

READING BOROUGH COUNCIL

EXECUTIVE DIRECTOR OF RESOURCES

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	12 OCTOBER 2020		
TITLE:	DRAFT ANNUAL GOVERNANCE STATEMENT 2019/2020		
LEAD COUNCILLOR:	Councillor Ellie Emberson	PORTFOLIO:	Corporate and Consumer Services
SERVICE:	FINANCE/LEGAL	WARDS:	N/A
LEAD OFFICER:	MICHAEL GRAHAM	TEL:	9373470
JOB TITLE:	Assistant Director of Legal & Democratic Services	E-Mail:	Michael.Graham@reading.gov.uk

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 require 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 document is appended:

Appendix 1 Draft Annual Governance Statement (AGS) 2019/2020

2. ACTIONS REQUIRED

- 2.1 Audit & Governance Committee is requested to receive and approve the draft Annual Governance Statement for 2019/2020 for publication with the Council's accounts.
- 2.2 The Committee is asked to authorise the Chief Executive, in consultation with the Leader and Chair of the Audit & Governance Committee, to make any necessary amendments that are needed before final publication.

### 3. KEY ISSUES

- 3.1 The AGS must be prepared in accordance with proper practices and the council has followed the CIPFA/SOLACE Delivering Good Governance 2016 framework, the most up to date guidance in this area.
- 3.2 The AGS is a valuable means of communication. It enables the council to explain to the community, service users, tax payers and other stakeholders its governance arrangements and how the controls it has in place to manage risks of failure to deliver its outcomes and priorities.
- 3.3 Essentially the AGS, outlines:
- the scope of governance responsibilities
  - the purpose of the governance framework
  - a description of the governance framework against the CIPFA/SOLACE Framework for "*Delivering Good Governance in Local Authorities*
  - Covid-19 response: interim governance arrangements
  - arrangements for reviewing the effectiveness of the governance framework
  - Governance issues that need to be addressed.
- 3.4 The preparation of the Statement has built on previously established arrangements, which involves the collating of information from a number of sources, both internal and external. The information is analysed, and a draft Statement is produced, discussed with key officers, and any amendments identified are then made.
- 3.5 To support the Annual Governance review, each directorate is required to complete a Directorate Governance Statement in relation to systems and processes operational within their areas during the year. These are signed off by the relevant director. The directorate statements demonstrate that directorates have evaluated and assessed their internal control environment. The improvements required to governance processes are reported in the AGS, but the actual programme and timetables will be held under individual workstreams at a local level. For example, the Finance Transformation Board have oversight over the Finance Improvement Programme set up to address historic audit concerns and oversee improvement.

- 3.6 The Council receives a substantial amount of assurance from the work that is undertaken by its Internal Audit Service and its external auditors (Ernst & Young). The role of Internal Audit is to provide independent assurance that the Council's risk management, governance and internal control processes are operating effectively. The role of External Audit is to review the financial statements, obtain evidence that they are materially correct and provide an opinion as to whether these represent a true and fair view of the financial position of the Council. In addition, External Audit provide a value for money opinion assessing whether proper arrangements are in place for securing financial resilience and challenging how the Council secures economy, efficiency and effectiveness.
- 3.7 The Council's external auditor, Ernst & Young (EY), issued a qualified opinion for the 2016/17 accounts because of a number of historic and significant control deficiencies. This led to delays in the publishing of annual accounts, for 2017/18 and 2018/19. However, Statements have now been published for both financial years and the audit of 2017/18 will be completed soon.
- 3.8 Officers have also been fully engaged in completing the 2019/20 accounts which are expected to be completed by the end of October 2020-and available for public inspection shortly thereafter.
- 3.9 The opinion statement of the Chief Auditor in respect of audit work completed in 2019/20 is that **limited assurance** can be placed on the internal control environment within those areas audited.
- 3.10 Recent events, such as the delays in closing previous years accounts and internal control deficiencies within some of the finance systems has hindered Finance from fulfilling its core functions reliably. To ensure the Service has the required capacity and capability going forward a Finance Transformation Board has been established to oversee the Finance Improvement Programme, with individual workstreams covering Accounts Payable, Accounts Receivable, Reconciliations, Chart of Accounts and Final Accounts.
- 3.11 The overarching objectives of the workstreams is to review and modernise processes, using the technology available to the full, ensuring it is fit for purpose and addressing historic control issues.
- 3.12 COVID 19 has had a significant impact on the Council and whilst the AGS attached at Appendix 1 is predominately focused on 2019/20, the CIPFA/SOLACE guidelines require the statement to cover the period up to the publication of the accounts.
- 3.13 The pandemic began in March 2020 and therefore has not had a significant impact on the key governance issues that have arisen during the 2019/20 period. Following the outbreak of COVID 19 however, the council activated its Emergency Control Centre and Gold and Silver emergency management protocols to coordinate a response to ensure that resources were prioritised to the areas that were in most need. The emergency governance arrangements followed have been reported in the attached draft AGS.

- 3.14 The AGS covers the period up to the publication of the accounts, but as the Statement is signed off by the Leader of the Council and the Head of Paid Service, it would be sensible to authorise minor amendments that may be needed before then. 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.

#### **4. CONTRIBUTION TO STRATEGIC AIMS**

- 4.1 Good governance enables us to pursue our vision and corporate objectives effectively. 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 be applied within a transparent framework of legislative requirements, governance principles and management processes.

#### **5. COMMUNITY ENGAGEMENT AND INFORMATION**

- 5.1 The Annual Governance Statement accompanies the authority’s published financial statements.

#### **6. EQUALITY IMPACT ASSESSMENT**

- 6.1 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.
- 6.2 Whilst mindful of the Equality Act and Equality Impact Assessment it is not relevant to this report

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

- 7.1 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).

- 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 directly arising from this report.
- 8.2 As indicated above an AGS must be published annually with the Council's statutory accounts and will be reviewed by External Audit (though is not subject to audit).
- 8.3 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.

## **9. BACKGROUND PAPERS**

- 9.1 CIPFA/Solace - Delivering Good Governance in Local Government framework (2016 Edition). 10.2 Audit & Accounts Regulations 2015.

## ANNUAL GOVERNANCE STATEMENT 2019/2020

As at September 2020

### SCOPE OF RESPONSIBILITY

Reading Borough Council is responsible for ensuring that:

- its business is conducted in accordance with the law and proper standards
- public money is safeguarded and properly accounted for, and
- resources are used economically, efficiently and effectively.

The Council also has a duty to:

- make arrangements to secure continuous improvement in the way in which its functions are exercised
- put in place proper arrangements for the governance of its affairs, and
- implement and maintain effective processes of internal control, including appropriate arrangements to manage risk.

### THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems, processes, cultures and values which underpin how the Council is controlled and managed internally, and how it engages with taxpayers, service users and the wider community. The governance framework as described in the Council's constitution ([https://www.reading.gov.uk/media/1338/Constitution-of-The-Council/pdf/Constitution\\_of\\_the\\_Council.pdf](https://www.reading.gov.uk/media/1338/Constitution-of-The-Council/pdf/Constitution_of_the_Council.pdf)) enables the Council to monitor delivery of its strategic objectives and assess whether those objectives are securing service improvements and value for money. Systems of internal control and risk management are a significant part of the governance framework and are designed to manage risk down to a reasonable level. Some risks can never be eliminated entirely, however, and these processes provide only reasonable and not absolute assurance of effectiveness.

### THE GOVERNANCE FRAMEWORK AT READING

The Council operates a committee-based system of governance with four standing committees broadly aligned to the Council's departmental. Their remit includes obtaining assurance that Corporate Plan priorities, and the Budget and Policy Framework approved by Council each year, are delivered in their relevant areas. There are no separate scrutiny committees or call in provisions however:

- the Standards Committee investigates specific allegations of misconduct, and the Audit and Governance Committee is tasked with reviewing and considering improvements to corporate governance in general;
- all standing committees are able to undertake scrutiny of relevant functions where they think it appropriate;

### Covid-19 response: governance framework

In order to focus and guide the Council's response to the Coronavirus Pandemic the Council instigated the Urgency Procedures in Article 7.7 of the Council's Constitution which allowed for a smaller group of councillors to act as the Policy Committee and make decisions on behalf of other Committees and Council.

To enable the Council to fulfil its leadership role and to guide its work with partners in providing the support that residents and businesses needed, the Council's Corporate Plan priorities were reframed to provide clarity of purpose and a three-point strategic framework was adopted based around the following three broad priorities:

- (a) To support and protect vulnerable children and adults by ensuring the social care system continues to function effectively
- (b) To support the people who are most vulnerable and isolated in our communities
- (c) To support businesses and the local economy, and secure Reading's economic recovery

Further details of the interim governance arrangements which were put in place in response to the COVID-19 pandemic can be found in the Decision Book published on 25 March 2020. <https://democracy.reading.gov.uk/ieDecisionDetails.aspx?ID=399>

The Council's governance arrangements are designed to secure compliance with the principles set out in the "CIPFA<sup>1</sup>/SOLACE<sup>2</sup> Framework for *"Delivering Good Governance in Local Authorities"*<sup>3</sup> (updated 2016):

CIPFA/SOLACE Framework for *"Delivering Good Governance in Local Authorities"*

### Behaving with integrity

Codes of Conduct set out expected standards of behaviour for staff and councillors and the standards committee investigates any allegations of non-compliance. The Council's Section 151 Officer and Monitoring Officer have specific statutory responsibilities to ensure that decisions taken by the Council are lawful and in line with constitutional requirements.

### Ensuring openness

The Council consults regularly with stakeholders, taxpayers and service users. Consultation has been undertaken in respect of 20 separate topics since 1 April 2019, and the Consultation Hub on the Council's website enables local people to find, participate in, and view outcomes from, any consultation activities that interest them. In addition, 20 different committees<sup>4</sup> and forums are in place to represent local views on a range of subjects including transport, disabled access, children's services and community safety.

### Defining sustainable outcomes

The Corporate Plan sets out how the Council aims to work in partnership over the next three years to achieve six agreed objectives. These key objectives are designed to be both financially and environmentally sustainable and have been developed in consultation with partners and local people. The Medium-Term Financial Strategy makes a realistic assessment of financial resources available, and the Budget and Policy Framework approved by Council each year sets out revenue and capital spending limits, savings and efficiency targets as well as key improvement priorities for the forthcoming year.

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<sup>1</sup> Chartered Institute of Public Finance and Accountancy

<sup>2</sup> Society of Local Authority Chief Executives.

<sup>3</sup> Also referred to as "the Framework", see CIPFA website [www.cipfa.org/policy-andguidance/publications/d/delivering-good-governance-in-local-government-framework-2016edition](http://www.cipfa.org/policy-andguidance/publications/d/delivering-good-governance-in-local-government-framework-2016edition)

<sup>4</sup> A smaller group of councillors acted as the Policy Committee and made decisions on behalf of other Committees and Council during the Council's response to the COVID-19 pandemic.

## Achieving intended outcomes

The four standing committees are responsible for ensuring that actions approved as part of the Budget and Policy Framework are delivered in each service area. The Projected Outturn reports to Policy Committee summarise the financial position to date against budget and delivery of agreed savings targets. Key performance indicators are reviewed quarterly by the Corporate Management Team and Policy Committee.

## Developing capacity

Maximising capacity by working collaboratively is a key component of the Corporate Plan and a number of longstanding partnership working arrangements are in place. The Constitution sets out how the governance aspects of these arrangements should operate in practice. The Learning and Workforce Development Team has a specific role and remit to improve the capability and capacity of Council officers by offering a range of skills and qualification-based training opportunities.

## Managing risks

The Strategic Risk Register provide a high-level overview of key risks which are reported to management and to councillors at least twice a year. Financial Procedure Rules and Financial Regulations, together with Contracts Procedure Rules and Employment Procedure Rules, set out the framework of internal controls. Internal Audit have a programme of work designed to assess how this framework operates in practice and report to the Audit and Governance Committee.

## Transparency and accountability

All Council meetings are held in public and minutes of meetings and webcasts are available on the Council's website. Following the closure of the Council offices in March 2020, the Council moved to online meetings which could be viewed by residents via a link from the Council's website.

## Managing the risk of Fraud

The financial resources available to the Council need to be maximised and used effectively, in order to help achieve the corporate strategies. One aspect to assisting with maximising available resources is to reduce the opportunity for fraud and misappropriation. This is done through proactive and reactive investigations. The Council will not tolerate fraud or corruption by its councillors, employees, suppliers, contractors or service users and will take all necessary steps to investigate any allegation of fraud or corruption and pursue sanctions available in each case, including removal from office, dismissal and/or prosecution.

Individual fraud cases are normally handled by the Audit & Investigations Team who mainly deal with fraud encountered in areas such as benefits schemes (e.g. Council Tax support etc.), council tenancies, blue badges and social care payments. Quarterly updates are provided to the Council's Audit & Governance Committee.

We have no knowledge of any actual, suspected or alleged fraud affecting the Authority, which would cause a material misstatement in the financial statement's either through fraudulent financial reporting and/or misstatements resulting from misappropriation of assets for 2019/2020.



## REVIEW OF EFFECTIVENESS

The Council uses several ways to review the effectiveness of governance arrangements. One of the key assurance statements is the annual report and opinion of the Chief Auditor. The role of the Internal Audit Service is to provide assurance to management and those charged with government about the quality and effectiveness of the governance framework and systems of internal control. The internal team completed 24 audits and 2 grant certifications. A further 6 audits had fieldwork completed at 31 March 2020, but with reports to be finalised. 101 audit recommendations have been made, of which 14 (17%) were classified as a high priority.

Public Sector Internal Audit Standards require the Chief Auditor to provide an assessment of the overall adequacy and effectiveness of the Council's control environment. This opinion is expressed using a scale ranging from Substantial to Reasonable, then Limited and finally No Assurance. The Chief Auditor has concluded that only Limited Assurance can be placed on the Council's internal control framework for 2019/20, largely because of weaknesses in key financial systems (<https://democracy.reading.gov.uk/documents/s13296/AnnualAssurance-CoverReport.pdf>).

Assistant Directors and Executive Directors have completed Annual Assurance Statements in respect of governance and internal control arrangements for their respective areas. These reviews identified improvements to governance arrangements and internal control during the year, namely:

- Delivered a new senior management structure with the appointments at both Executive Director and Assistant Director within the Directorate of Economic Growth and Neighbourhood services (DEGNS)
- Following the iTrent roll out a further restructure of HR has been completed to address in particular; the Council's Organisational Development capability.
- A Leadership and Management Development Programme for all people managers commenced in Q4. However, the Covid-19 Pandemic has stalled rollout.
- The iTrent<sup>5</sup> reimplementation project has been completed. The system provides a full audit trail and has significantly improved HR controls, particularly around pay, establishment and performance management. It has also significantly streamlined the Council's recruitment process thereby improving value for money (VFM).
- The annual verification process to verify eligibility for Single person discount, thereby reducing loss of Council Tax has been completed.
- External Audit certified there was no Housing Benefit Subsidy loss to the Council for the second year running.
- A piece of diagnostic work undertaken by CIPFA<sup>6</sup> has been used to inform a Finance Improvement Programme aligned to the new Financial Management Code<sup>7</sup> which will deliver in 2020/21.
- The Council's 2016/17 accounts have been signed off, the 2017/18 and 2018/19 Statements have been published and the audit of 2017/18 is nearing completion.
- A Hub and Spoke delivery model has been agreed for Procurement together with a restructure of the Corporate Procurement Team to strengthen the Council's procurement and contract management activity. The new structure provides support for Accounts Payable in terms of supplier set up, thereby facilitating improved separation of duties.
- A review of the Council's security policies and cyber security arrangements has resulted in the commissioning of cyber security training for all staff.

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<sup>5</sup> Council's HR system

<sup>6</sup> Chartered Institute of Public Finance and Accountancy

<sup>7</sup> the Chartered Institute of Public Finance and Accountancy, has launched its Financial Management (FM) Code, to drive improvement in financial management for councils across the United Kingdom

- Microsoft Office 365 has been rolled out across the Council and desktops/laptops are in the process of being upgraded to Windows 10.
- The Council has reviewed its Customer and Corporate Services structure to strengthen the Council's approach in dealing with Freedom of Information requests and supporting information governance more generally.
- A new Customer Experience Strategy has been agreed with Phase 1 to be implemented in 2020/21.
- A review of the Council's Corporate Board Structure which is responsible for tracking performance in key areas has been completed with new arrangements put in place.
- The Eligibility Review and Risk Group (ERRG) ensures personalised Support Plans are in place for any new packages of social care support. Further auditing has taken place through the Safeguarding Team and these reports have been used to update and improve practice.
- Case work is regularly audited in Adult Social Care supervisions and prior to ERRG submissions.

In addition to the above and as a result of the Covid-19 pandemic the Council quickly put in place:

- An emergency operations structure, incorporating a Gold-Silver-Bronze decision-making structure and Emergency Operations Centre.
- Arrangements to track the financial implications of the pandemic on the Council's resources.
- Arrangements for democratic decision making in line with the Council's Constitution and emergency legislation including remote decision making.
- Following the immediate response stage, implemented three recovery Boards and reporting arrangements which link into both the Thames Valley and Local Resilience Forum Framework.

Other governance outcomes are shown below:

Issues Identified	Performance in 2019/2020
Formal reports by s151 or Monitoring Officer	None issued
Outcomes from Standards Committee or Monitoring Officer Investigations	The monitoring officer has considered 11 complaints about member conduct.
Proven frauds carried out by councillors or members of staff	None
Objections received from local electors	No objections have been received from local electors
Local Government Ombudsman referrals upheld	The Local Government Ombudsman (LGO) upheld 3 complaints, none of which had a public interest report published.
Information Commissioner referrals upheld	One was upheld in 2019/2020

## External Audit

The Council's external auditor, Ernst & Young (EY), issued a qualified opinion for the 2016/17 accounts because of a number of historic and significant control deficiencies. This led to delays in the publishing of annual accounts, for 2017/18 and 2018/19. However, Statements have now been published for both financial years and the audit of 2017/18 will be completed soon.

Officers have also been fully engaged in completing the 2019/20 accounts which are expected to be completed by the end of October 2020—and available for public inspection shortly thereafter.

## Other Inspection work

Children's Services was rated "inadequate" by Ofsted in June 2016. A limited company structure was subsequently established by the Council in co-operation with the Commissioner for Children's Services, and the Department for Education. From 3rd December 2018, Brighter Futures for Children Ltd became responsible for delivering Children's Social Care, Early Help, and Education services across the Borough with Fostering transferred on 1<sup>st</sup> March 2019. An improvement plan to resolve the issues flagged from the 2016 Ofsted inspection, subsequent interim reviews and DfE inspections is in place, with regular overview of progress through the Children's Services Improvement Board, aiming to improve the overall Ofsted rating.

Ofsted have recently re-inspected the Council's provision of Children's Services and note evidence of improvement in most areas of practice since the last inspection. Accordingly, their rating has improved from "inadequate" to "requires improvement to be good". Their inspection report can be found at <https://files.api.ofsted.gov.uk/v1/file/50119620>

## CONCLUSION

The Council is satisfied that suitable and appropriate governance arrangements are in place. However, there is more to do, in particular to:

- implement the Finance Improvement Programme necessary to ensure the Council's financial processes and procedures are robust. The Finance Improvement Board chaired by the Executive Director of Resources will oversee delivery of this over the next 12 months.
- Improve financial performance monitoring to ensure that over and underspends are accurately recorded, and mitigations measures agreed.
- Complete the review of HR Policies which wasn't completed as planned in 2019/2020.
- Roll out cyber security training to all staff and recommence the Leadership and Management Development Programme.
- Embed the Council's new Information Governance Board and good practice following from this.
- Continue to raise the profile of Audit and embed a culture of compliance by addressing recommendations on a timely basis
- Continue to support the Internal Audit team and ensure that its recommendations are actioned in a timely way by managers with progress reported regularly to the Audit and Governance Committee
- Review governance processes in MOSAIC (Adult Social Care Database) to better control how records are updated.
- Improve management oversight of contracts - and securing a single place to record all relevant contracts.
- Revise and update performance management measures within service plans including measures to monitor the delivery of key capital programme projects and expenditure.
- Ensure that performance measures remain focused on the delivery of key Council priorities including its response to Covid-19.

Additionally, in response to the Covid-19 pandemic the Council will:

- Review options to address the budget gap in 2020/21 and the sustainability of the Council's Medium-Term Financial Plan (MTFP) and;
- Consider the policy implications of any changes to the Council's future operating model as a result of Covid-19.

## CERTIFICATION

We have been advised on the results of the annual review of the effectiveness of the Council's governance framework, as set out above. Plans are in place to address the weaknesses identified. Delivery of these plans will be monitored by the Audit and Governance Committee and reported to the public as part of the next annual review.

Signed on behalf of Reading Borough Council by:

..... Jason Brock, Leader of the Council

.....Peter Sloman, Chief Executive