

READING BOROUGH COUNCIL  
REPORT BY HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	2 July 2014	AGENDA ITEM:	4
TITLE:	Annual Governance Statement 2013/2014		
LEAD COUNCILLOR:	Councillor Stevens	PORTFOLIO:	AUDIT & GOVERNANCE
SERVICE:	FINANCE	WARDS:	N/A
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1. EXECUTIVE SUMMARY

- 1.1 The Council is responsible for ensuring that financial management is adequate and effective and that the Council has a sound system of internal control, which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.
- 1.2 Regulation 4 of the Accounts and Audit Regulations 2011 requires councils to review the "*effectiveness of their system of internal control*" at least once a year and to publish an annual governance statement which accompanies the authority's financial statements. It also requires the findings of the review to be considered by a committee of the Council (or the whole Council).
- 1.3 The Annual Governance Statement is a key measure of the overall effectiveness of governance arrangements within the Authority.
- 1.4 In December 2012 CIPFA issued an Addendum to the Delivering Good Governance in Local Government Framework document which provided further specific guidance on how local authorities should demonstrate an increased emphasis on their strategic approach to governance. The Annual Governance Statement for 2013/14 has reflected this guidance and demonstrates how the key governance requirements have been met.
- 1.5 The following documents are appended:
- Appendix 1 - Draft Annual Governance Statement 2013/2014
  - Appendix A - Governance Framework
  - Appendix B - AGS Implementation plan for 2014/15

## 2. ACTIONS REQUIRED

- 2.1 The Audit & Governance Committee is requested to receive and approve the Annual Governance Statement for 2013/2014 in appendix A for publication with the Council's accounts and authorise the Managing Director in consultation with the Leader and Chair of the Audit & Governance Committee to make any minor amendments that become necessary before final publication in September.

## 3. ASSURANCE FRAMEWORK

### Service Area Self Assessments & Directorates' Annual Governance Statements

- 3.1 In common with recent years, Heads of Service within each directorate have undertaken a self-assessment of their own service areas. Assessments have been made against compliance with legal agreements, the Council's Constitution, corporate objectives and policies, the management of service delivery, financial planning and budgetary control, standards of conduct, partnerships, value for money, risk management and health and safety. Directors then considered each self-assessment in relation to their own particular directorate and made an evaluation of existing measures in terms of assessing the level of concern. The information gathered from this exercise has been used to inform the Council's overall Annual Governance Statement.
- 3.2 Each Directorate AGS summarises the processes in place to ensure the effective financial and operational management of the directorate and its services. Discussion of the AGS by the Directorate Management Team (DMT), and its ultimate signature by the Director, demonstrates that they acknowledge responsibility for financial, operational and risk management and governance arrangements of the Directorate and its Services and take that responsibility seriously.
- 3.3 The Directorate AGS statement contains five components, summarised as follows:
- Confirmation of the DMT's responsibilities in respect of internal control.
  - Limitations of governance, risk management and control systems. This wording is important because it aims to make it clear to the reader that "absolute" assurance cannot be given and is not expected.
  - Explanation as to how the DMT has satisfied itself that controls are adequate before the Director agrees to sign the statement. It may be that the DMT has carried out additional steps and has added such measures taken to the controls assurance statement.
  - Statement that the DMT is satisfied that governance, risk management and internal controls within the Directorate and subsequent services are adequate during the year, assuming this to be the case. If the DMT are not satisfied about the adequacy of key internal controls, they will have listed briefly any serious/high priority control weaknesses.

- Where planned action to improve the control system is disclosed. Such disclosure is normally only needed if the DMT have expressed a concern about the adequacy of any of the controls.
- 3.4 When deciding whether or not to disclose that a particular control is inadequate, DMTs have taken into account all the relevant information available to them, and also considered:
- How likely is the risk, i.e. to what extent the inadequacy of the control(s) put the service at risk
  - The likely impact of the risk on the service if it occurred, for example on the Directorate's financial position, ability to function, reputation etc.
  - The cost of any action needed to reduce the level of risk posed
  - Whether this cost is justified and proportionate given the risk perceived
- 3.5 The Director will only recommend the signing of the AGS when he/she feels they can do so with confidence, having studied all the available evidence.
- 3.6 All of the completed self-assessments, and Directorate Annual Governance Statements have been returned to the Head of Audit to support the Council's AGS. Where these have a Council wide impact these have been reported in the AGS action plan shown in appendix 1.

#### External factors

- 3.9 CIPFA's statement of recommended practice: Guidance notes for practitioners specifically makes reference to where an authority is in a group relationship and undertakes significant activities the review of the effectiveness of the system of internal control should include its group activities. In material terms the only organisation that this applies to remains Reading Transport Limited (RTL). RTL has an operating financial year to September 2013 and it is this period which its AGS relates. For the purpose of the AGS review, the Chief Executive of RTL and the Board considered the work carried out by their auditors was sufficient to enable them to complete an annual governance statement.
- 3.10 The statement received from the Chief Executive of RTL confirmed that that their accounts had been audited by the company's appointed auditors, in accordance with the relevant statutory requirements and appropriate accounting standards.

### Views of External Audit (KPMG) and other inspection agencies

- 3.11 Consideration has been given by the Chief Finance Officer to the views of KPMG as indicated in their Annual Audit and Inspection Letter. In particular KPMG issued an unqualified value for money ('VFM') conclusion for 2012/13. This means they are satisfied that the Council has proper arrangements for securing financial resilience and challenging how we secure economy, efficiency and effectiveness. To arrive at their conclusion they looked at our financial governance, financial planning and financial control processes, as well as how we are prioritising resources and improving efficiency and productivity.
- 3.12 KPMG issued an unqualified opinion on the Council's financial statements. This means that they consider the financial statements give a true and fair view of the financial position of the Authority and the Group of its expenditure and income for the year.
- 3.13 In addition to specific review(s) undertaken by External Audit, the Council has been subject to review / inspection by a number of other bodies, such as OFSTED reviews of the council's two residential children's units as well as two peer reviews carried out by the LGA of the safeguarding diagnostic process and of Regulatory Services.

### Evidence gathering (Internal Audit)

- 3.14 Internal Audit has coordinated the sources of evidence to support the AGS. The task has been to research and formally recognise things currently done across the Authority and to record them. We have undertaken an assessment against the CIPFA Finance Advisory Network key objectives.

### The Role of the Chief Financial Officer in Local Government & Head of Internal Audit in Public Service Organisations

- 3.15 We have assessed the roles and responsibilities of the Head of Finance and the Head of Internal Audit during 2013/14 against the associated CIPFA statements. The statements set out five principles that define the core activities and behaviours that belong to these roles and the organisational arrangements needed to support them. We are able to evidence from the assessment that the authority's financial management arrangements conform to the governance requirements of the CIPFA Statements on the Role of the Chief Financial Officer in Local Government (2010) and the Head of Internal Audit in Public Sector Organisations (2010).

### Internal Audit Assurance

- 3.16 Based on the work the Internal Audit team has completed during the course of the year, the Head of Audit concluded that Reading Borough Council's control environment is acceptable for its business needs and operates in an effective manner.
- 2.2.1 In addition, using assurance gained from the internal audit work on governance matters he concluded that RBC'S governance arrangements are adequate and effective.

2.2.2 However there were a small number of reports issued as part of the agreed audit plan that identified specific areas where improvements were required. Management action plans have been agreed to strengthen the control weaknesses identified in these reports and will be subject to continual follow up.

#### **4. THE PROPOSAL**

4.1 Based on the service self-assessments and directorates' AGS statements together with the internal audit review of the Council's control framework, 14 governance related themes were highlighted that warrant reporting in the action plan which accompanies the Council's 2013/2014 Annual Governance Statement.

4.2 The report covers the period up to the publication of the accounts following the Committee's late September meeting, but as the Statement is signed off by the Leader of the Council and the Managing Director, it would be sensible to authorise minor amendments that may be needed before then. Inasmuch as the accounts will be part of that agenda, the committee will have an opportunity to reconsider the statement at that time. The need for amendment is not currently anticipated. The External Auditor will review the statement for consistency with his knowledge of the Council, but does not "audit" it as such.

#### **5. CONTRIBUTION TO STRATEGIC AIMS**

5.1 Good governance enables us to pursue our vision and corporate objectives effectively as well as underpinning these with mechanisms for the control and management of risk. Governance must be owned by all stakeholders, including senior management and Members, thus forming the intrinsic core of the Council. It should remain embedded in the culture of the Council and applied within a transparent framework of legislative requirements, governance principles and management processes.

#### **6. COMMUNITY ENGAGEMENT AND INFORMATION**

6.1 Good governance means focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area. The annual governance statement accompanies the authority's published financial statements.

#### **7. LEGAL IMPLICATIONS**

7.1 Regulation 4 of the Accounts and Audit Regulations 2011 requires councils to review the "*effectiveness of their system of internal control*" at least once a year and to publish an annual governance statement which accompanies the authority's financial statements. It also requires the findings of the review to be considered by a committee of the Council (or the whole Council).

7.2 The CIPFA/SOLACE governance framework recommends that the assurance gathering process should have a structured link between the strategic objectives and statutory requirements of the authority and how these objectives are to be delivered. It requires the identification of key controls that are deemed critical to the delivery of these objectives and expects a formal review and risk assessment for the management and delivery of these key controls.

## **8. FINANCIAL IMPLICATIONS**

8.1 There are no financial implications for this report

## **9. BACKGROUND PAPERS**

9.1 CIPFA/Solace - Delivering Good Governance in Local Government

9.2 Audit & Accounts Regulations 2011