

CAMBRIDGE CITY COUNCIL

REPORT OF: Director of Resources

TO: Civic Affairs Committee

29/06/11

WARDS: All

ASSURANCE FRAMEWORK AND DRAFT ANNUAL GOVERNANCE STATEMENT

1 INTRODUCTION

- 1.1 The preparation of an Annual Governance Statement (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 2010-11 reporting year.
- 1.2 Historically, the AGS 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 (England) Regulations 2011 is that the AGS should **accompany** the published accounts. This is to '*make clear that the AGS 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. At its meeting in April 2011, the Strategic Leadership Team agreed that we should continue to publish the AGS as part of the Statement of Accounts.
- 1.3 This report includes the draft AGS and incorporated AGS action plan (presented in **Appendix A**) for the Members of Civic Affairs Committee to review, challenge and advise the Leader and Chief Executive upon accordingly.
- 1.4 This report also identifies progress with the 2009/10 AGS action plan 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 CIPFA guidance and therefore meet External Audit requirements.

2 RECOMMENDATIONS

- 2.1 That Members of Civic Affairs Committee:
 - note the arrangements for compiling, reporting on and signing the AGS.

- critically review the draft AGS and incorporated action plan (**Appendix A**) having regard to the Head of Internal Audit Annual Opinion (earlier on this agenda); and
- advise the Leader of the Council and Chief Executive on the implications of this review and on any recommendations for the AGS process.

3 BACKGROUND

Scope of the AGS

3.1 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 other published information are accurate and reliable; and
- Human, financial and other resources are managed efficiently and effectively.

Arrangements for Compiling the AGS

3.2 CIPFA, in conjunction with SOLACE, have produced a framework for delivering good governance in local government and the Council's AGS for 2010/11 has been drafted in accordance with this framework to ensure the requirements of the regulations referred to in 1.1 are met.

3.3 Since 2003/04, 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.' This year, as in previous years, it was agreed that responsibility for compiling the AGS would remain with Internal Audit, but one of the actions included in this year's AGS action plan is for the Strategic Leadership Team to review responsibility and arrangements for undertaking this key task in future.

3.4 The assurance gathering process followed to support the AGS is to:

- Establish principal statutory obligations and corporate aims and objectives;
- Apply the six principles of good governance (this has been done through the review of the Council's Code of Governance – also on this agenda);
- Identify principal risks to the achievement of objectives;

- Identify and evaluate key controls to manage principal risks;
 - Obtain assurances on the effectiveness of key controls;
 - Evaluate assurances and identify gaps in controls / assurances;
 - Prepare an action plan to address weaknesses and ensure continuous improvement of the system of corporate governance; and
 - Prepare the Annual Governance Statement for approval and sign off by the Leader of the Council and the Chief Executive, ready for publication with the Statement of Accounts.
- 3.5 As part of this process, evidence has been compiled to confirm the governance arrangements in operation across the Council for the period concerned. This is done by Internal Audit through a series of consultations with key officers across the Council. The evidence gathered is retained in a spreadsheet maintained by Internal Audit. 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.
- 3.6 In addition, members of the Strategic Leadership Team and Heads of Service were requested to review the details held of external sources of assurance from 2009/10 and provide details of any further assurances received during 2010/11 so that the list could be updated.
- 3.7 Assurances from the work of the Internal Audit team relating to 2010/2011 have been reviewed in conjunction with these external assurances and mapped against the Council's key corporate risks in order to identify any gaps in assurance.
- 3.8 Two risk areas have been identified where there is a gap in assurance: Business Continuity and Management of Major Projects. Actions have been included in the AGS action plan to address these gaps.
- 3.9 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. In order to facilitate corporate involvement in the process for compiling the AGS, reports were presented to the Strategic Leadership Team at the beginning of April and at the end of May 2011 to:
- Review progress with the 2009/10 AGS action plan;
 - Provide an overview of the 2010/11 AGS process;
 - Agree the timetable for completing the 2010/11 AGS;
 - Identify the key officers to be involved in the 2010/11 process;
 - Set out the details of internal and external assurances mapped against the Council's corporate risk areas; and
 - Provide an opportunity to review the draft AGS and action plan.

Arrangements for reporting on and signing off the AGS

- 3.10 The draft AGS is being presented to the Members of this Committee for them to review and advise the Leader and Chief Executive upon, prior to it being signed off by the Leader and the Chief Executive.
- 3.11 Members are asked to consider the HIA Annual Opinion, which is presented earlier on this agenda, in their review of the AGS.

4. Progress with the 2009/10 AGS Action Plan

- 4.1 The following actions included in last year's AGS action plan have been implemented:

- *Keeping Members informed of Internal Audit Activity* – A dedicated Members' Internal Audit web-page was launched in July 2010. Copies of executive summaries of all Internal Audit reports are now uploaded to this facility on a monthly basis.
- *Service Planning Process* – A review of the Council's Service Planning process has been completed and put in place for 2011-12. The approach to portfolio / operational planning will be considered again for 2012/13 and in particular the process for regular review of performance against plans. This is included as an action in this year's AGS Action Plan.
- *Procurement* - Liaison between Internal Audit and the Procurement Team has continued throughout 2010-11. A specific exercise has been undertaken to identify audit actions relating to procurement that have arisen from audits undertaken during the year and copies of all audit reports concerning procurement/contract management are shared with the Strategic Procurement Advisor.
- *Whistleblowing Policy* - The revised Whistleblowing Policy was re-launched across the Council in August 2010 and is available on the HR intranet page.
- *Business Continuity* - The Strategic Leadership Team has approved the revised Corporate Business Continuity plan and this has been distributed to all Directors, Heads of Service and Business Continuity Team members. A new template for Service Continuity Plans has been drawn up. Heads of Service are required to review their service continuity arrangements using the new template. An action has been included in this year's AGS regarding the completion of this process.
- *Contract Completion* – Steps have been implemented to help ensure that contract completion takes place before commencement of a contract. These include changes to the project appraisal process to ensure early legal involvement and identification of timescales. A further significant change is that, in most cases, the contract will be sent for signature by the other party at the contract award stage.

- 4.2 **Appendix A** to this report details the action plan to address significant governance issues for the 2010/11 AGS. Six actions from last year have been implemented, as indicated in 4.1 above. Progress has been made with three actions from last year, but these need to be finalised. Completion of these has been included in this year's action plan and there are five new actions.

5 CONSULTATIONS

- 5.1 Key officers have been consulted in gathering the evidence to support the AGS. The Strategic Leadership Team and other relevant officers have been consulted on the draft AGS, action plan and summary of assurances. The draft AGS and Action Plan have also been shared with the Council's External Auditors.

6 CONCLUSION

- 6.1 The draft AGS sets out the governance framework for the City Council and identifies a number of issues where action is planned to improve the level of governance.

7 IMPLICATIONS

- (a) **Financial Implications**
None
- (b) **Staffing Implications**
None
- (c) **Equal Opportunities Implications**
None
- (d) **Environmental Implications**
None
- (e) **Community Safety Implications**
None

BACKGROUND PAPERS: The following are the background papers that were used in the preparation of this report:

- Delivering Good Governance in Local Government – The Framework and Guidance Note for English Authorities – CIPFA/SOLACE.
- The Annual Governance Statement: Meeting the Requirements of the Accounts and Audit Regulations 2003, Incorporating Accounts and Audit (Amendment) (England) Regulations 2006

- The CIPFA Finance Advisory Network – A Rough Guide for Practitioners 2007/08.
- Application Note to Delivering Good Governance in Local Government – a Framework – CIPFA/SOLACE – March 2010
- Accounts and Audit (England) Regulations 2011
- Assurances Mapped against Corporate Risk Areas for the 2010-11 AGS Process
- AGS Evidence Summary

To inspect these documents contact Bridget Bishop on extension 8182.

The author and contact officer for queries on the report is Bridget Bishop on extension 8182.

Annual Governance Statement

Scope of Responsibility

Cambridge 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. Cambridge 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, Cambridge 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.

Cambridge City Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Code is on our website at www.cambridge.gov.uk or can be obtained from the Chief Executive, The Guildhall, Cambridge. This statement explains how Cambridge City Council has complied with the Code and also meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an Annual Governance Statement.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which Cambridge City Council 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.

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 Cambridge City Council's 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.

The governance framework has been in place at Cambridge City Council for the year ended 31 March 2011 and up to the date of approval of the annual report and statement of accounts.

Appendix A

The Governance Framework

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

- The Council's Objectives, which focus the Council's efforts in achieving the vision for Cambridge.
- The Local Strategic Partnership's Sustainable Community Strategy which sets out the vision for the City and a set of priorities for delivering improvements in the quality of life for Cambridge's residents.
- The Cambridgeshire Sustainable Community Strategy, which develops the local community strategies of the five district Sustainable Community Strategies into a set of countywide priorities.
- The Cambridgeshire Local Area Agreement (LAA), which sets out the targets agreed with government to be achieved in relation to those countywide priorities.
- The annual Budget and service planning process which translates the Council's Objectives into actions at portfolio and operational level.
- The Council's Medium Term Financial Strategy, which identifies how the Council will resource its aspirations and plans for any financial risks.
- A Budget Setting Report, which sets out overall spending plans and includes a Treasury Management Strategy Statement, Annual Investment Strategy and Minimum Revenue Provision Policy Statement.
- The arrangements for regular budget monitoring and reporting of significant variances to senior management.
- An independent Internal Audit function with a risk-based audit plan.
- An annual opinion of the Head of Internal Audit on the authority's internal control environment and risk management framework.
- The Council's Constitution, which sets out the decision-making process, the terms of reference for each committee and the roles and responsibilities of Members and officers.
- The Member/Officer protocol, which aids effective communication between officers and Members and clarifies their respective roles and responsibilities.
- Codes of Conduct for Members and officers, which have been formally approved, are reviewed regularly and available to all Members and staff.
- The Council's Standards Committee, which promotes and maintains high standards of conduct by Members.
- The Council's Prevention of Fraud and Corruption Policy which is in place and reviewed annually by the Council's Standards Committee.
- A Register of Interests which is maintained and reviewed regularly.
- Responsibilities of Civic Affairs Committee, which include 'overall responsibility for the Council's compliance with laws and regulations'.
- Financial Regulations and Financial Procedure Rules which provide a framework for managing the Council's financial affairs and set out the financial accountabilities and responsibilities for Members and officers.
- A corporate Risk Management Framework, which includes a Risk Management Strategy approved by Members and a comprehensive risk register identifying the key controls and actions required to manage the Council's principal risks.

Appendix A

- The roles of the Council's Civic Affairs and Standards Committees, which fulfil the core functions of an Audit Committee as identified in CIPFA's 'Audit Committees – Practical Guidance for Local Authorities'.
- The Procurement Policy and Strategy and the Council's Contract Procedure Rules, which set out how the Council will promote effective procurement across the Council.
- The role and functions of the Council's Monitoring Officer, which are set out in the Council's Articles of the Constitution.
- A 'Whistleblowing' Policy, which is in place and available on the Council's intranet.
- The Council's Complaints Procedure, which is available on the Council's website.
- The annual complaints report to Standards Committee, which analyses trends in complaints against the Council and what has been done to address them.
- Member Induction training and a guide for new Members, together with ongoing training for Members on key skills and more in-depth explanations of issues concerning the Council.
- The Council's Performance Review process which is undertaken annually across the Council for all staff.
- The Council's Competency Framework, which is in place for all staff and managers.
- The Council's People Strategy, which sets out how the Council will recruit, reward and develop its staff to reach their full potential.
- The Budget Consultation, which is undertaken to gauge the public's perception of Council services and the relative importance of services and areas where the Council could make savings.
- The Code of Corporate Governance, which sets out the ways in which the Council ensures that its business is conducted in accordance with law and proper standards and that public money is safeguarded and properly accounted for.
- A framework to guide the Council's engagement with the County-wide partnership structure that will ensure the Council's partnerships are accountable and effective.

The financial management arrangements at Cambridge City Council conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

Appendix A

Review of Effectiveness

Cambridge 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 Directors and Heads of Service within Cambridge City Council who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual opinion, and also by comments made by the external auditors and other review agencies and inspectorates.

The Council's Constitution details Directors' responsibilities for the maintenance of controls within their departments. The system of internal control is subject to regular review by Internal Audit. The work of the service is targeted using assessments of potential risk, with the allocation of audit resources controlled through an annual risk-based operational plan, which is agreed, annually, by the Council's Civic Affairs Committee. Members are kept informed of the work of Internal Audit through a dedicated Members' Internal Audit web-page, which publishes copies of the Executive Summaries of Audit reports.

The Director of Resources is the Authority's Chief Financial Officer and is responsible for the proper administration of the authority's financial affairs. The Director of Resources reports directly to the Chief Executive and is a member of the Strategic Leadership Team.

Individual Internal Audit reports are issued directly to the relevant Director, the Director of Resources, the Leader of the Council and the relevant Executive Councillor. Executive Summaries of Internal Audit reports are circulated to the Chief Executive and the Council's Monitoring Officer to ensure that they are informed of potential areas of non-compliance with legislation. Each audit report contains an independent assurance opinion on the adequacy and effectiveness of the internal controls in place to mitigate risks. Management actions agreed in Internal Audit reports are entered into to the Council's Risk Register and progress on their implementation is monitored. Management of the Internal Audit function conforms with the principles contained in CIPFA's Statement on the Role of the Head of Internal Audit in Local Government.

In addition to these arrangements the Council receives and responds to reports from other review and assurance mechanisms and these have been collated centrally and reviewed as part of the Annual Governance Statement process.

The Council's Standards Committee is responsible for advising on and monitoring the Members Code of Conduct and for advising the Council on the ethical aspects of the corporate governance framework.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by Civic Affairs Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Appendix A

Action Plan to Address Significant Governance Issues

N.B. Action points 2, 3 and 4 were identified as issues in the 2009-10 AGS Action Plan. Progress had been made in all of these, but need finalising.

	Issue	Action	Target Date	Officer Responsible
1	<p>One of the actions included in last year's AGS Action Plan was to review the Council's service planning process. This has been completed and a new process put in place for 2011-12, comprising high level portfolio plans and service level operational plans.</p> <p>Previously, service level performance was reviewed at mid-year and at the year-end. However it was agreed that there was limited value in reporting on this for 2010-11, due to significant changes locally in terms of Council restructuring and the Council's new 'vision statements', and changes nationally in relation to performance reporting. The development of a new performance management framework has been identified as a task in the operational plan for the Council's Corporate Strategy team.</p>	<p>Following announcement of the new single data list by the Government, complete the review of the Council's Performance Management Framework, with particular reference to agreeing:</p> <ul style="list-style-type: none">• the approach to portfolio / operational planning for 2012/13; and• the process for regular review of performance against plans.	October 2011	Head of Corporate Strategy

Appendix A

	Issue	Action	Target Date	Officer Responsible
2	A key part of the Council's performance management process was the Corporate Improvement Plan (CIP), which brought together key areas of performance from individual service plans with a view to addressing areas of poor performance. The CIP expired in May 2010.	The continued need for a Corporate Improvement Plan will be considered as part of the review of the Council's Performance Management Framework (see 1 above).	October 2011	Head of Corporate Strategy
3	One of the actions included in last year's AGS action plan was to undertake a full review of the Council's risk management arrangements in light of the Council's re-structure. This review is now well underway, but needs to be completed.	Complete the review of the Council's risk management arrangements, including the following key activities: <ul style="list-style-type: none"> • Undertake risk workshops for all service areas to obtain a complete and up to date picture of the current risks facing the Council; • Procure a new risk register to manage the Council's risks effectively; and • Implement a new process for managing and reviewing the Council's risks. 	October 2011	Support Services Manager/ Principal Auditor
4	A full review of the Council's Project Management Guidelines was an action included in last year's AGS. New target deadlines for completing this action have been set in the operational plan for Corporate Strategy.	Complete the full review of the project management guidelines and roll out across the Council.	September 2011	Corporate Project Officer/ Head of Internal Audit

Appendix A

	Issue	Action	Target Date	Officer Responsible
5	A new template for Service Continuity Plans has been developed and Heads of Service have been requested to update their plans using the new template and save them on a centrally held drive. This review process needs to be completed for all service areas.	Heads of Service to be reminded to update their service continuity plans using the new template and save them on the central drive.	July 2011	Support Services Manager
6	Since 2003/04, responsibility for compiling the AGS report 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 AGS and identify Internal Audit's role within it', but 'should not be responsible for preparing the report.' It was agreed by the Strategic Leadership Team in March 2011 that this year, as in previous years, responsibility for compiling the AGS would remain with Internal Audit, but going forward, there is a need to review responsibility for undertaking this key task in future.	Strategic Leadership Team to review responsibility and arrangements for compiling the AGS report for 2011-12 and thereafter.	December 2011	Strategic Leadership Team

Appendix A

	Issue	Action	Target Date	Officer Responsible
7	<p>An internal audit review of partnership arrangements for four of the Council's key partnerships was undertaken in 2009/10. This audit provided significant assurance on those partnerships' governance and accountability arrangements.</p> <p>Since this audit, a risk has been identified whereby smaller partnership arrangements may engage in commercial activities presenting a potential financial and reputational risk to the council.</p>	Undertake an internal audit review of the risks and governance arrangements for the Council's smaller partnership arrangements and identify where additional controls are required.	December 2011	Head of Internal Audit
8	Preparation of the AGS has highlighted a gap in assurance in the management of major projects.	Undertake internal audit reviews of Project Management arrangements for a range of projects covering all portfolios.	March 2012	Head of Internal Audit

Appendix A

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.

Signed:

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Councillor Sian Reid
Leader of the Council

Date: 2011

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Antoinette Jackson
Chief Executive

Date: 2011