

## **AUDIT AND GOVERNANCE COMMITTEE**

**24 June 2016**

### **ANNUAL GOVERNANCE REVIEW / ANNUAL GOVERNANCE STATEMENT 2015/2016**

#### **Report of the Director of Corporate Services**

#### **1. Purpose of Report**

- 1.1 This report provides details of the 2015/16 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 2015 the Committee approved the proposed Corporate Assurance Map for 2015/16 and the plans of work for Internal Audit and the Risk & Assurance team.
- 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 2015/16**

- 4.1 The review was undertaken by gathering assurance throughout the year from a number of sources via the Integrated Assurance Framework
- 4.2 The review has considered assurance provided from:
- 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

#### *Corporate Assurance Map*

- 4.3 The assurances gathered are shown in the Corporate Assurance Map which is updated and reviewed 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 updates regarding specific issues and considered the performance of the Internal Audit team.
- 4.4 The corporate governance improvement plan for 2015/16 included nine actions. A review of progress on these actions and found that all were either complete or are ongoing.
- 4.5 From the work undertaken, the Corporate Assurance Map as at 31<sup>st</sup> March 2016 is shown overleaf.

## Corporate Assurance Map

Assurance Position (Cumulative)		2015/16									
		1st Line	2nd Line							3rd Line	
		Management Assurance	Other Internal Assurance Activity							Internal Audit	External Assurance
			Legal Services	Financial Resources	Programmes and Projects	Performance	ICT	HR & OD	Business Continuity	Risk and Assurance	
<b>Strategic Risk Areas</b>											
Current Risk	Residual Risk										
People										X	
Place										X	
Economy										X	
Organisational				X						X	X
<b>Corporate Risk Areas</b>											
Customer Focus / Service		X				X				X	X
Legality			X							X	
Service / Business Planning		X				X				X	
Programme and Project Management		X			X					X	
Partnerships		X								X	
Business Continuity Planning		X							X	X	
Procurement		X								X	
Relationship and Contract Management		X								X	
Financial Management		X		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			X	
Fraud and Corruption		X									X
Risk Management (Service Delivery)		X								X	
Schools		X		X						X	
<b>Wholly Owned Companies</b>											
Sunderland Care and Support Ltd		X		X		X				X	X
Sunderland Live Ltd		X		X		X				X	

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

### Strategic Risk Areas

- 4.6 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

- 4.7 The Map shows the opinion of Internal Audit from work undertaken within the last two years plus work completed in 2015/16.

### Assurance from Risk and Assurance Team

- 4.8 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 on-going into 2016/17 includes:
- Support to the development of alternative service delivery projects such as the future of ICT delivery and the proposed Children's Services company.
  - Providing assurance on the arrangements for the Better Care Fund and integration with Health.
  - Deployment of the Intelligence Hub and its use in intelligence led commissioning.
  - Assurance in relation to delivery of the Capital Programme, including major schemes such as the new Wear Crossing and SSTC phase 3.
- 4.9 As has been reported to the Committee previously, a significant amount of work has been undertaken in relation to the Council. The Risk and Assurance team has continued to provide assurance support which will continue during the coming year.
- 4.10 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 including work done by Safeguarding, property services and Internal Audit.

### Assurance from others within the Council

- 4.11 Assurance provided from others within the Council is shown in the Corporate Assurance Map.

#### Assurance from Management

- 4.12 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

- 4.13 The Map includes feedback received following Peer Reviews, a number of OFSTED inspections, Council commissioned independent reviews and the external auditor. The limited opinions are as a result of reviews of the Council's Children's Safeguarding Services and ICT Disaster Recovery / Business Continuity arrangements, as has been previously reported.

#### Overall

- 4.14 The overall level of assurance for all risk areas has not changed from the update report presented in March 2016.

#### Internal Audit Performance

- 4.15 All of the targets set for Internal Audit were achieved apart from the implementation of medium risk recommendations which stands at 84% against a target of 90%.
- 4.16 From the original 54 audits included within the Council's audit plan for the year it was considered not appropriate to carry out five of them. Four of these were related to Children's social care and due to the significant improvement activity that has been on-going under the direction of the independently appointed Children's Commissioner and Improvement Board it was not an appropriate time for these audits to take place. Instead, the Risk and Assurance Team have been assisting with the ongoing improvements and obtaining assurance through this.
- 4.17 The fifth audit not carried out was related to Human Resources and Organisation Development's role in administering Fire Authority pensions. Due to pressure caused by the implementation of workforce transformation relevant officers were unavailable to act as clients for the audit and it has therefore been deferred to 2016/17.
- 4.18 This means that 91% of the planned audits were completed, and an additional four 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:
- High value payroll transactions

- Leavers – return of Council owned equipment etc
  - Petty cash accounts
  - Payments for agency workers
  - Transaction checks in schools
  - Car parks cash
  - Direct Payments
- 4.20 The work on the payments for agency workers identified potential fraudulent activity on the part of employees of two organisations which supplied agency workers to the Council through a NEPO contract. Action is ongoing to recover sums claimed incorrectly from the Council.
- 4.21 The work carried out also identified a number of opportunities for improvements to the control environment which are being progressed.

#### *Corporate Governance Improvement Plan*

- 4.22 A small number of improvements were identified to strengthen the arrangements and these are detailed at Appendix 1.
- 4.23 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*

- 4.24 Internal Audit continues to comply with the Public Sector Internal Audit Standards through the standards being built into audit working practices.

#### *Local Code of Corporate Governance*

- 4.25 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 2015/16.
- 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, with improvements to Children's Safeguarding being overseen by the Children's Commissioner and Improvement Board. 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 2016/17

Ref	Action	EMT Lead
1.	Finalise the revised Corporate Plan and ensure that actions to deliver it are embedded in service / team plans	Sarah Reed
2.	Ensure that the new Performance Management Framework is embedded across the Council	Irene Lucas
3.	As part of establishing the proposed Children's Services company, appropriate governance and scrutiny arrangements are developed to allow the Council to fulfil its statutory roles with regard to Children's Services	Fiona Brown
4.	Further strengthen the Information Governance arrangements to improve compliance in sensitive / high risk areas	Sarah Reed
5.	Ensure that the new Contract / Supplier Relationship Management Framework is implemented across the Council, especially in relation to alternative service delivery models, and that compliance is monitored	Barry Scarr
6.	Delivery of the Transformation Programme, including achievement of savings plans, is monitored closely and appropriate remedial action taken where necessary	Sarah Reed/Barry Scarr



## 2015/16 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 Director of Corporate Services. This Statement explains how the Council has complied with its Code in 2015/16.

### 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 2016 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 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.

- 3.3 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.
- 3.4 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.
- 3.5 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.
- 3.6 The roles and responsibilities of Council members and employees are clearly documented, although the delegation arrangements need to be updated following recent senior management changes. The Council's [Constitution](#) sets out how the Council operates. It incorporates a delegation scheme, indicates responsibilities for functions and sets out how decisions are made.
- 3.7 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.
- 3.8 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.

3.9 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.

3.10 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 former Director of Finance was designated Chief Finance Officer and fulfilled this role through the following:

- Attendance at meetings of the Executive Management 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.

This role is now carried out by the Director of Corporate Services.

3.11 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.
- 3.12 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.
- 3.13 Arrangements for whistle-blowing and for receiving and investigating complaints from the public are well publicised and subject to periodic review. 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 show 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.
- 3.14 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 recognises that 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 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.
- 3.15 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.
- 3.16 The Council's Code of Practice for Partnerships and supporting arrangements are being reviewed and new arrangements will be implemented in 2016/17.

- 3.17 An Improvement Board, chaired by a Children's Commissioner, is in place to oversee improvements to Children's Safeguarding services following the inadequate rating by OFSTED.

#### **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:

- 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 the results of audit activity as summarised in the Annual Governance Review report.
- The external auditors (Mazars) Annual Audit Letter for 2014/15 concludes that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources except for the areas that were assessed as inadequate by Ofsted in their report on children's services in July 2015.

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, with the exception of the need to continue to improve Children's Safeguarding services. 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 that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas to be addressed with new actions are outlined in the agreed improvement plan.

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

Irene Lucas  
Chief Executive

Barry Scarr  
Interim Director of Corporate Services

Dated