit Committee.
- 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, was 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. Since that time, a number of reviews have been undertaken, and a number are currently in progress.

Value for Money self-assessments continue to be undertaken to contribute to operational plans each year, helping Directorates to determine their priority actions, and contributing to the embedding of value for money principles in ongoing service activities.

During 2008-09, the Council set down an Organizational Blueprint for its medium term development, setting the framework within which all reviews and service change work will be directed. The Blueprint has enabled the creation of a Transformation Programme for the Council, which is aligning all review work to deliver improved customer access to services, coupled with service improvement and cost reduction. In this way, the Council will continue to develop the linkages between finance, performance and risk management.

- d) Addressing the actions highlighted in Internal Audit's review of the Council's governance arrangements including:
  - The Council is involved in a number of partnerships of varying significance. Governance arrangements are put in place as they are established and their effectiveness are subject to a rolling programme of audit reviews. Additionally, protocols are being developed covering all aspects of partnership working.

- To define the level of awareness / understanding it expects its employees to have around key Corporate Governance guidance such as the Code of Conduct and Whistleblowing Policy and then take action to ensure this expectation is met.
- The need to enhance both local and corporate systems to ensure effective arrangements exist to cover corporate governance arrangements with the Council.

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) Despite progress to date, the Council faces a significant challenge in terms of ensuring that all Coventry schools comply with the Financial Management Standard in Schools by the target date of March 2010.
- b) Whilst the Council has continued to make significant progress in enhancing its arrangements in the area of IT, the work to establish a formal Council-wide framework for information security management is still in development.
- c) To ensure that the Council has effective governance / project management arrangements in place to oversee all significant Council projects.
- d) To ensure that that there is effective awareness of roles and responsibilities for Business Continuity Management (BCM) and that service BCM plans are tested to ensure that they are fit for purpose.

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.