

<b>AUDIT COMMITTEE</b>	AGENDA ITEM No. 8
<b>30 JUNE 2014</b>	PUBLIC REPORT

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

## DRAFT ANNUAL GOVERNANCE STATEMENT 2013 / 2014

<b>RECOMMENDATIONS</b>	
<b>FROM</b> : John Harrison, Executive Director (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 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 2014.</li> </ol>	

### 1. ORIGIN OF REPORT

- 1.1 This report is submitted as part of the annual closure of accounts process and is included in the Audit Committee work programme for 2014 / 2015.

### 2. PURPOSE AND REASON FOR REPORT

- 2.1 The production of the Annual Governance Statement (AGS) 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.
- 2.2 The Terms of Reference for the Audit Committee (agreed at Full Council) set out the key roles of the Committee including the following "2.2.1.15: *To oversee the production of the authority's Statement on Internal Control and to recommend its adoption*".

### 3. BACKGROUND

- 3.1 The preparation of an AGS is necessary to meet the statutory requirements as set out in Regulation 4(3) of the Accounts and Audit (England) Regulations 2011. The AGS covers the Council's governance arrangements for the 2013 / 2014 reporting year.
- 3.2 Historically, the AGS has been published as *part of* the annual Statement of Accounts. Regulation 4 (4) in the Accounts and Audit Regulations 2011 now state that the AGS 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.* It is up to the organisation concerned to decide whether the AGS 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 AGS as part of the Statement of Accounts.

- 3.3 This report includes the draft AGS for Audit Committee to review, challenge and advise the Leader and Chief Executive upon accordingly. The report also identifies progress with the 2012 / 2013 AGS and presents the necessary recommendations for Member approval that will allow the Council as a whole to ensure that the AGS 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 AGS, 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 AGS for 2013 / 2014 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 the Chief Internal Auditor. 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 on-going capacity issues this has remained with the Chief Internal Auditor.

- 5.2 The assurance gathering process to support the AGS is set out in **Appendix A**.

#### **6. SUPPORTING EVIDENCE**

- 6.1 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 Internal Audit Opinion 2013 / 2014 together with the Review of Internal Audit. The key issues are:

- 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 some 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 overall compliance with the CIPFA publication on the Role of the Head of Internal Audit together with the new Public Sector Internal Audit Standards; and
- Overall, positive assurance can be provided on the service.

**In conclusion, the Annual Audit Opinion was presented to the Audit Committee on 30 June 2014. The report gave a reasonable assurance on the overall standard of effective of the internal control framework. In addition, there is an effective Internal Audit in place when measured against the defined criteria as listed above.**

### 6.3 External Audit – PricewaterhouseCoopers (PwC)

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 Cabinet and Audit Committee (3 February 2014) and overall is positive and states that the Council is performing well. The key messages are:

<b>EXTRACT FROM ANNUAL AUDIT LETTER: 3 FEBRUARY 2014</b>		
<b>Area of Review</b>	<b>Commentary</b>	<b>Opinion</b>
Accounts	We audited the Authority's Statement of Accounts in line with approved Auditing Standards	Issued an unqualified audit report on 25 September 2013.
Economy, efficiency and effectiveness	Our Use of Resources Code responsibility required us to carry out sufficient and relevant work in order to conclude on whether the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.	Issued an unqualified value for money conclusion.
Whole of Government Accounts	We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission.	The audited pack was submitted on 25 September 2013. We found no areas of concern to report as part of this work.
Annual Governance Statement	Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA / SOLACE. The AGS accompanies the Statement of Accounts.	We found no areas of concern to report in this context.

**In conclusion, from a Peterborough City Council perspective, the Annual Audit Letter gives assurance in respect of 2012 / 2013 Financial Accounts and confirms an effective system of internal control.**

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

Strategic Finance issued each Directorate with the Internal Control and Governance Self-Assessment as part of the accounts closure process. This assessment provides a considered overview of the controls in place in order 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;
- Communications and Customer Services; and
- Public Health.

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 AGS.

#### 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. There has been progress on developing risk registers which have been referred to Audit Committee (the latest being in March 2014), and efforts are currently focussed on business continuity.

#### 6.7 Corporate Governance

Regular updates on governance arrangements are reported through Corporate Management Team, Cabinet, Scrutiny Commissions, Audit Committee and ultimately to Full Council. This covers all aspects of governance – from constitutional changes, operational procedures such as Financial or Contract regulations, standards issues and audit and fraud related matters. Significant governance issues established in the AGS are reported to Audit Committee.

With the ongoing changes across the organisation, there is a pressing need to ensure that corporate governance responsibilities are communicated to all.

## **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 AGS and governance arrangements. Following drafting, the AGS (**Appendix B**) has been issued to:

- Director of Governance and Head of Strategic Finance (4 June 2014); and
- Corporate Management Team (16 June 2014).

## **8. ANTICIPATED OUTCOMES**

8.1 The draft AGS 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 for inclusion in the Statement of Accounts.

## **9. REASONS FOR RECOMMENDATIONS**

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

## **10. IMPLICATIONS**

10.1 This report contains no specific financial implications. The agreement of the AGS 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.
- Accounts and Audit (England) Regulations 2011

## **12. APPENDICES**

Appendix A: Framework for the Annual Governance Statement

Appendix B: Draft Annual Governance Statement

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