

READING BOROUGH COUNCIL
REPORT BY HEAD OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	21 July 2016	AGENDA ITEM:	8
TITLE:	ANNUAL GOVERNANCE STATEMENT 2015/2016 AND IMPLEMENTATION PLAN		
LEAD COUNCILLOR:	Councillor Lovelock	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 The Accounts and Audit Regulations 2015 requires local authorities to prepare and publish an Annual Governance Statement (AGS) each financial year, which accompanies the authority's financial statements.
- 1.3 The Annual Governance Statement is a key record of the overall effectiveness of governance arrangements within the Authority. The statement reflects the latest guidance from CIPFA/SOLACE on a strategic approach to governance and demonstrates how the key governance requirements have been met.
- 1.4 The following documents are appended:

Appendix 1 Draft Annual Governance Statement (AGS) 2015/2016

Appendix 2 - AGS Implementation plan for 2016/17

2. ACTIONS REQUIRED

- 2.1 **Audit & Governance Committee is requested to receive and approve the draft Annual Governance Statement for 2015/2016 for publication with the Council's accounts.**
- 2.2 **The Committee is asked to authorise the Managing Director, in consultation with the Leader and Chair of the Audit & Governance Committee, to make any necessary amendments that are needed before final publication in September.**

3. GOVERNANCE FRAMEWORK

Internal

3.1 The governance framework, comprises the systems and processes, and culture and values, by which we are directed and controlled and the activities through which we account to and engage with our residents and businesses. The headings and documents, activities, processes and outcomes which underpin the framework are included in paragraphs 3.2 - 3.4

3.2 Values

Key documents reviewed annually

- Corporate Plan
- Financial Plan
- Annual Statement of Accounts
- Council tax leaflet
- Members Allowance Scheme
- Pay Policy
- Service Plans
- Treasury Management Strategy

3.3 Purpose and Outcomes

Key documents reviewed as required

- Constitution
- Anti-Fraud and Corruption Policy
- Business Continuity Arrangements
- Complaints Procedure
- Policy Statements e.g. Health & Safety
- Decision Book
- Member Training and Development Programme

3.4 Engagement

Supporting processes monitoring and regulation

- Council
- Committees
- Annual Governance Review
- Budget Framework
- Appraisals
- CMT/ SLG Performance Meetings
- Internal Audit
- External Audit
- Job Descriptions
- Head of Paid Service role
- Monitoring Officers role
- S151 Officer role

- Corporate Procedure Rules
- Risk Management
- Website and Intranet
- Procedure Notes

External factors

- 3.5 The CIPFA/SOLACE 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 2015 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.
- 3.6 The statement received from the Chief Executive of RTL confirmed 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

- 3.7 Consideration has been given by the Chief Finance Officer to the views of KPMG as indicated in their Annual Audit and Inspection Letter for 2014/15. In particular KPMG issued an unqualified value for money ('VFM') conclusion for 2014/15. This means they were satisfied that the Council had 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.
- 3.6 KPMG issued an unqualified opinion on the 2014/15 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.

Internal Audit Assurance

- 3.7 One of the assurance statements the Council receives is the annual opinion of the Head of Internal Audit in respect of the financial control framework. The opinion of the Chief Auditor in respect of audit work completed in 2015/16 is that *the Council's system of internal control is satisfactory and processes to identify and manage risk are in place*. There were a small number of reports issued as part of the agreed audit plan that identified specific areas where improvements were required. Those audits where improvements were highlighted, whilst non material in terms of the council's overall Risk Management, Governance and internal control framework, are set out below:

- Adult Social Care Income - Work was required to review the end to end process to seek to address the build-up of backlogs and improve the quality and timeliness of referrals for financial assessment
- Accounts Payable: Continue to develop processes improvements within Accounts Payable through system releases and greater utilisation of system functionality
- Foster Care & Adoption Allowances: the audit highlighted the continued dependency upon high cost independent Foster Agencies. Recommendations were made to strengthen operational procedures, incorporating the governance arrangements of the Access to Resource Panel
- Fuel - Internal Audit recommended improved information on vehicle fuel usage and apply appropriate restrictions on quantity and frequency of fuel dispensed. A further in-year follow up of recommendations noted improvements had been made
- Fleet Management - Internal Audit recommended further development of systems and processes to ensure compliance with legislation and value for money is achieved. A further in-year follow up of those recommendations noted good and ongoing progress in their implementation

4. THE PROPOSAL

- 4.1 Based on the governance framework and statement together with the Internal Audit review of the Council's control framework, 13 governance related themes are highlighted that warrant reporting in the action plan which accompanies the Council's 2015/2016 Annual Governance Statement, Appendix 2.
- 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. The accounts will be part of that agenda, the committee will have an opportunity to reconsider the statement at that time. The need for material amendment is not currently anticipated. External Audit will review the statement for consistency with their 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. EQUALITY IMPACT ASSESSMENT

- 7.1 Under the Equality Act 2010, Section 149, a public authority must, in the exercise of its functions, have due regard to the need to:

- Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
- Foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

- 7.2 We are mindful of the Equality Act and Equality Impact Assessment which is not relevant to this report

8. LEGAL IMPLICATIONS

- 8.1 Regulation 6 1b of Statutory Instrument 2015 No. 234 "The Accounts and Audit Regulations 2015" requires local authorities to prepare and publish an Annual Governance Statement (AGS) each financial year, 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).

- 8.2 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.

9. FINANCIAL IMPLICATIONS

- 9.1 There are no financial implications directly arising from this report.

- 9.2 As indicated above the statement must be published with the Council's accounts, and will be reviewed by External Audit (though is not subject to audit).

- 9.3 In respect of the Council's Financial Management Arrangements, the CIPFA/SOLACE Guidance makes reference to specific CIPFA guidance covering the role of the Chief Financial Officer in Local Government and

Head of Internal Audit in Public Service Organisations. Those roles in Reading are unchanged from recent years, and therefore continue to comply with the requirements.

10 BACKGROUND PAPERS

10.1 CIPFA/Solace - Delivering Good Governance in Local Government

10.2 Audit & Accounts Regulations 2011/2015