

Audit Committee – 25 September 2013

Annual Effectiveness Review of the System of Internal Control and Internal Audit; and Annual Governance Statement 2012/13

Summary of Report

This report contains the findings and recommendations of the review of the effectiveness of the council's system of internal control and review of the effectiveness of internal audit, for consideration by Audit Committee. This review is contained within the Annual Governance Statement (AGS) for 2012/13, and requires Audit Committee approval prior to publication alongside the post-audit Annual Statement of Accounts, in accordance with the Accounts and Audit Regulations, 2011.

Recommendations:

Audit Committee are requested to:

1. Receive, consider and approve the findings and recommendations arising from the annual effectiveness review, including the review of the system internal control and the review of internal audit, as set out in sections 4 and 5 of the attached Annual Governance Statement.
2. Receive, consider and approve the Annual Governance Statement as set out, for publication alongside the Statement of Accounts.



James T Walsh – Chief Finance Officer
16 September 2013

Background

The Accounts and Audit (England) Regulations 2011 states that the Council:

- 1) Is responsible for ensuring that the financial management of the council is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk,
- 2) Must conduct a review at least once in a year of the effectiveness of its system of internal control,

- 3) The findings of this review must be considered by a Committee of the council (Council have delegated this to Audit Committee),
- 4) Must undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control,
- 5) Must conduct a review of the effectiveness of its internal audit, and
- 6) The findings of this review must be considered by a Committee of the council (Council have delegated this to Audit Committee).

Following the review, and reporting thereof, the Committee must approve an Annual Governance Statement (AGS). The AGS must accompany the body's statement of accounts for that financial year.

Resource and Legal Considerations

Councils must produce annual accounts and the AGS in line with the Accounts and Audit Regulations 2011 in a timely fashion and on an annual basis.

Performance Management and Risk Management Issues

Performance Management

Effective performance management is key to ensuring an effective system of internal control is maintained and promotes good service. Senior managers can support the framework and the assurance gathering process by ensuring that systems and processes are in place within each directorate, including ensuring directorate plans, project and individual risk registers and risk assessments are in place and regularly reviewed and service complaints are responded to and used to drive improvement. In addition, senior officers within each directorate should promptly implement agreed internal and external audit actions within the timescale planned.

Risk Management

The key aspect of the system of internal control is the identification of key risks to the organization and key controls needed to mitigate these risks. The AGS is legally required to be signed by the Chief Executive and Lead Member.

Equality Implications

None relating directly to this report.

Consultation

The report is prepared in consultation with the Chief Finance Officer (CFO), the Head of Internal Audit, the Monitoring Officer, the Leader of the Council, the Chief Executive and relevant senior managers.

Governance

Governance is the arrangements in place to ensure that an organisation fulfils its overall purpose, achieves its intended outcomes for citizens and service users and operates in economical, effective, efficient and ethical manner.

The governance *framework* is an interrelated system that brings together an underlying set of legislative requirements, governance principles and management processes. The framework is intended to support council's in demonstrating good governance. The framework itself is not a statutory requirement, but rather a discretionary code offered to organisations as good practice. It is important to note that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the authority's activities, including in particular those designed to ensure that:

- The council's policies are implemented in practice
- Services are delivered efficiently and effectively
- The council's values and ethical standards are met
- Laws and regulations are complied with
- Required processes are adhered to
- Financial statements and other published performance information are accurate and reliable
- Human, financial, environmental and other resources are managed efficiently and effectively.

Review of Effectiveness of Governance Arrangements, including the System of Internal Control (SIC)

Findings of the Effectiveness Reviews

The AGS was drafted, assurances were evaluated and supporting evidence gathered. The outcome of this process was a conclusion that the effectiveness of the system of internal control is adequate overall. This is supported by external audit view that the council is operating at an adequate level in regards to its internal control framework. There are a number of control weaknesses which were identified and these are set out in section 4 of the AGS in more detail. The Chief Executive and Leader of the Council signed off the AGS

The AGS (Appendix 1, section 5) identified a number of areas of significant internal control weakness. The council has established a corporate governance group in July 2013 to carry out a full review of corporate governance over the forthcoming twelve months.

Further detail is provided on the above in sections 4 and 5 of the attached AGS.

Background Papers

Local Code of Governance

Audit and Accounts Regulations 2011

Various external and internal audit and inspection reports

Head of Internal Audit report on adequacies of the council's control environment

Various CIPFA Guidance

Various council documents and reports

Grant Thornton Annual Audit Letter and Interim Audit

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Annual Governance Statement

1. Scope of responsibility

This statement is given in respect of the 2012/13 statement of accounts for Walsall Council. Walsall Council is responsible for ensuring that its business is conducted in accordance with the laws and proper standards, and that public money is safeguarded and properly accounted for, and used economically, effectively and efficiently. Walsall Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Walsall Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and includes arrangements for the management of risk.

Walsall has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. A copy of the code is on our website or can be obtained from the Monitoring Officer or Chief Finance Officer. This statement explains how Walsall Council has complied with the Code and also meets the requirement of regulation 4(2) of the Accounts and Audit Regulations 2011.

2. The purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether these 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, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Walsall Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Walsall Council for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

3. The Governance Framework

The Council acknowledges its responsibilities in ensuring the following key elements of the governance arrangements including the system of internal control, are in place and this statement provides further information on how it achieves this, including:

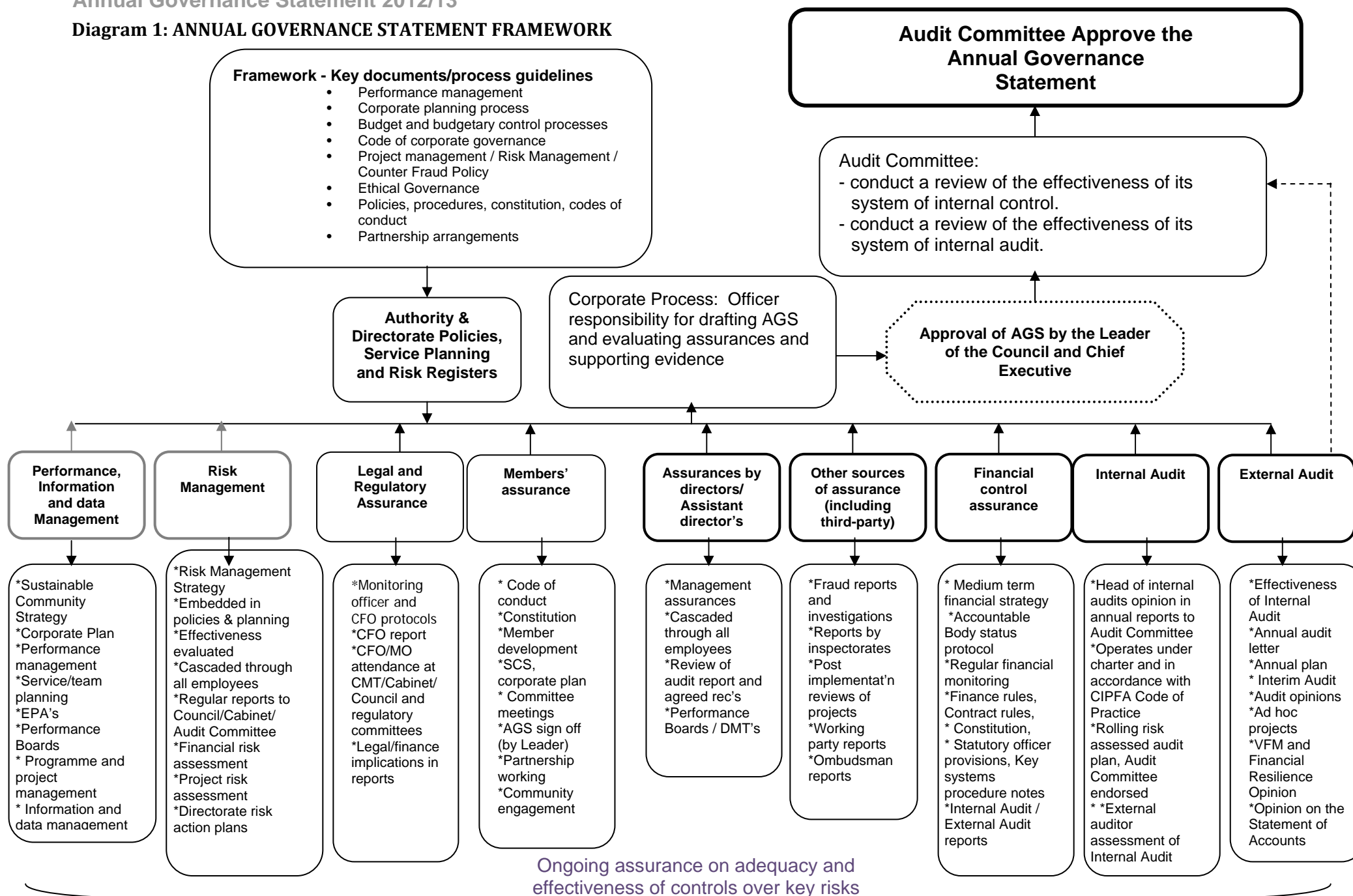
- Identifying and communicating the authority's vision and intended outcomes for citizens and service users, reviewing the vision and its implications for the authority's governance arrangements.
- Establishing and monitoring the achievement of the Authority's objectives, including measuring the quality of services for users and customers.
- Establishing clear channels of communication with the community and stakeholders, ensuring accountability and open consultation.
- The facilitation of policy and decision making.

Annual Governance Statement 2012/13

- Complying with established policies, procedures, laws and regulation, including how risk assessment is embedded in the activity of the Authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties.
- Complying with the Local Code of Governance.
- Ensuring the authority's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Finance Officer in Local Governments (2010).
- Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions of the council.
- Promoting values for the Authority and developing, communicating and embedding codes of conduct and defining standards of behaviour.
- Undertaking the core functions of an Audit Committee.
- Whistleblowing and receiving and investigating complaints from the public.
- Identifying and supporting development needs of members and senior officers.
- Financial management of the Authority and its reporting.
- Ensuring the economical, effective and efficient use of resources and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- Performance management of the Authority and its reporting.
- Programme, project and information management.
- Incorporating good governance arrangements in respect of partnerships and other group working.

The governance framework consists of management information, financial and contract rules, established financial, budgetary, personnel and other procedures, a performance management framework, community and corporate planning, management supervision in accordance with the corporate employee performance assessment (EPA) framework, a comprehensive risk management strategy and process, project management methodology and a system of officer and member delegation and accountability and codes of conduct. Diagram 1 illustrates the overall governance framework which is discussed in more detail in this section.

Diagram 1: ANNUAL GOVERNANCE STATEMENT FRAMEWORK



The council acknowledges its responsibility for ensuring that effective governance arrangements, including an effective system of internal control (including financial control), are maintained and operated in connection with the resources concerned. Any system of internal control, including internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. Development and maintenance of the system is undertaken by managers within the council.

In particular, the system includes the following key elements:

- A sustainable community strategy, setting out ambition, objectives and priorities of the council and key partners, developed following consultation with the community and stakeholders – supported by a revised corporate plan – linked to service planning via the Walsall change management approach (Working Smarter).
- A programme and project management approach which is currently being re-assessed to support the new change management programme.
- Project management principles adopted as the methodology for projects.
- An information governance framework.
- Performance boards (in children's and adult social care) which receive consider and assess service planning and performance measures, financial planning and change management processes to influence and drive continuous improvement.
- A comprehensive risk management strategy and framework, operating at both strategic and operational levels.
- An approved Constitution, including financial and contract rules, a scheme of delegation and decision making processes of the council.
- Standards Committee, Audit Committee, scrutiny function and other regulatory committees.
- Statutory Monitoring and Chief Finance Officers ensuring the council operates within existing legislation and statutory guidance.
- Human resources and other policies and procedures, including codes of conduct (member and officer), whistle blowing policy and an anti-fraud and anti-corruption policy and strategy.
- A comprehensive financial strategy, including budget management and control framework, supported by financial procedures and guidelines underpinning sound financial management, reporting and standing.
- Clear measures of financial performance linked to service planning and the corporate plan.
- The preparation of regular reports to managers, executive directors, Corporate Management Team (CMT) and elected members which indicate actual expenditure against budget and highlight remedial action, where required.
- Clearly defined capital expenditure strategy and guidelines.
- Use of an accountable body status protocol and grant management arrangements when the council acts as accountable body for funds, including in relation to partnership working to ensure that activities are administered consistently and robustly across the council.
- A risk assessed Internal Audit programme which is planned in advance to cover all major systems of internal control and which is based on a risk assessment of key systems and controls.
- An internal audit function that operates in accordance with the CIPFA Code of Practice and which is assessed annually by external audit during their Interim Audit.

- An independent external audit function which reports on the financial and governance arrangements of the council.
- Member and officer development strategy and individual development planning processes.
- Comprehensive communication and consultation arrangements both internally and externally.

Since 2011/12, the AGS is required to contain a statement on whether 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)* as set out in the *Application Note to Delivering Good Governance in Local Government: A Framework*. The Statement sets out five principles which define the core activities and behaviours that belong to the role of the CFO and the organisational arrangements needed to support them. In assessing these five principles, the Authority complies with all but one. This relates to Principle 1, in that *"the CFO is a key member of the Leadership Team reporting directly to the Chief Executive with status at least equivalent to other members of the team"*. The Statement also states that if this is not the case then the reasons should be explained publicly in the AGS and an explanation of how the actual arrangements deliver the same impact. In Walsall the CFO reports to the Executive Director Resources, who reports to the Chief Executive. The CFO attends the Leadership Team (the corporate management team), has access to all confidential papers/matters, has direct and unfettered access to and meets frequently with the Chief Executive, and has direct and unfettered access to members, including Cabinet and Audit Committee.

A key aspect of the system of internal control is the identification of key risks to the organisation and key controls needed to mitigate these risks. Comprehensive, embedded and effective performance and risk management arrangements are fundamental to demonstrating good governance.

There are a number of key elements of the governance framework and internal control environment which assist the council in monitoring and managing the achievement of its objectives. These are included in the council's published overarching strategies and plans including; the sustainable community strategy; the corporate plan; medium term financial strategy, corporate budget plan, capital strategy, risk management strategy; treasury management strategy; programme and project management approach, and directorate strategy and planning documents. These documents set out the council's priorities.

During 2012/13, the council continued to develop its approach to managing change and now all major change activity and projects are included under the umbrella of the Working Smarter programme, aimed at delivering customer service improvements, financial savings and improved staff morale. The methods being used to deliver change are many and varied. A small proportion of the activity is based upon the "systems thinking approach" to managing service change. This represents a cultural shift in the way the council thinks about the design and management of its services. It starts by getting a clear understanding of "what matters" to the people who use our services, involving those employees who deliver the service. Employees, supported by their managers, critically analyse the current service to find out "what matters" and then they assess the council's capability to deliver "what matters". Following the analysis the service is re-designed, focusing on those steps which are of value in customer terms, which releases capacity which can either be realised as cashable savings or re-invested in new or additional services. Eight of the 34 major change activity streams are beginning to use this approach, with one further advanced than the others. The remaining change activity uses more traditional methods, often using elements of change management supported by project or programme management, and the governance around these methods.

Leads (Executive Directors) are developing a resource model and delivery plan for activities.

- All eight systems thinking interventions have leader and facilitation resources allocated to them. Work is in progress to identify purpose, key measures and timescales for these activities.
- The other activities have leaders confirmed and are in the process of identifying service areas within the scope of the work and the type of change activity which will be applied; this will result in a plan and resource model for the delivery of these sub-programmes.

The corporate plan 2014/2016 explains **what** we are doing as a council, the Working Smarter Programme is the **delivery plan** for achieving the corporate plan priorities, supported by the Walsall Change Approach, which is a toolkit of advice and methodologies which will develop and change as the council moves through its change activities.

A refreshed corporate performance management framework and tool kit is currently being developed. Designed to demonstrate progress against objectives and outcome measures it will be implemented in the autumn of 2013. This will be monitored by the Working Smarter Programme Board and progress will be reported through to the Partnership and Borough Management Board.

The council has an established comprehensive risk management framework, designed to identify, evaluate, manage and where possible, mitigate risks to the council in delivering its objectives. There is an ongoing programme of reporting and review of both strategic and operational risks, and this extends to an assessment of risks in financial planning and major projects and partnerships.

Strategic risks are identified, evaluated, incorporated into a corporate risk register and reported to senior management and CMT. This includes actions to mitigate risks, as appropriate, for each key strategic risk. Cabinet also receives reports on risk management. The risk management strategy is reviewed annually by Cabinet and is subject to examination by the Audit Committee as part of its established regulatory activities.

Each directorate has identified directorate risks and work continues to ensure that the actions arising from these take proper account of the balance of risk and resources to ensure that appropriate and proportionate action is put in place. Financial risks are assessed regularly and as part of the annual budget process and regular reporting of the financial position. A corporate financial risk assessment informs the medium term financial strategy and the level and appropriateness of general and other reserves. Each directorate has a risk champion and all individual posts are risk assessed within the council and are subject to review. Risk workshops are held to ensure risk champions and those involved in the assessment and management of risk are appropriately trained.

The council's Constitution sets out how the authority operates and refers to required procedures to be followed to ensure all activity is transparent and accountable to the local community. This includes a scheme of delegation and contract and finance rules, which set out the control environment in which the council operates.

Arrangements for the provision of Internal Audit are contained within the council's Constitution. The council, via its statutory Chief Finance Officer (CFO) must ensure that there is an adequate and effective Internal Audit of accounting records and of its systems of internal control as required by the Accounts and Audit Regulations 2011.

The Constitution states that:

- Internal Audit operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom under the day-to-day control of the Head of Internal Audit who acts independently.
- The Head of Internal Audit reports directly to the Chief Executive, executive directors and elected members when this is appropriate, as well as routinely reporting to the CFO and operational managers.
- The Internal Audit service plans and prioritises its work through a combination of assessment and review of the council's service provision, corporate governance arrangements, risk management processes and key internal control systems, supplemented by a programme of fraud and irregularity/consultancy work and scheduled visits to council establishments.
- The annual work plan is endorsed by CMT and Audit Committee. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted promptly to executive directors, senior managers, school heads and chairs of governors as appropriate. Regular progress reports are submitted to the council's Audit Committee for review purposes.
- The Head of Internal Audit is required to report annually on her opinion in respect of the overall adequacy and effectiveness of the council's internal control environment.

Executive directors and risk owners are required to provide assurance via audit reports and where appropriate, to Audit Committee that agreed audit actions are being implemented, and where control weaknesses are identified, to put in place remedial action in a timely manner, and as agreed with audit.

The Audit Committee receives summary reports of audits receiving a no or limited assurance opinion and external audit recommendations and actions, and on risk management and seeks to ensure that control weaknesses where identified are addressed. The Committee has a function in respect of the system of internal control and its effectiveness and the work of the Committee includes the review of the Annual Governance Statement and its approval in September of each year.

4. Review of Effectiveness

Walsall Council (via Audit Committee) has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control and its internal audit.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is set out below.

Audit Committee is able to monitor the effectiveness of the governance framework and the internal control environment and the council's system of internal audit, and receive their assurance on these matters in a number of ways. Further detail is set out in the following paragraphs and the totality of these is reviewed and considered by Audit Committee in considering the annual review of the effectiveness of the governance framework and approving the Annual Governance Statement as required by the Accounts and Audit Regulations, 2011, section 4 (3).

The review of the effectiveness is informed by and assurance obtained from:

- The annual work programme of Audit Committee including receiving, considering and reviewing reports on the work of internal and external audit, including reports on internal controls, risk management, grants, the external auditor's Interim Audit, its opinion on VFM and financial resilience of the council, the external audit opinion on the statement of accounts and the annual audit and inspection letter.
- The Head of Internal Audit's annual report.
- Findings of the external auditor and other review agencies and inspectorates.
- Cabinet, CMT and senior officers monitoring the effectiveness of the governance framework through receiving monitoring reports on performance and financial management and risk management, including progress against key objectives and measures and corrective action planning; the overall financial position; updates on performance in relation to management of key risks to the organisation; and receive regular reports via Audit Committee on the internal control mechanisms in place and their effectiveness.
- Improvements recommended by Audit Committee on the framework or reporting. For example, in 2012/13, Audit Committee made a number of suggested improvements to the reporting of corporate risks which are currently being incorporated into the corporate risk register for consideration by CMT in July and Audit Committee in September.
- The work of the executive directors and managers within the authority who have responsibility for the development and maintenance of the governance environment.
- The Chief Executive and the Leader of the Council and elected members, via the Audit Committee, who formally consider and approve the Annual Governance Statement (AGS) annually.

The following sections set out the key areas of assurance and findings from work and activity undertaken during 2012/13 in these areas. These have been considered in the annual effectiveness reviews of the systems of internal control and internal audit and an overall analysis is summarised at the end of the two sections.

Effectiveness Review of the System of Internal Audit

The Accounts and Audit (Amendment) Regulations 2011 introduced a revised requirement for the council to conduct 'an annual review of the effectiveness of its internal audit'. This includes the effectiveness of the internal audit function, wider assurance on the system of internal audit and the Audit Committee itself.

A self-assessment document is produced annually by the Head of Internal Audit in respect of the effectiveness of the Internal Audit function, assessed against the CIPFA Code of Internal Audit Practice and CIPFA guidance. The self-assessment is reviewed independently. Out of 90 sub-areas, one area of non-compliance has been identified in relation to the question "is the head of internal audit (HIA) managed by a member of the corporate management team?". In Walsall the HIA reports to the assistant director of resources (Chief Finance Officer/S151 Officer), who reports to the executive director of resources, who reports to the chief executive. The HIA attends the Audit Committee, has unfettered access to all confidential papers/matters, has direct and unfettered access to and meets frequently with the chief executive, and has direct and unfettered access to members, including Cabinet and Audit Committee.

In addition, the council's external auditors, Grant Thornton have undertaken a review of internal audit. In their interim report dated 12 June 2013, they concluded that "*the internal audit service continues to provide an independent and satisfactory service to the council and*

that we can take assurance from internal audit's work in contributing to an effective internal control environment at the council'.

Audit Committee has a regulatory role in terms of receiving reports on the effectiveness of the system of internal control through receipt and consideration of Internal Audit six monthly progress reports. Additionally, Audit Committee receive summary reports of all internal audits receiving a 'no' or 'limited' assurance opinion. Where, on audit follow up a no or limited assurance audit report, no or limited progress is made by managers in addressing weaknesses identified, executive directors and their accountable managers are required to attend Audit Committee to provide necessary assurances. This was the case during 2012/13. In addition, Internal Audit has a strategic risk assessed plan which was endorsed by CMT and Audit Committee.

To support their assessment of the council's use of resources, Grant Thornton completed a review of the Audit Committee in order to appraise its effectiveness as an important part of the council's governance framework. Recommendations were made and an action plan drawn up and approved by the Committee on 25th October 2010. Progress against implementation of this was reported to Audit Committee on 17th April 2012 and 15th April 2013. Seven recommendations were made by Grant Thornton, all of which have now been implemented.

At the 15th April 2013 meeting, Audit Committee completed an annual self-assessment of its effectiveness using CIPFA's "A Toolkit for Local Authority Audit Committees. 66 key supporting questions were considered by Audit Committee, supported by senior officers including the Chief Finance Officer and Head of Internal Audit. The results showed that Audit Committee is substantially compliant with the requirements. An update report was taken to 24 June 2013 Audit Committee seeking Committee approval of mitigating controls / proposed actions where it was considered that the Committee was not fully compliant. These are set out below.

<i>Question</i>	<i>Response</i>	<i>Mitigating Control / Proposed Action</i>	<i>For AGS purposes, is this control considered reasonable</i>
Are members sufficiently independent of the other key committees of the council?	Some members of the Audit Committee serve on other committees such as scrutiny panels.	To ensure independence, members are required to declare an interest in their scrutiny function role and consider removing themselves from consideration of an agenda item, should a conflict arise with their audit function.	Yes
Does the Audit Committee hold periodic private discussions with the head of internal audit?	Not formally, although the facility and opportunity for this exists.	Proposed Action: to facilitate periodic private discussions between the Audit Committee and the head of internal audit.	Yes. This has now been implemented and the facility for this is available after the conclusion of each meeting.
Does the Audit Committee hold private periodic discussions with the external auditor?	Not formally, although the facility and opportunity for this exists.	Proposed Action: to facilitate periodic private discussions between the Audit Committee and external auditor.	Yes. This has been implemented and the facility for is available after the conclusion of each meeting.

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Question	Response	Mitigating Control	For AGS purposes, is this control considered reasonable
Have all members' skills and experiences been assessed and training given for identified gaps?	Not formally.	Proposed Action: All members' skills and experiences will be assessed and training given for identified gaps.	Yes. An assessment was made and results reported to Audit Committee which informed the training which took place on 11 June 2013. Further training on risk is also planned.

Based on the above and the work of the Audit Committee in 2012/13 in receiving no and unlimited audit reports, and the actions taken in respect of these during the year, the system of Internal Audit is assessed as satisfactory overall.

Effectiveness Review of the System of Internal Control

The review of the effectiveness of the system of internal audit is informed by the work of the Audit Committee, other regulatory committees, the work of the internal and external auditors, including the following.

Head of Internal Audit Assessment of Governance and Internal Control Effectiveness during 2012/13

The review of the effectiveness of the system of internal control is informed by the work of the Head of Internal Audit and her annual report on the overall adequacies of the internal control environment.

Head of Internal Audit Assessment of Governance and Internal Control Effectiveness during 2012/13:

The review of the effectiveness of the system of internal control is informed by the work of the Head of Internal Audit and her annual report on the overall adequacies of the internal control environment. In respect of the 2012/13 financial year, the following opinion has been given by the Head of Internal Audit;

"In my opinion, formed solely on the basis of the work undertaken by internal audit and its partner organization in 2012/13, and the positive action taken or intended to be taken by managers to implement agreed audit report actions, Walsall Council's overall system of internal control facilitates the effective provision of the council's functions and provides a significant level of assurance regarding the effective, efficient and economic exercise of the council's functions.

Control weaknesses were identified during the 2012/13 financial year and were reported as such to relevant managers. The opinion as to the level of assurance that can be placed on the system of internal control is based on an assurance that accountable managers address findings within the agreed audit report action plans in the areas for which they are responsible.

The system of internal control can only provide reasonable and not absolute assurance regarding the achievement of the council's policies, aims and objectives. The opinion is

based on work in the approved operational audit plan, including irregularity, consultancy and advisory work carried out in 2012/13.

All audit work is subject to agreed terms of reference, objectives and resources allocated by the council for that purpose."

2011/12 Identified Control Weaknesses

The AGS effectiveness review is also informed by work undertaken in 2012/13 to improve control weaknesses identified in the previous year's AGS.

No fundamental financial systems audits received a limited assurance opinion in 2011/12, however, three were borderline significant, these being payroll, accounts payable and capital programme / project management.

With regard to the 'payroll' review, the summary audit opinion stated:

- There continues to be significant areas for improvement in ensuring controls and processes are fully effective particularly in the processing of new starters, variations to pay and leavers.

With regard to the 'accounts payable' review, the summary audit opinion stated:

- Some improvement is required partly due to the introduction of Finance Direct which has been implemented across the council since the previous audit and is still being embedded and also an increase in the uptake of purchase cards. In particular improvements are required for policies and procedures, system security, officer authorisations, invoice goods receipting, payment of invoices and credit notes, delegated bank accounts, purchase cards and data protection.

With regard to the 'capital programme and project management' review, the summary audit opinion stated:

- Management attention is, required in the management of work (effectiveness of controls), most notably, in ensuring that effective project management is in place and that inconsistent working practices and controls within start up and initiation, monitoring and reporting and project closure stages of capital programming and project management are addressed. Without management attention in these areas, the risk of project failure over spends and non-achievement of benefits (efficiencies, savings and customer satisfaction) remains a threat to the capital programme and project management operations.

During 2012/13 these areas were subject to audit.

Capital programme and project management were audited separately, capital programme receiving a significant assurance and project management receiving a provisional limited assurance (this is subject to final review and sign off by the head of Internal Audit and therefore may change).

Payroll received a borderline significant assurance opinion. Accounts payable received a limited assurance opinion. Further detail is included in the next section.

Internal Audit 2012/13 Identified Control Weaknesses

The AGS effectiveness review is also informed by internal audit work undertaken in 2012/13, the findings of these reviews and actions plans put in place by managers address control weaknesses.

Fundamental Financial Systems:

During 2012/13, Internal Audit reviews were undertaken of the 13 fundamental financial systems. Internal Audit has acknowledged that the majority of key financial systems are operating satisfactorily, as follows:

- Significant assurance opinion – 10, including 2 borderline significant - payroll and treasury management
- Limited assurance opinion – 3, including accounts payable and 2 provisional opinions – housing & council tax benefit and project management

In respect of payroll, the summary overall opinion stated that the design of work (sufficiency of controls) within the payroll service is generally sound. Weaknesses in compliance have, however, been noted in the management of work (effectiveness of controls), most notably in the processing of new starters; variations to pay; leavers and transfers; and ensuring policies and procedures are up to date.

In respect of treasury management, the summary overall opinion stated that the design of work is sufficient but the management of work (effectiveness of controls) was weakened by a number of key staff absences.

In respect of the following audits where a limited or limited provisional assurance was given:

Accounts payable (creditors) - the design and management of work in operation within accounts payable requires attention, most notably in ensuring that effective and robust system security is established, payment authorisation processes are strengthened and ensuring that only legitimate invoices are processed and paid. The processing of credit notes also requires attention, as do controls for VAT in ensuring compliance with HM Revenues & Customs requirements.

Whilst this audit received a limited assurance opinion, it was noted that, in the main, this was due to exceptions identified during audit testing of 'other' creditor payment methods such as purchase cards and delegated bank accounts where controls were found to require attention.

Housing & council tax benefits (provisionally limited) - Generally, the design and management of work in operation within housing & council tax benefits requires some strengthening, most notably in ensuring that:-

- there is sufficient documentary evidence available to support benefit entitlement awarded to claimants;
- all relevant benefit records and accounts are updated to record all transactions and all records are protected against loss / unauthorised access;
- sufficient system controls are in place to ensure that all benefit assessments are correctly calculated and valued;
- robust systems are established to ensure that all benefit claims, amendments and cancellations are processed promptly;

- write offs are approved and authorised in accordance with officer delegations as set out in the council's constitution;
- all benefit applications and payments are legitimate and appropriate with adequate controls in place for declaration of income;
- benefit payments are made in a timely manner and in accordance with legislative requirements and best practice targets;
- segregation of duties and hierarchical access controls, including authorisations and approvals, are sufficient as required in the council's financial rules; and
- the system for collection and monitoring of measures to determine purpose is implemented as planned; and a review of the effectiveness of these measures against routine benefits performance indicators is undertaken to ensure that indicators of system failures are not missed.

Project management (provisional limited) - attention is required in both the management and design of work, in particular, in ensuring that the 'Walsall Change Approach' is finalised and embedded across the council which will address inconsistent working practices and controls within project start up and initiation, monitoring and reporting and closure stages of projects. A set of suitable measures for performance should also be developed.

Other Financial and Non Financial Systems:

In addition to fundamental financial systems, 98 audit reviews were undertaken of other financial and non financial systems and processes that contribute to the council's overall corporate governance arrangements. None of these were material in the context of the statement of internal control, however, 16 of these reviews received a limited assurance opinion.

In summary, 111 specific planned audit reviews were undertaken, excluding unplanned irregularity and consultancy work. Of these:

- No reviews received a full assurance opinion (1 in 2011/12);
- 93 reviews (84%) received a significant assurance opinion (91 or 91% in 2011/12), 5 of these were borderline (9 in 2011/12);
- 18 reviews (16%) received a limited assurance opinion (8 or 8% in 2011/12); and
- No reviews received a no assurance opinion (none in 2011/12).

Of the 18 limited assurance opinion audits, 3 are fundamental financial systems as set out in above, and remaining 15 are

- Attendance management (sickness)
- Contract Systems – Kier Construction Central
- Declaration of interests, gifts & hospitality and overseas travel
- Children's - Disabilities Assessment Centre
- Children's - Family Placement (Foster Care & Adoption)
- Children's - Initial Response Service
- Children's - Looked After Children
- Children's - Safeguarding – Family Support
- Children's - Pool Hayes JMI
- Regeneration - Building Services
- Resources - Procurement
- SCI - Benefits Based Charging
- SCI - Independent Sector – Residential & Nursing
- SCI - Mental Health S117 (Aftercare)
- Social Care Operating Model

Further detail of these is set out in the Annual Report of the Head of Internal Audit on the Overall Adequacies of the Internal; Control Environment, reported to Audit Committee on 2 September 2013. Actions plans are in place for all these areas.

In addition to planned audit reviews, a number of unplanned jobs, including fraud and irregularity work was undertaken by the Internal Audit service during the year, 8 being notified through the whistle blowing procedure. A summary of the audit inquiry work undertaken is routinely reported to Audit Committee. All of the cases have or are being investigated by the section; controls have been subject to review and action taken as appropriate. While most cases were not material in the context of this opinion, one case in particular has given significant cause for concern this year and this is contained within section 5 of this statement.

Regulatory Committee - Standards

The functions of the Standards Committee are determined by statute and the Constitution. Standards Committee have a role in ensuring and promoting good ethical conduct. The Constitution clearly sets out the role of officers and members, including the three statutory posts of the Chief Finance Officer (S151 officer), Head of Paid Service and Monitoring Officer.

The Localism Act 2011 required the council to reconstitute its standards committee to deal with potential issues of member conduct. There is a statutory duty under section 27 of the said act for the council to promote and maintain high standards of conduct. To do so the council has to ensure that it has in place a code of conduct for elected members, arrangements for dealing with complaints about elected members behaviour, and a Standards Committee to determine issues of conduct. The council established these processes at a special meeting of Council on 25th June 2012.

External Audit Assurance

Grant Thornton has been appointed as the Council's independent external auditors by the Audit Commission. They have a broad role covering finance and governance matters. Their work in 2012/13 included:

- The Annual Audit Letter 2011/12 published 12 October 2012, designed to provide a brief overview of the auditor's key messages for the Council and external stakeholders, including members of the public. The Letter concluded that the Council had put in place proper arrangements for the conduct of its business, that public money was safeguarded and properly accounted for.
- The annual report to those charged with governance, published 13 September 2012, which provided an unqualified opinion of the 2011/12 accounts and a formal conclusion that the council had put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources (the VFM conclusion). A small number of recommendations were made which were discussed and agreed with the CFO.
- Grant certification report, reported to Audit Committee on 25th February, covering grant certification work for 2011/12. This covered the external audit of 3 claims and returns mounting to c£220m of the council's expenditure. All claims were submitted on time to the auditors and the audit certification was completed within the required deadlines. Two minor amendments were made during the audit. Two recommendations were made by the Auditors, which officers have agreed with.
- Financial resilience report, reported to Audit Committee on 25 February 2013, covering whether the council has put in place proper arrangements for securing financial resilience. The review covers key indicators of financial performance, our approach to

strategic financial planning, financial governance and financial control. The overall conclusion was that, whilst the council faces some significant risks and challenges during 2012/13 and beyond, our current arrangements for achieving financial resilience are adequate and key characteristics of good practice appear to be in place.

- The annual Interim Audit, reported to Audit Committee on 24 June 2013, included a review of the council's overarching entity level controls, with six recommendations arising, none of which are material.

Financial and Risk Management

The council has a comprehensive set of strategies, plans and procedures in place in relation to financial and risk management. Regular reports are presented to senior officers, management teams, Audit Committee and Cabinet, including corporate risks, financial health indicators, medium term financial plans and service & corporate performance against budget, including corrective action plans.

External audit review the councils arrangements for delivering economy, efficiency and effectiveness in its use of resources (VFM conclusion) and audit the annuals statement of accounts. Their conclusions are set out above under "external audit assurance".

The council's medium term financial strategy and financial rules are regularly updated to ensure sound financial planning processes are in place. The council has a strong track record of delivering savings and out-turning within the approved budget. Treasury management activities are operated in accordance with the statutory Code of Practice.

In 2012/13, Audit Committee made a number of suggested improvements to the reporting of corporate risks which are currently being incorporated into the corporate risk register for consideration by CMT in July and Audit Committee in September.

Performance Management

As previously stated, the corporate plan 2014/2016 explains what we are doing as a council; the Working Smarter Programme is the delivery plan for achieving the corporate plan priorities. Responsibility for managing performance lies with individuals at all levels in the organisation and the current performance management framework and approach taken continues to empower staff, services and leadership to apply the principles of performance management appropriately as required to individual circumstances. Where required specific performance boards continue to meet, in some areas focus has been on the development of information sharing to inform action being taken on an area basis and corporately information is received via the Working Smarter Board. The opportunity has been taken to streamline and remove duplication in reporting arrangements. Whilst the organisation has tested and developed its approach to developing measures (in light of the removal of the National Indicator Set) priority has been given to areas of greatest risk and importance (for example children services) so that the needs of external inspection and internal management are met.

It is acknowledged that from a public perspective there has been limited visibility in reporting terms of how the council is performing overall. A refreshed corporate performance management framework and tool kit is currently being developed and will be implemented in September 2013 and is being designed to demonstrate progress against objectives and outcome measures. During August the revised Performance Framework will be consulted on with senior managers via the Assistant Directors Forum. It will then be presented to Audit Committee and then onwards to Cabinet.

OFSTED Inspection of Safeguarding and Looked After Children Services (July 2012):

OFSTED inspected this aspect of Children's Services in June 2012 and services were found to be inadequate. After the implementation of a significant improvement plan by the Children's Improvement Board set up in September 2012 (progress of which was reported to Audit Committee on 12 November 2012, 25 February and 2 September 2013), a further inspection took place between 24 June and 3 July 2013. The inspection team reported the overall effectiveness of the arrangements to protect children in Walsall to have improved and the service is now judged to be adequate. Progress will continue to be monitored by the Children's Improvement Board and further reports will be made to Audit Committee on 11 November 2013.

Information Governance

The council has since the end of 2011 been establishing a range of measures to ensure that it is compliant with national and statutory requirements relating to the management of information. A framework has been created which sets out these requirements and the key responsibilities relating to information risk and security, information rights and records management, underpinned by a number of procedures and supporting guidance providing users with specific information about how they should protect and use information lawfully and appropriately. One of the key requirements of this Framework is all staff must complete appropriate training relating to Information governance on an annual basis, to ensure that they receive adequate and up to date training. The Chief Executive has personally promoted the importance of compliance with the Framework.

The primary governance for this area is carried out by the forum for information governance and assurance (FIGA) comprising the senior information risk owner (Head of Programme Delivery and Governance, Internal audit, risk management, HR, ICT, legal services and directorate information champions. FIGA reports into the Corporate Management Team.

FIGA has:

- Monitored the effectiveness of protecting Information training and its take up.
- Reviewed the council's process for handling investigations and reporting incidents and breaches.
- Approved and issued revised procedures and actions, relating to information governance and ensuring that they are implemented.
- Received reports on the numbers and types of data breaches.

The council is in the process of completing a total data flow mapping exercise to ensure that all flows of personal confidential data are recorded and carried out securely. The Caldicott Guardian is responsible for approving all data flows where the flow of information is particularly sensitive and or large in size.

There have been a number of breaches of the Data Protection Act reported to the information governance team during this period, the majority of which. The majority of the data breaches relate primarily to a failure to keep personal data secure. Information analysed indicates that this has been largely due to information being 'disclosed in error', 'non secure transfer', unauthorised access/ disclosure, and or 'lost or stolen paperwork'.

A serious data breach was reported to the information governance team in January 2013; this related to a large number of data subjects and involved data being transmitted insecurely. The risk assessment and management of this breach has been conducted in 2 parts and in consultation with Internal Audit. At the time of reporting, an informal notification of the first part of the breach has been made to the Information Commissioner's Office (ICO)

and a decision regarding the second part is expected to be made shortly. No formal notification to the ICO has yet been made.

Other Supporting Evidence

The review of effectiveness is also informed and evidenced by the following;

- Quality assurance controls put in place by the Head of Internal Audit and managers, in managing and delivering the Internal Audit service in accordance with the CIPFA code of practice and including such areas as discussion/agreement of the risk based audit plan and each individual audit review;
- The role of the Audit Committee in endorsing Internal Audit's work plan and in their regular review and scrutiny of audit performance and;
- The work of Audit Committee reviewing specific reports which have been awarded no or limited assurance for detailed scrutiny, ensuring the committee is able to be assured that operational and control issues are being dealt with appropriately and that managers' agreed actions are being implemented. The committee are able to seek explanation from managers failing to progress agreed actions.
- The preparation and presentation of an Annual Report to Council of Audit Committee's work, assisting it to discharge the committee duty to provide independent assurance on the adequacy of the council's risk management framework and the internal control and reporting environment.
- The regular review of Internal Audit work by the CFO including meetings with the Head of Internal Audit;
- The council has a Local Code of Governance which was approved by Audit Committee and Standards Committee in 2008/09. Review of the Code against the CIPFA/SOLACE framework highlighted some areas of omission (partnership protocol and need for awareness training). A partnership toolkit has now been produced along with a register.

Whilst the officers who drafted this AGS, evaluated assurances and supporting evidence, concluded the effectiveness of the governance framework, in respect of the systems of internal audit and internal control is satisfactory overall, in undertaking the annual review of effectiveness, there are a couple of significant governance issues which occurred during 2011/12 and 2012/13 that suggest some further action is required to review the application of the governance framework to ensure that the organisation is compliant with and demonstrating good governance. These issues and an approach to how the review might be undertaken are set out in the next section.

5. Significant Governance Issues

The identification, analysis and management of risks for the delivery of its objectives are key to maintaining an effective system of internal control. It is also recognised that there remains a further need to fully embed the internal control procedures across the organisation.

During 2011/12 and 2012/13 a number of significant governance issues occurred.

Human Resources

An audit investigation into irregularities was undertaken during 2011/12 which concerned recruitment and selection; procurement; and pay and grading (officer re-grade) practices within human resources.

The investigation report, which identified significant control weaknesses within these practices, together with an agreed action plan was reported to Audit Committee on 23 July 2012, where members received assurance that action was being taken to address the concerns identified. A follow up detailing progress against the action plan was reported to Audit Committee on 12 November 2012, which concluded that of the 6 actions contained within the plan, 5 were found to be implemented and 1 was partially implemented, pending the appointment of a permanent Head of Human Resources. The new Head of Human Resources commenced on 2 April 2013. The remaining action will be followed up and reported to Audit Committee.

The control weaknesses, whilst significant, were contained solely within the Human Resources services and did not impact on recruitment and selection, procurement, and grading practices across the rest of the organisation.

Social Care

Allegations (including whistleblowing) were received from different sources in respect of procurement practices, the management of appointeeships and systems to implement personalisation within social care and inclusion. Work undertaken in respect of this is now subject to an external review which is yet to report its findings.

Actions Arising

As a result of the above governance issues, and to reflect the council's new way of delivering services through a systems thinking model, the council established a corporate governance group in July 2013 to carry out a full review of corporate governance over the forthcoming twelve months. This review will encompass a gap analysis of corporate governance based around the CIPFA framework of delivering good governance in local government.

The review will identify a programme of work that will ensure that resources are directed in accordance with council policy and according to priorities; that there is sound and inclusive decision making; and that there is clear accountability for the use of those resources, in order to achieve the desired outcomes for service users and communities. In particular the corporate governance group will focus on the corporate plan and supporting priorities; the way we deliver services in support of the corporate plan; specific lessons learned arising out of Audit investigations; risk; performance management; and ethical governance/behaviour. The review will also look at how we embed governance and ethical behaviour across the organisation, supporting and empowering staff to deliver services in an ethical manner according to customer demand.

This group will report progress to Audit Committee, on a six monthly basis, and the outcomes from this work will also feed into the Annual Governance Statement for 2014/15.

Annual Governance Statement 2012/13

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Paul Sheehan
Chief Executive

Date: September 2013

In approving this statement, the views and assurances of the statutory officers and Executive Directors have been sought and appropriate evidence obtained to support it.

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Councillor Mike Bird
Leader of the Council

Date: September 2013

In approving this statement, the views and assurances of the statutory officers and executive directors have been sought and appropriate evidence obtained to support it.