

AUDIT AND GOVERNANCE COMMITTEE

27 June 2014

**ANNUAL GOVERNANCE REVIEW / ANNUAL GOVERNANCE STATEMENT
2013/14**

Report of the Head of Assurance, Procurement and Projects

1. Purpose of Report

- 1.1 This report provides details of the 2013/14 Annual Governance Review, the Corporate Assurance Map at the end of the year and the Internal Audit opinion on the adequacy of the overall system of internal control. A Draft Annual Governance Statement and an improvement plan for the year ahead are included.

2. Description of Decision

- 2.1 The Audit and Governance Committee are asked to consider the report and agree the improvement plan and draft Annual Governance Statement.

3. Background

- 3.1 In March 2013 the Committee approved the proposed Corporate Assurance Map for 2013/14 and the plans of work for Internal Audit and Risk & Assurance.
- 3.2 A key feature of the integrated assurance framework is to co-ordinate assurance that could be provided by other sources within the Council and external sources. The results of this assurance work are used to review the Council's corporate governance arrangements on an annual basis.
- 3.3 The Local Code of Corporate Governance is reviewed annually to ensure that it is up to date and effective. The Council is also required to publish an Annual Governance Statement (AGS), with its Statement of Accounts which must be supported by a comprehensive assurance gathering process.

4. Annual Governance Review 2013/14

- 4.1 The review was undertaken by gathering assurance throughout the year from a number of sources via the Integrated Assurance Framework, and was led by the Corporate Assurance Group (CAG), which is chaired by the Head of Assurance, Procurement and Projects and made up of senior staff from across all directorates, as well as relevant specialists.
- 4.2 The review has considered assurance provided from:

- Members, through the Members Survey
- Heads of Service throughout the year
- Executive and Corporate Directors
- Specialist functions who have an oversight of the Council's governance arrangements
- Risk and Assurance Team
- Internal Audit
- External Auditor
- Other external agencies such as OFSTED

Feedback from Members

- 4.3 The Members Survey asks Members for their views on a number of different areas, including governance arrangements and role clarity. This area asks Members about how clear they are about their role and the governance arrangements in place within the Council. Members are also asked if they are sufficiently supported to carry out their role and are briefed appropriately. Positive responses were received to all of the questions in this area, although comments made suggest that they feel they could be better informed regarding current issues.

Corporate Assurance Map

- 4.4 The assurances gathered are shown in the Corporate Assurance Map which has been updated and reviewed by the CAG on a quarterly basis and presented to the Audit and Governance Committee throughout the year. The Audit and Governance Committee have monitored the assurances provided, received progress regarding specific issues and considered the performance of the Internal Audit team.
- 4.5 The corporate governance improvement plan for 2013/14 included five actions. The CAG reviewed progress on these actions and found that all were either complete or were being progressed. Given the level of change ongoing throughout the Council three of the actions will continue to be a priority and will feature in the improvement plan for 2014/15
- 4.6 From the work undertaken, the Corporate Assurance Map as at 31st March 2014 is shown overleaf.

Corporate Assurance Map

Assurance Position (as at 31 st March 2014) (Cumulative)		2013/14							
		1st Line	2 nd Line					3 rd Line	
		Management Assurance	Other Internal Assurance Activity				Risk and Assurance	Internal Audit	External Assurance
			Legal Services	Financial Resources	Programmes and Projects	Strategy, Policy and Performance	HR & OD	Business Continuity	
Strategic Risk Areas									
Current Risk	Residual Risk								
People								X	
Place								X	
Economy								X	
Organisational				X				X	X
Corporate Risk Areas									
Customer Focus / Service		X				X			X
Legality			X						X
Service / Business Planning		X				X			X
Programme and Project Management		X			X				X
Change Management					X		X		
Partnerships		X							X
Business Continuity Planning		X						X	
Procurement		X							X
Relationship and Contract Management									X
Financial Management		X		X					X
Human Resource Management		X					X		X
Information Governance		X	X						X
Performance Management		X				X			X
Asset Management		X							X
ICT Strategy and Delivery									X
Fraud and Corruption		X							X
Risk Management (Service Delivery)		X							X
Housing Benefits									X
Schools		X		X					X

Key: X=activity planned, White=no coverage, **Green**=full / substantial assurance, **Amber**=moderate assurance, **Red**=limited / no assurance

Strategic Risk Areas

- 4.7 The top section of the Map relates to the strategic risks identified in the Corporate Risk Profile. Progress against each of the planned actions to mitigate the risks has been assessed with the lead officers and assurance levels determined for all areas.

Assurance from Internal Audit

- 4.8 The Map shows the opinion of Internal Audit from work undertaken within the last two years plus work completed in 2013/14.

Assurance from Risk and Assurance Team

- 4.9 Much of the work of the team is ongoing over a period of time due to the nature of their role, however, where ongoing assurance can be provided from their work this is shown on the Map. Assurance work that will be ongoing into 2014/15 includes:
- Support to the development of alternative service delivery projects such as the Local Asset Backed Vehicle, Sunderland Care and Support Ltd. and the future of ICT delivery.
 - Supporting the People Services directorate with the implementation of the Care Bill and Children & Families Act.
 - Risk management support to the City Deal projects.
 - The Council's ICT infrastructure and developments.
 - The Intelligence Hub.
 - Assurance on the delivery of the Workforce Transformation project (pay and grading review).
 - Supporting the migration of services to the Customer Services Network.
 - Supporting the delivery of the Workforce Planning Project.
 - Assurance on the delivery of the Council's Transformation Programme.
- 4.10 In March 2014, it was reported that the level of assurance from the risk and assurance team relating to ICT strategy and delivery was limited. Assurance work has continued in this area to ensure the issues are being addressed. Improvements have been made in a number of areas, as follows:
- Improvements have been made to the environment of the Data Centre at Moorside including installing new air conditioning units and implementing monitoring arrangements to undertake routine maintenance in a timely manner and to respond to incidents as they occur. This has resulted in

the assurance rating for environmental controls from Red to Amber

- Additional resources have been secured to expedite the roll out of the Virtual Desktop Infrastructure which should soon see an improvement in the position.
- The first order has been placed to improve the Council's network infrastructure in relation to firewalls, whilst options are considered for replacement of the remaining structure.
- A risk review is being undertaken regarding the existing commercial arrangements and Cloud based services to understand the Council's position in relation to commercialisation of ICT services.
- In relation to the 18 agreed Internal Audit Actions regarding the management of ICT equipment a new action plan was developed containing 12 actions. Six of these have now been implemented.
- A review is ongoing to consider the options for future ICT service delivery models.
- An ICT resource management group is in place to co-ordinate ICT resources with the Corporate Resource Management Group with the aim of providing a quicker response regarding ICT resource estimates and timescales. Assistance has also been requested from Corporate Procurement to investigate options to enable additional ICT resources to be procured in a timely manner.

As the results of this work come to fruition it is expected that the assurance level will be more positive.

- 4.11 The Risk and Assurance Team have also provided support to schools and Academies to help them manage their risks. This takes into account assessments undertaken by other departments in the Council. Considering the work done by Safeguarding, Asbestos Manager, Internal Audit and the Risk and Assurance Team, the overall assessment for schools is considered to be substantial.

Assurance from others within the Council

- 4.12 Assurance provided from others within the Council is shown in the Corporate Assurance Map. The assurance provided by the Corporate Project Office in relation to Programmes and Projects has changed to Amber from Green. This is in relation to the consistency of project management arrangements across the Council. A new set of corporate standards were introduced in March 2014 that will improve the position.

Assurance from Management

- 4.13 Arrangements have been developed to obtain assurance from service Management in a number of areas. Members will note that the majority of risk areas are shown as having substantial assurance.

Assurance from External Sources

- 4.14 The Map includes feedback received following the Council's recent Corporate Peer Review and the Adult Social Care and Safeguarding Peer Review.

Overall

- 4.15 The overall level of assurance for all risk areas has not changed from the update report presented in March 2014.

Internal Audit Performance

- 4.16 All of the targets set for Internal Audit were achieved apart from the implementation of medium risk recommendations which stands at 82% against a target of 90%.
- 4.17 The original Internal Audit Plan included 80 audits for the Council. Of these 3 were cancelled as follows:
- Health and Wellbeing partnership – a Peer review was ongoing therefore the audit was deferred.
 - Personal Budgets – an extended review of arrangements had been externally commissioned from PWC due to end in March 2014 with an action plan for improvements. Therefore the audit was deferred into 2014/15.
 - ICT Strategy – the Strategy was under review during the year and a review of the ICT service is currently underway. Appropriate work will be planned once the outcome of this is known.
- 4.18 From the remaining audits, four were ongoing at the end of March giving an achievement of 95% of the original audit plan. An additional 11 unplanned audits were also completed during the year. Therefore, sufficient audit work has been undertaken to provide an internal audit opinion on the Council's overall system of control.

Counter Fraud / Error Work

- 4.19 Counter fraud / error work was undertaken in the following areas during the year:
- Procurement
 - School Income Collection and Banking Arrangements
 - Overdrawn establishment / service bank accounts

- 4.20 No fraud was identified although the work identified a number of opportunities for improvements to the control environment, particularly in relation to Building Maintenance procurement arrangements.

Corporate Governance Improvement Plan

- 4.21 A small number of improvements were identified to strengthen the arrangements and these are detailed at Appendix 1.
- 4.22 The Improvement Plan also includes a small number of areas that the Council is already addressing but inclusion in the plan will facilitate monitoring to ensure that the planned actions are delivered within a reasonable timeframe bearing in mind the importance / nature of the actions.

Compliance with the Public Sector Internal Audit Standards

- 4.23 Internal Audit complies with the Public Sector Internal Audit Standards. This has been confirmed through a review conducted by the External Auditor, Mazars, which concluded that '*IAS is compliant with the requirements of the Public Sector Internal Audit Standards and the CIPFA Application Note.*'

Local Code of Corporate Governance

- 4.24 The local code of corporate governance was reviewed and is considered to be still relevant, therefore no changes are proposed.

5. Draft Annual Governance Statement

- 5.1 The Annual Governance Statement has been drafted taking into account the findings of the annual governance review and is attached at Appendix 2.

6. Conclusions

- 6.1 This report sets out the assurance provided in the Corporate Assurance Map, work undertaken by the Internal Audit team and performance for Internal Audit for 2013/14.
- 6.2 Results of the work undertaken have not highlighted any issues which affect the opinion that overall throughout the Council there continues to be an adequate system of internal control.
- 6.3 The Council continues to have robust and effective corporate governance arrangements in place. The views elicited during the review from Members, senior managers across the Council, and all Chief Officers, demonstrate that the principles of good governance continue to be embedded Council-wide.

7. Recommendations

- 7.1 The Audit and Governance Committee are asked to:

- note the report and updated Corporate Assurance Map
- consider and agree the Improvement Plan included at Appendix 1, and
- consider and agree the draft Annual Governance Statement at Appendix 2.

Annual Review of Corporate Governance Arrangements - Improvement Plan for 2014/15

Ref	Action	EMT Lead
1.	Development of the approach to Alternative Service Delivery Models should continue as the Council implements new models.	Sarah Reed
2.	Improve arrangements to consider the prioritisation of resources to support the Transformation Programme to ensure that the Council delivers its priorities.	Sarah Reed
3.	Continue to address current and emerging budget pressures regarding Adult Social Care.	Neil Revely
4.	Ensure that Business Continuity Plans are maintained where transformational / significant changes are occurring across the Council.	Janet Johnson
5.	Further develop strategies for engaging with Members, stakeholders and communities through the implementation of the Community Leadership Council and Transformation Programme.	Deborah Lewin

2013/14 Draft Annual Governance Statement

1. SCOPE OF RESPONSIBILITY

The 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. We also have a duty to continually review and improve the way in which functions are exercised.

We have put in place a local Code of Corporate Governance and a framework intended to make sure we do the right things, in the right way, for the right people. The Code is on the Council's website [\[here\]](#) or can be obtained from the Executive Director of Commercial Services. This Statement explains how the Council has complied with its Code in 2013/14.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values that direct and control our activities and through which we account to, engage with, and lead the community. The framework enables us to monitor the achievement of 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 and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

The governance framework has been in place at the Council for the year ended 31st March 2014 and up to the date of approval of the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

- 3.1 There is a clear vision of our purpose and intended outcomes for citizens and service users that is clearly communicated, both within and outside the organisation. The [Sunderland Strategy 2008-2025](#) provides the framework for members of the [Sunderland Partnership](#), organisations, groups of people and individuals, to work together to improve the quality of life in Sunderland by 2025. It sets out a Vision for the city and its people and how everyone will work together to achieve that Vision:

“Creating a better future for everyone in Sunderland - Sunderland will be a welcoming, internationally recognised city where people have the opportunity to fulfil their aspirations for a healthy, safe and prosperous future.”

3.2 The Council has developed a set of guiding principles to help decision making and agree priorities. These are:

- Elected members are community leaders at the core of decision making
- Our communities, residents and businesses are at the centre of everything we do
- We encourage, respect and value innovation and enterprise
- We demand high performance, personal responsibility and personal accountability
- We value people's individual contributions to our collective goals
- We are ambitious for the city and for ourselves; we view all change as an opportunity; we celebrate and build on our past without being confined by it.

3.3 To translate these principles into action, the Council has set out its priorities under the following clear outcomes that are derived from its vision

People – raising aspirations, creating confidence and promoting opportunity

Place – leading the investment in an attractive and inclusive city and its communities

Economy – creating the conditions in which businesses can establish and thrive.

3.4 The Corporate Plan sets out our priorities and the significant actions we will take. These, in turn, shape the activity of our various services and how we will focus our resources. We are clear where we need to get to and what we need to do to get there.

3.5 Arrangements are in place to review our vision and its implications for the authority's governance arrangements. The annual strategic planning process, engagement and participation with residents, needs analysis and demographic information ensure the authority's vision remains relevant and meets the needs of local communities. There are annual reviews of the local Code of Corporate Governance to ensure that it is up to date and effective. The reviews are overseen by the Council's Corporate Assurance Group using assurances and information gathered through the Integrated Assurance Framework (IAF) which was put in place in 2012/13. The IAF brings together assurances from all available internal and external sources.

3.3 Arrangements are in place to measure the quality of our services, to ensure they are delivered in line with our objectives and for ensuring that they provide value for money. There are performance management arrangements in place including a corporate performance review scheme for staff. Services are delivered by suitably qualified / trained / experienced staff and all posts have detailed job profiles / descriptions and person specifications.

3.4 The roles and responsibilities of Council members and employees are clearly documented, with clear delegation arrangements and protocols for effective communication. The Council's [Constitution](#) sets out how the Council operates.

It incorporates a clear delegation scheme, indicates responsibilities for functions and sets out how decisions are made.

- 3.5 The Constitution includes Rules of Procedure and a scheme of delegation which clearly define how decisions are taken and we have various Codes and Protocols that set out standards of behaviour for members and staff. Directorates have established delegation schemes, although these require regular updating to reflect ongoing organisational changes.
- 3.6 During the year a system of scrutiny was in place allowing the scrutiny function to:
- review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions;
 - make reports and/or recommendations to the full Council and/or the executive and/or any joint or area committee in connection with the discharge of any functions;
 - consider any matter affecting the area or its inhabitants;
 - exercise the right to call-in, for reconsideration, decisions made but not yet implemented by the executive and/or area committees; and
 - consider Local Petitions and Councillor Calls for Action for matters within their terms of reference.
- 3.7 A range of financial and HR policies and procedures are in place, as well as robust and well embedded risk management processes. Appropriate project management standards and Business Continuity Plans are in place, which are subject to ongoing review. There are comprehensive budgeting systems in place and a robust system of budgetary control, including formal quarterly and annual financial reports, which indicate financial performance against forecasts. There are clearly defined capital expenditure guidelines in place and procedures are in place to ensure that the Dedicated Schools Grant is properly allocated to and used by schools in line with the terms of grant given by the Secretary of State under section 16 of the Education Act 2002.
- 3.8 The authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Head of Financial Resources is the designated Chief Finance Officer and fulfils this role through the following:
- Attendance at meetings of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Council's strategic objectives sustainably and in the public interest;
 - Involvement in all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered;
 - Alignment of medium term business and financial planning processes;
 - Leading the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded and used appropriately, economically, efficiently and effectively;
 - Ensuring that the finance function is resourced to be fit for purpose.

3.9 The Council has an Audit and Governance Committee which, as well as approving the Authority's Statement of Accounts, undertakes an assurance and advisory role to:

- consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- receive and consider (but not direct) internal audit's strategy, plan and monitor performance;
- receive and consider the external audit plan;
- review a summary of internal audits, the main issues arising, and seek assurance that action has been taken where necessary;
- receive and consider the annual report of internal audit;
- consider the reports of external audit and inspection agencies, including the Annual Audit Letter;
- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted;
- review the external auditor's opinions and reports to members, and monitor management action in response to the issues raised by external audit;
- review the adequacy of and compliance with, the Council's Treasury Management Policy; and
- make recommendations to Cabinet or Council as appropriate.

3.10 We have arrangements to ensure compliance with relevant laws, regulations, internal policies and procedures, and that expenditure is lawful. The Head of Law and Governance is the Council's designated Monitoring Officer and a protocol is in place with all Chief Officers, to safeguard the legality of all Council activities. All Cabinet Reports are considered for legal issues before submission to members.

3.11 The Council's internal audit service has been subject to an independent review of its effectiveness which concluded that the service operates in accordance with professional standards.

3.12 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised. We are committed to maintaining these arrangements to ensure that, where any individual has concerns regarding the conduct of any aspect of the Council's business, they can easily report their concerns. Monitoring records held by the Head of Law and Governance reveal that the whistle blowing arrangements are being used by both staff and the public, and that the Council is responding appropriately.

The whistle blowing arrangements have assisted with the maintenance of a strong regime of internal control.

- 3.13 We have arrangements to identify the development needs of members and senior officers in relation to their strategic roles. The Community Leadership Programme has continued to support elected Members to fulfil their community leadership role. The Council's HR strategy identifies managing the performance of all of employees is key to ensuring that the organisation meets the needs of the community. This includes assessing ability against requirements of the role, annual appraisal focusing on strengths and highlighting areas of weakness, job related training, and ongoing evaluation of the extent to which employees understand and support the values of the Council.
- 3.14 Clear channels of communication have been established with all sections of the community to promote accountability and encourage open consultation. We are committed to listening to, and acting upon, the views of the local community and carry out consultation in order to make sure that services meet the needs of local people. Community Spirit is Sunderland's residents' panel, currently made up of over 1,000 residents from all parts of the city.
- 3.15 Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships, and are reflected in the authority's overall governance arrangements. The Council has published a Code of Practice for Partnerships which includes a template for Partnership Agreements and a range of checklists to ensure key risk areas are considered and addressed. The Code is designed to provide a corporate framework for all staff involved in considering new partnership working, and to assist Members and employees to review existing arrangements.

4. REVIEW OF EFFECTIVENESS

The 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 the effectiveness is carried out over the course of the year through the Integrated Assurance Framework. The review is informed by the Corporate Assurance Map which summarises assurances gathered from all available sources and in particular:

- The views of Members through participation in a survey covering governance and Member support issues and through the activity of the Scrutiny and Standards Committees.
- Assurances from Heads of Service who have carried out self-assessments relating to their areas of responsibility.
- Assurances from senior officers responsible for relevant specialist areas.
- Internal audit planning processes which include consultation with all Chief Officers, and audit activity as detailed in the Internal Audit Annual Report. The external auditor has conducted a review of the effectiveness of Internal

Audit Services and concluded that there are robust arrangements in place to comply with the Public Sector Internal Audit Standards.

- The external auditors (Mazars) Annual Audit Letter for 2012/13 provides an unqualified opinion on the financial statements. The report confirms that the Council has proper arrangements in place to secure financial resilience, and for challenging how it secures economy, efficiency and effectiveness.
- Given the significant levels of transformational change occurring within the Council a number of risks were highlighted in relation to the Council's ICT arrangements. Some actions have already been taken to mitigate these risks and work is on-going. Progress is being monitored by senior management and the Audit and Governance Committee.

The Head of Assurance, Procurement and Projects has directed, co-ordinated and overseen the review and its findings have been reported to the Executive Management Team and Cabinet for their consideration and approval of the Annual Governance Statement.

The outcome of the review of effectiveness provided the necessary assurance and that no significant issues were identified. The findings of the review have been reported to the Audit and Governance Committee and under their Terms of Reference the Committee have satisfied themselves that the Annual Governance Statement properly reflects the risk environment and any actions required to improve it.

Cabinet and the Audit and Governance Committee have advised us of the findings of the review of the effectiveness of the governance framework, and an improvement plan has been agreed.

We propose over the coming year to take steps to implement the improvement plan to further enhance the Council's governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review and we will monitor their implementation and operation as part of the next annual review.

Paul Watson
Leader of the Council

Dave Smith
Chief Executive

Sonia Tognarelli
Head of Financial
Resources

Dated