

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 7
<b>25 JUNE 2012</b>	PUBLIC REPORT

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Lamb, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

## DRAFT ANNUAL GOVERNANCE STATEMENT 2011 / 2012

<b>R E C O M M E N D A T I O N S</b>	
<b>FROM</b> : John Harrison, Executive Director (Strategic Resources)	<b>Deadline date</b> : N/a
Committee is asked to:	
<ol style="list-style-type: none"> <li>1. Note the arrangements for compiling, reporting on and signing the Annual Governance Statement;</li> <li>2. Review and comment on the Annual Governance Statement (Appendix 4) including any areas which should be amended; and</li> <li>3. Subject to changes identified above, agree and approve the draft statement for inclusion in the audited statement of accounts, published by 30 September 2012.</li> </ol>	

### 1. ORIGIN OF REPORT

This report is submitted as part of the annual closure of accounts process and is included in the Audit Committee work programme for 2012 / 2013.

### 2. PURPOSE AND REASON FOR REPORT

The production of the Annual Governance Statement forms part of the annual closure of accounts process. It is not a financial exercise, but represents a corporate overview of the processes and procedures adopted by Peterborough to manage its affairs.

The Terms of Reference for the Audit Committee (agreed at Full Council) set out the key roles of the Committee including the following "2.2.16 *To oversee the production of the authority's Annual Governance Statement and to recommend its adoption*".

### 3. BACKGROUND

3.1 The preparation of an Annual Governance Statement is necessary to meet the statutory requirements as set out in Regulation 4(3) of the Accounts and Audit (England) Regulations 2011. The Annual Governance Statement covers the Council's governance arrangements for the 2011 / 2012 reporting year.

3.2 Historically, the Annual Governance Statement has been published as *part of* the annual Statement of Accounts; however one of the key changes to Regulation 4 (4) in the recently

revised Accounts and Audit Regulations 2011 is that the Annual Governance Statement should *accompany* the published accounts. This is to '*make clear that the Annual Governance Statement is not part of the statement on which the auditor's opinion is given.*' The regulations state that it is up to the organisation concerned to decide whether the Annual Governance Statement should be included as part of the Statement of Accounts or be issued as a separate document. As in previous years, the Council has agreed to continue to publish the Annual Governance Statement as part of the Statement of Accounts.

- 3.3 This report includes the draft Annual Governance Statement for Audit Committee to review, challenge and advise the Leader and Chief Executive upon accordingly. The report also identifies progress with the 2010 / 2011 Annual Governance Statement and presents the necessary recommendations for Member approval that will allow the Council as a whole to ensure that the Annual Governance Statement is produced in accordance with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and therefore meet External Audit requirements.

#### **4. SCOPE OF THE ANNUAL GOVERNANCE STATEMENT**

- 4.1 Internal control and risk management are recognised as important elements of good corporate governance. The scope of governance, as covered in the Annual Governance Statement, spans the whole range of the Council's activities and includes those designed to ensure that:

- The Council's policies are implemented in practice;
- High quality services are delivered efficiently and effectively;
- The Council's values and ethical standards are met;
- Laws and regulations are complied with;
- Required processes are adhered to;
- Its financial statements and published information are accurate and reliable; and
- Human, financial and other resources are managed efficiently and effectively.

#### **5. ARRANGEMENTS FOR COMPILING THE ANNUAL GOVERNANCE STATEMENT**

- 5.1 CIPFA, in conjunction with the Society of Local Authority Chief Executives (SOLACE), have produced a framework for delivering good governance in local government and the Council's Annual Governance Statement for 2011 / 2012 has been drafted in accordance with this framework to ensure the requirements of the regulations referred to above are met. Since 2003 / 2004, responsibility for carrying out these processes has rested with Internal Audit. In December 2010, CIPFA issued a statement on "*The Role of the Head of Internal Audit in Local Government*", which states that the Head of Internal Audit should "*set out the framework of assurance that supports the Annual Governance Statement and identify Internal Audit's role within it*", **but** "*should not be responsible for preparing the report*". Due to capacity issues, the decision was made for this to remain with the Chief Internal Auditor.
- 5.2 The assurance gathering process followed to support the Annual Governance Statement has is set out in Appendix 1.

#### **6 SUPPORTING EVIDENCE**

- 6.1 As part of this process, evidence has been compiled to confirm the governance arrangements in operation across the Council for the period concerned. This sets out how the City Council demonstrates compliance with the principles of good governance and highlights where action is needed to address any weaknesses in the Council's governance arrangements.

## 6.2 Internal Audit

There are two separate reports on the Audit Committee agenda which are the Annual Head of Internal Audit Opinion 2011 / 2012 together with the Review of Effectiveness of Internal Audit. The key issues are:

- Regular Internal Audit progress reports are included as part of the Committees' Work Programme and any significant control and governance issues or material to the overall control environment of the Council are highlighted;
- The Annual Audit Opinion highlighted key gaps which needed to be addressed;
- Despite some weaknesses, there remains a sound internal control environment. Reasonable assurance is provided and an unqualified opinion put in place;
- There is compliance with the CIPFA publications on the Code of Practice and the Statement on the Role of the Head of Internal Audit; and
- Overall, positive assurance can be provided that the Council has an effective Internal Audit service.

## 6.3 External Audit – PricewaterhouseCoopers

Throughout the year, PwC have been commissioned to undertake various reviews which have been circulated and discussed / approved at Audit Committee. PwC provides an Annual Audit Letter giving an overall evaluation of the Council. The content of the letter was reported to Audit Committee (6 February 2012) and Cabinet (10 February 2012) and overall is positive and states that the Council is performing well. Improvements have been made in a number of areas and further areas of change / improvement identified.

## 6.4 Executive Directors: Internal Control and Governance Self Assessment

Each Directorate were asked to complete an Internal Control and Governance Self-Assessment (Appendix 2) and then sign a supporting Statement (Appendix 3) having reviewed its key control checklists to come to an opinion on the governance arrangements and internal control environment within their service. The areas covered within the assessment were:

- Management Arrangements;
- Health and Safety;
- Business Continuity and Emergency Resilience;
- Equality and Diversity;
- Financial Management;
- Procurement Arrangements;
- Risk Management (including Project Management);
- Performance Management and Data Quality;
- Information Governance;
- Management of People;
- Governance Arrangements, Laws, Regulations, Policies and Procedures;
- Anti-Fraud and Corruption;
- Partnership Governance; and
- Communications and Customer Services.

Sample testing was undertaken to ensure the robustness of the data supplied. While no adverse comments were received in relation to the controls in place, a number of areas have been identified as requiring attention and these have been reflected in the Action Plan within the Annual Governance Statement.

## 6.5 Performance Management and Data Quality

As well as the testing identified in 6.4 above, regular reporting of performance is in evidence across the Council. Monthly reports range from financial to non-financial data;

covering budgets, performance levels, service delivery, programmes and projects. Regular discussions are held at Corporate Management Team; scrutiny panels and boards and areas of concern identified are addressed to reduce or prevent any deterioration in service.

## 6.6 Risk Management

Risk management encompasses a number of areas such as projects, performance and partnerships. In addition, there is a corporate risk register which incorporates significant issues which could have a major impact on the strategic delivery of the Council's objectives. While these operate reasonably in isolation, there is a need to further refresh this activity and this is also reflected in the Action Plan within the Annual Governance Statement.

## 6.7 Corporate Governance

Regular updates on governance arrangements are reported through Corporate Management Team, Cabinet, Scrutiny Commissions, Standards, Audit Committee and ultimately to Full Council. This covers all aspects of governance – from constitutional changes, operational procedures, standards issues and audit and fraud related matters. Significant governance issues established in the Annual Governance Statement are reported to Audit Committee, together with the progress made to address them.

Adult Social Care returned to the Council in March 2012. In essence they will adopt Peterborough City Council processes, procedures and governance arrangements; however during the interim period there will be a number of areas which may fall short of required standards. This is also reflected in the overarching Action Plan.

## **7 CONSULTATION**

7.1 One of the key messages coming out of the CIPFA / SOLACE guidance is that good governance relates to the whole organisation and there should be corporate ownership of the Annual Governance Statement and governance arrangements. Following drafting, the Annual Governance Statement (Appendix 4) has been issued to:

- Corporate Management Team; and
- PricewaterhouseCoopers.

## **8. ANTICIPATED OUTCOMES**

The draft Annual Governance Statement is being presented to the Members of this Committee for review and advise the Leader and Chief Executive upon, prior to it being signed off by the Leader and the Chief Executive.

## **9. REASONS FOR RECOMMENDATIONS**

The draft Annual Governance Statement sets out the framework for the Council and identifies some issues where action is planned to improve the level of governance.

## **10. IMPLICATIONS**

This report contains no specific financial implications. The agreement of the Annual Governance Statement does not have any direct financial implications, however, in order to maintain financial control and address risks as identified within the Statement, Directorates may need to allocate resources from within their existing budgets.

## **11. BACKGROUND DOCUMENTS:**

Used to prepare this report in accordance with the Local Government (Access to Information) Act 1985

- Delivering Good Governance in Local Government – The Framework and Guidance Note for English Authorities – CIPFA / SOLACE.
- The CIPFA Finance Advisory Network – A Rough Guide for Practitioners 2007 / 2008.
- Application Note to Delivering Good Governance in Local Government (A Framework) – CIPFA / SOLACE – March 2010
- Accounts and Audit (England) Regulations 2011

## **12. APPENDICES**

- Appendix 1 – Framework for the Annual Governance Statement
- Appendix 2 – Internal Control and Governance Self Assessment
- Appendix 3 – Assurance Statement
- Appendix 4 – Draft Annual Governance Statement

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