

Audit Committee – 6 January 2014

Submission of corporate risk for scrutiny

1. Summary of report

- 1.1 This report provides feedback on corporate risk 12 - Governance Failure, which was selected for scrutiny by Audit Committee at their meeting on 25 September 2013.

2. Background papers

- 2.1 Corporate Risk Register (CRR)/files/working papers.

3. Recommendations

- 3.1 Audit Committee are recommended to note the contents of the report and action being taken and to comment as appropriate.



James T Walsh
Chief Finance Officer
20 December 2013

4. Resource and legal considerations

- 4.1 There are no direct resource implications relating to this report. However the statutory requirements are detailed in the governance section below.

5. Governance

- 5.1 Audit Committee's responsibility for risk management includes the following:
- Reviewing the mechanisms for the assessment and management of risk.
 - Giving assurance about the process.
 - Ensuring the council meets its statutory requirements, as stipulated within the Accounts and Audit Regulations 2011 as follows:
 - Regulation 4 (1) – The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body 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.
- 5.2 Audit committee is also required to ensure that it receives reports on risk management on a regular basis and takes appropriate action to ensure that strategic business risks are being actively managed, including reporting to full council as appropriate.

6. Performance management and risk management issues

6.1 Risk management is an integral part of the corporate governance framework. This recognises that the member committee with responsibility for risk management takes appropriate action to ensure that corporate business risks are actively managed. By periodically selecting sample risks for scrutiny, Audit Committee fulfils this requirement and enables challenge where risks are not considered to be effectively managed. This approach reduces the risk of strategic risks not being actively managed which would adversely impact on council performance. By periodically selecting sample risks for scrutiny Audit Committee exercises its regulatory function and enables challenge where risks are not considered to be effectively managed.

7. Summary of Risk Selected for Scrutiny - Corporate Risk No 12 – Governance failure

(Chief Executive and Head of Legal and Democratic Services in attendance).

7.1 This risk first appeared on the CRR in October 2011 and consisted of assimilating four existing risks as detailed below:

- Inspection/audits uncover inadequate practices;
- Non compliance of procurement regulations
- Significant opportunities to strengthen the internal control system by implementing agreed audit report actions are not taken;
- Failure to comply with grant requirements (grants manual).

7.2 Corporate governance was considered by Audit Committee on 11 November 2013 in relation to the external audit Annual Audit Letter and recommendations contained in the Letter in respect of governance. The meeting was attended by the Chief Executive. The recommendation was required to be reported to Council for their consideration. On 18th November, Council considered the recommendation of the auditor and approved the following:

1. To note and accept the recommendation as set out
2. To note the identified actions being taken by the council to address the recommendation, and
3. To delegate oversight of these actions to Audit Committee.

7.3 A separate report on tonight's agenda provides an update on the review of Corporate Governance.

8. Equality implications

8.1 None arising directly from this report.

9. Consultation

9.1 The officer with responsibility for managing the corporate risk selected for scrutiny has been consulted: views and comments are included within the body of this report and officers will be attending the meeting to discuss mitigating actions.

Author

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12	Governance Failure	Last Reviewed	Last Updated	Current Risk Score	Target Risk Score	Achieved by
		June 2013	Sept 2013	(1xL 3x5=15	(1xL 2x3=6	May 2014

Risk Owner: Tony Cox

Risk Description

The reduction in national scrutiny on standards and governance, combined with budgetary pressures to outsource back office functions, shared services, partnering arrangements may lead to the council downgrading its focus on complying with proper governance standards. If the council does not have robust corporate governance arrangements underpinning its operations, and does not review and monitor compliance, it may be exposed to significant risks which could have serious implications for service delivery, and lead to of legal challenge, intervention, financial detriment, and reputational damage.

Key mitigation activities

<p>A governance framework is in place to limit the risk of governance failure. The governance framework consists of among other things council policy and procedures including financial, personnel and other procedures; a performance framework; community and corporate planning; management supervision in accordance with the employee performance assessment (EPA) framework; a comprehensive risk management strategy and process; project management methodology; and a system of officer and member delegations and accountability, and codes of conduct. These are detailed within the annual governance statement (AGS). A review of how we corporately compile the AGS is being undertaken to ensure that all governance requirements are fully implemented across the council.</p> <p>All managers and employees have a responsibility to comply with, and develop and maintain sound systems of governance, risk management and internal control, to maintain standards of good governance and assist in the prevention and detection of irregularities and fraud. Production and certification of the annual governance statement acknowledges the council's responsibilities in ensuring a sound system of governance is in place.</p> <p>The council has a Constitution which includes the contract rules and financial rules. The Constitution is amended, as necessary, where there are changes in regulation and law. In addition guidance material is published and available. Training programmes are provided to ensure officers have up-to-date knowledge. The Constitution is reviewed annually in the municipal year for approval by the council at its annual meeting. Internal audit have reviewed the Constitution and draft findings were released in late 2012. A programme for review of the Constitution has been agreed and will be reviewed through the Standards Committee.</p>	Tony Cox
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Impact: 1=Negligible (Little effect to organisational objectives) 2=Marginal (Affects some of the organisational objectives)
 3=Critical (Affects most of the organisational objectives) 4=Catastrophic (Affects all of the organisational objectives)
Likelihood: 1=Almost Impossible; 2=Very Low; 3=Low; 4=Significant; 5=High; 6=Very High;

The programme of work for internal audit is designed to have a reasonable expectation of detecting significant governance failures. Where such failures are identified, internal audit will agree actions with accountable managers to address these. Any areas receiving a no or limited assurance audit opinion are routinely reported to the council's Audit Committee, where Executive Directors and relevant managers are required to give assurances to Committee Members that they have made sufficient arrangements to address the weaknesses identified.

Rebecca Neill

Grant Thornton, external auditors to the council assess and report on the council's governance arrangements as part of their annual work programme. Any governance failings noted by them, are also subject to and addressed by prompt management action. Audit Committee received the Annual Audit Letter 2012/13 at its meeting on 11th November. This contained a recommendation in respect of governance, arising from the council's disclosures under Section 5, Significant Governance Issues, of its Annual Governance Statement, that a number of significant governance issues have occurred during 2011/12 and 2012/13:

- Audit investigation into irregularities concerning recruitment and selection; procurement; and pay and grading practices within human resources.
- 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 by Bevan Brittan, which at the time of writing is yet to report on its findings.

Grant Thornton advised that *"We are required to report to you when we designate under section 11(3) of the Audit Commission Act 1998 any recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response"*.

Grant Thornton advised that *"we consider that the importance of establishing a greater corporate 'compliance culture' for the Council's internal controls and governance arrangements is of sufficient priority that we have decided to make such a recommendation as part of our 2013/14 audit:*

Recommendation under section 11(3) of the Audit Commission Act 1998

The Council should:

- *review existing governance processes and procedures to provide assurance that the existing governance framework is fit for purpose*
- *Investigate how governance is applied across the Council, to ensure that expected ethical standards are reinforced and that a culture of compliance is*

<p><i>embedded throughout the organisation.</i></p> <p>Grant Thornton acknowledged that <i>“the council has already established a Governance Forum to take forward these issues. It has therefore already acknowledged the need to improve arrangements regarding its governance. It must, however, consider the recommendation at a formal meeting which has been appropriately advertised within one month from the date the recommendation was made to the Council. At the meeting the Council must decide if the recommendation is to be accepted and what action should be taken”.</i></p> <p>Council considered the above recommendation at it’s meeting on 18 December and resolved that Council:</p> <ol style="list-style-type: none"> 1. Note and accept the recommendation as set out 2. Note the identified actions being taken by the council to address the recommendation, and 3. Delegate oversight of these actions to Audit Committee. <p>The Governance Forum is chaired by the Chief Executive.</p>	Governance Forum
<p>The council has established a procedure for procurement through the Contract Rules 2010. A range of training sessions were delivered to key managers across the council on the introduction of the Contract Rules in early 2011. Professional training is provided on an annual basis and/or when required (ad hoc basis). There is a requirement on officers to contact the Procurement team on all contracts above £100,000k. These rules are kept under review to ensure that they are consistent with current legislation. Standard documents have been developed to support the consistent application of sound procurement practice.</p>	James Walsh
<p>The council has implemented a grants manual that is aimed at ensuring that all managers comply with grant requirements to limit the council’s exposure to paying back grants. There is a link within the partnership toolkit to the council’s grants manual.</p>	James Walsh
<p>All business change initiatives will be part of the council wide “Working Smarter Programme”. Within the programme there are 4 key themes and 1 support theme. Each theme is led and owned by an Executive Director who reports back to the Corporate “Working Smarter Board” (chaired by the Chief Executive) to ensure the measurable outcomes are being met. To deliver each business change initiative there are a range of approaches that can be used eg: “Systems Thinking”, “Lean” and “traditional Programme and Project Management”. It is for each Theme Lead to choose the method that is most appropriate to the change being undertaken. To help support this process the Corporate Business Change Programme and Project Delivery team are currently drafting the “Walsall Change Approach” which will supersede the existing Walsall Project Approach. Business change initiatives should be risk assessed to ensure that appropriate levels of governance are maintained.</p>	Carol Williams

<p>The council's Partnership Framework and Toolkit has been developed to guide elected members and officers of the council when working with partnerships. It explains what staff need to do to ensure strong and effective partnerships and to avoid putting the Council at risk. In addition there is a partnership register detailing the partnerships within which the council is involved.</p>	<p>Jamie Morris/ John Leach</p>
<p>The Programme Delivery and Governance team are currently working on building a new framework for understanding and improving the delivery of services to customers. The framework will be presented to Audit Committee for consultation in January 2014.</p>	<p>Carol Williams</p>

<p><u>Further Actions/Controls required:</u></p>	<p><u>Council's</u></p>	<p><u>When:</u></p>
<ul style="list-style-type: none"> • Close monitoring and review of risks within programmes and projects is required. 		<p>Ongoing</p>
<ul style="list-style-type: none"> • E learning training on the decision making process and the Constitution to be made available on the intranet. 		<p>July 2013</p>
<ul style="list-style-type: none"> • Constitution to be refreshed and submitted to appropriate Committee 		<p>May 2014</p>
<ul style="list-style-type: none"> • Internal audit of the council's governance arrangements to be undertaken 		<p>January 2014</p>
<ul style="list-style-type: none"> • Performance framework to be established for roll out across the organisation <ul style="list-style-type: none"> - Report to Audit Committee – January 2014 		<p>Dec 2013</p>

Progress to Date

<p>Draft performance framework considered by Corporate Management Team on 29 August 2013 and Assistant Directors Forum on 9 September 2013. To be finalised by Corporate Management Team on 3 October 2013 and considered by Audit Committee in January 2014.</p> <p>The process of refreshing and amending the constitution is progressing and is being reported through Standards Committee. A report was taken to Standards Committee on 7th October 2013.</p> <p>E Learning on the constitution now forms part of the new council corporate induction process.</p> <p>An internal audit of the council's governance arrangements has been undertaken. The draft report action plan was issued to the Governance Forum at their meeting of 18 November 2013. The action plan will be addressed as part of the groups wider programme of work to be approved by the Audit Committee on 6 January 2014.</p>
