Audit Committee – 24 September 2014

Annual Review of Effectiveness of the Systems of Internal Audit and Internal Control and the Annual Governance Statement 2013/14

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.

The Annual Governance Statement (AGS) was drafted, assurances were evaluated and supporting evidence gathered. The outcome of this process was a conclusion that the effectiveness of the systems of internal control and internal audit are adequate overall. This is supported by external audit view that the council is operating at an adequate level in regards to its internal control and internal audit framework.

This review supports production of the AGS for 2013/14, and requires Audit Committee approval prior to publication of the Statement 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 reviews as contained within this report.
2. Receive, consider and approve the attached Annual Governance Statement, for publication alongside the Statement of Accounts.

James T Walsh – Chief Finance Officer

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.

The AGS is legally required to be signed by the Chief Executive and Lead Member.

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
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 risk management arrangements are fundamental to demonstrating good governance.

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.

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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Review of Effectiveness of Governance Arrangements

Walsall Council (via Audit Committee) has a statutory 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.

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 in 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, it's opinion on VFM and the 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 for reporting. For example, in 2013/14, Audit Committee made a number of suggested improvements to the reporting of corporate risks which are being incorporated into the risk management process and corporate risk register.
- 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 2013/14 in these areas. These have been considered in the annual effectiveness reviews of the systems of internal control and internal audit and an overall conclusion is provided at the end of each section.

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 compliance checklist has been produced by Internal Audit against the Public Sector Internal Audit Standards which came into effect from 1 April 2013. Of the 206 point checklist detailed within CIPFA's 'Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards', 10 now remain outstanding relating to the implementation of the 5 yearly external assessment of internal audit's PSIAS compliance.

Following updates on internal audit's progress against the new Public Sector Internal Audit Standards which reported to Audit Committee on 24 June 2013, 2 September 2013 and 24 February 2014, a revised action plan is in place which was considered by Audit Committee on 1 September 2014.

It was concluded that practice generally conforms to the standard overall, with the exception of that noted above.

Audit Committee has a regulatory role in terms of receiving reports on the effectiveness of the system of internal control and internal audit 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 2013/14.

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 was 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 overleaf and demonstrate that Audit Committee is now compliant.

Question	Response	Mitigating Control / Proposed Action	For AGS purposes, is this control considered reasonable
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. This did happen in 2013/14.
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. This did happen in 2013/14.
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 took place on 27 August.

An important area of independent assurance on the effectiveness of the system of internal audit is the work of the Council's external auditors, Grant Thornton, and their opinion. Grant Thornton have undertaken a review of internal audit. In their interim report dated June 2014, they concluded that "*the internal audit service continues to provide an independent and satisfactory service to the council and that internal audit work contributes to an effective internal control environment at the Council*".

Based on the above, 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 control is informed by the work of the Audit Committee, other regulatory committees, the work of the internal and external auditors and the work of senior management of the council.

Head of Internal Audit Assessment of Governance and Internal Control Effectiveness during 2013/14

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. This was reported to Audit Committee on 1 September 2014.

In respect of the 2013/14 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 2013/14, and the positive action taken or intended to be taken by managers to implement agreed audit report actions, a significant level of assurance can be provided in relation to the overall adequacy and effectiveness of Walsall Council's framework of governance, risk management and control (the internal control environment).

Control weaknesses were identified during the 2013/14 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 internal control environment 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 2013/14.

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

Internal Audit 2013/14 Identified Control Weaknesses

The AGS effectiveness review is also informed by work undertaken in 2013/14 to follow up on actions agreed to improve control weaknesses identified in the previous year's (2012/13) AGS.

During 2012/13, Internal Audit reviews were undertaken of the 13 fundamental financial systems. Internal Audit acknowledged at that time that the majority of key financial systems are operating satisfactorily, however there were some areas of concern, as follows:

- Significant assurance opinion – 10, of which 2 were borderline significant - payroll and treasury management
- Limited assurance opinion – 2 - accounts payable and housing & council tax benefit

Follow up audits have been undertaken during 2013/14 and the results are as follows:

Payroll - Borderline significant assurance
Treasury management - Significant assurance
Accounts Payable – Significant assurance
Housing Benefit & council tax reduction - Borderline significant assurance

All 12 fundamental financial systems were found to be operating satisfactorily.

The AGS effectiveness review is also informed by internal audit work undertaken in 2013/14, the findings of these reviews and actions plans put in place by managers address control weaknesses.

Fundamental Financial Systems:

As reported above, Internal Audit has acknowledged that the 12 key financial systems are operating satisfactorily.

Other Financial and Non Financial Systems and Unplanned work:

In addition to fundamental financial systems, 101 audit reviews were undertaken in 2013/14 of other financial and non financial systems and processes that contribute to the council's overall corporate governance arrangements.

Internal audit's work identified that although in most audit assignments the processes examined were generally working satisfactorily, system weaknesses were identified in certain areas as shown in those given a limited assurance opinion. 1 audit review was given a no assurance opinion in 2013/14 - Stocks & Inventories (Community Alarm Service).

15 reviews were given a limited assurance opinion and 9 received a borderline significant assurance opinion (including Corporate Governance). A summary of these were reported to Audit Committee on 1 September.

In addition to planned audit reviews, a number of unplanned assurance work took place, comprising of;

- advisory and consultancy related services which are carried out to improve services and to add value, including the impact of proposed policy initiatives, programmes and projects as well as emerging risks.
- prevention, detection and investigation of fraud and corruption; and other irregularity - 3 being notified through the whistle blowing procedure.

While most cases were not material in the context of this opinion, several cases gave cause for concern this year and these have been reported to Audit Committee.

A summary of the unplanned work is reported 6 monthly to the Audit Committee.

<u>Corporate Governance Audit</u>
Internal audit undertook an audit of corporate governance report during 2013/14 and this was reported to CMT on 19 June 2014. CMT duly noted the report and provided their leadership commitment to ensuring that the agreed actions within the report are implemented. The audit report, detailing an overall significant (borderline) assurance opinion was reported to Audit Committee on 1 September 2014. To avoid any duplication with Grant Thornton's work, this report has also been shared with Grant Thornton and is being used by them as part of their 'independent review and challenge work'. Further details of the above are included in the "Governance Issues identified in 2012/13 AGS" section below.

Regulatory Committee – Standards Committee and the Ethical Framework

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.

To date no cases of member conduct have been reported for investigation.

As lead Officer for the Standards Committee, the Monitoring Officer has a key role in promoting the Councils Ethical Framework and high standards of conduct within the authority. This includes the maintenance of the Members and Officers Registers of Interests and Gifts and Hospitality.

The Monitoring Officer is responsible for establishing and maintaining a register of member's interests. This is held within the office of the Democratic Services Manager and is also accessible through the Council's website through CMIS. The register is updated following the Council's annual meeting each year and periodically thereafter as members advise of changes to their entries on the register. Members' gifts and hospitality is also recorded on the interest register. Regular reminders of the need to keep it up-to-date continue to be provided to all members.

The Monitoring Officer also keeps the register of officer financial and non-financial interests in accordance with 17.3 of the Code of Conduct for Council Employees. The form used by officers for declaring such interests has been revised this year to make the process of declaration clearer.

The Constitution is a living document and as such is subject to regular review and update. In particular the Officer delegations are reviewed annually. Any changes to the constitution are reported to Annual Council, and the constitution is amended accordingly. The proposed amendments/changes to the constitution are presented to Audit Committee prior to going to Council to ensure elected members are able to scrutinise and be consulted on any proposed changes. In 2013/14 the Head of Democratic Services carried out a comprehensive review of the Constitution in consultation with the Standards Committee and the changes were approved at Annual Council on 16th June 2014.

The confidential reporting (whistle blowing) policy has also been reviewed through Standards Committee in 2013/14.

Lawfulness and Maladministration

The Monitoring Officer is the Councils lead adviser on issues of lawfulness and the Councils powers. Part of this role involves monitoring cabinet and committee reports, agendas, decisions and procedures to ensure compliance with legislation and the constitution (e.g.: as regards access to information). The majority this work is undertaken by officers from Legal and Democratic services. The Monitoring Officer also has a duty to ensure, through Democratic Services, that the committee decisions and the reasons for the same are made publicly available. This work is carried out by officers from Democratic Services through the Council's website, by means of CMIS.

There have been three reports of unlawfulness (appointeeships, a planning application and a funding issue with regards to an adult social care placement) from April 2013 to September 2014. Of these, two reports have been or are due to be considered by Cabinet, and one report has been considered by Council. The council has complied with all of the recommendations issued by the Local Government Ombudsman.

The Monitoring Officer concludes that the council's governance framework arrangements are robust irrespective of the above regarding potentially unlawful decision-making or maladministration issues during 2013/14.

Governance Issues identified in 2012/13 AGS

During 2011/12 and 2012/13 two significant governance issues occurred, in relation to Human Resources and Adult Social Care, which were highlighted in the 2012/13 years AGS;

- Audit investigation into irregularities concerning recruitment and selection; procurement; and pay and grading 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. A follow up detailing progress against the action plan was reported to Audit Committee on 12 November 2012. At 6 January 2014 Audit Committee, it was reported that all actions had now been implemented.

- 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. Internal

audit work undertaken in respect of this led to the suspension of 3 senior officers, including the former executive director of social care and inclusion. A disciplinary investigation was undertaken by external investigators, resulting in the dismissal of 2 of the senior officers, which included the former executive director of social care and inclusion. A separate report on these matters will be brought to Audit Committee shortly.

As a result of failures in internal control noted in preparation for the Annual Governance Statement 2012/13, a meeting, chaired by the Chief Executive, was held on the 17th May 2013. The objective of the meeting was to review what might be learnt from these events and to assess any implications for the council's governance and risk management arrangements moving forwards.

This group met again on 25th June 2013 to continue these deliberations. A number of key themes were noted by the group, concerning failures of control in human resources and social care & inclusion. Whilst these appeared to arise from the actions of individuals which were contrary to the council's code of conduct and other policies / procedures, it was decided that it was essential to carry out a corporate review of governance to establish whether or not these were isolated incidences, or whether there was a fundamental problem with corporate governance and the way it is embedded across the council. It was concluded that although there were control issues identified in both investigations, without this action on behalf of the senior individuals involved, it was highly unlikely that the serious failures of control would have been experienced or at least, any failures of control would not have been as significant in nature.

The Corporate Governance Forum (the 'Forum') having been established formally in June, met on 30th July 2013 and again on 27th September 2013. The Forum is chaired by the Chief Executive.

The purpose of the Forum is as follows:
- To review existing governance processes and procedures including a review of how governance is applied across the Council and specifically champion and reinforce the expected standards of ethical behaviours of employees and elected members in carrying out their work. The purpose of this review is to ensure that our arrangements are as much as possible fit for purpose and fit for the future.
- To identify any gaps in governance and make recommendations to rectify the same.
- To report back to elected members through Audit Committee.
- To feed into the Annual Governance statement for 2013/14.

The Forum initially reported to Audit Committee on 6th January 2014 to outline the strategic review and the Committee received and made recommendations on revisions to the Forum's terms of reference and work plan. Additionally, it approved a revised Local Code of Governance.

The Forum provided a further comprehensive update to Audit Committee on 1st September 2014. A link to the report is included here.
http://www2.walsall.gov.uk/CMISWebPublic/Binary.ashx?Document=13864

The conclusion of the Forum to date is that the council's governance framework is sound, however there are some areas for improvement, identified via the Forum and the Corporate Governance internal audit, namely further work is needed to embed good governance across the organisation, including getting the message across to employees as to what it means to them as Walsall council employees.

- Further embed good governance in the "hearts and minds" of the organisation and that officers behave in ways which prioritise governance and exemplify high standards of conduct - through; making the Corporate vision and values more visible; making better use of "Inside Walsall" to make it easier to local the Corporate Plan and the Local Code of Governance and developing further E-learning modules to address gaps in skills and knowledge.
- Strengthen performance management systems to ensure services are achieving against purpose, that service failure is promptly identified and addressed, as well as recognition where performance is good.
- The Local Code of Governance is refreshed (this has been implemented)
- A communications strategy is put in place to promote a greater understanding internally of the organisation's purpose, shared vision, values and priorities as set out in the Corporate Plan.

The Forum's work plan includes a review/challenge of the work of the Forum and the council's governance arrangements by an independent body to *"provide independent assurance to the Council and its stakeholders that the governance framework is robust yet flexible enough to permit the Council to deliver services in a fair and transparent manner, whilst ensuring proper stewardship of public money"*. This is being undertaken by Grant Thornton, who have attended the Forum meetings during the year. At the time of writing this, we await the final report, however initial feedback supports the Forum and internal audit corporate governance report findings and specifically "*the Council should look to improve communication and integration between its operational and corporate functions and seek greater clarity of understanding of Council priorities"*.

Grant Thornton have advised that:

"Our specific work on this assignment and our cumulative knowledge, gained from our role as the Council's external auditors over the last seven years, has confirmed that having in place an effective governance framework remains a challenge for the Council. It is important that this framework is proportionate to the risks the Council responds to and the levels of value for money it seeks to provide.

A key observation from this work is that it is not just the systems and procedures of governance that need to be effective but also (and arguably more importantly) the attitudes and behaviours of its workforce.

In establishing the Governance Forum the Council has recognised the importance of this agenda and made good progress in reviewing its systems and procedures. However, continued strong leadership from officers and members will be required in order that the necessary cultural understanding, engagement and compliance is served.

We commend the Council for its response to date and will continue to support its work on embedding a strong well-governed culture in support of its services.

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. In addition to their independent challenge of teh work of the Forum above, their work in 2013/14 included:

a)   The Annual Audit Letter 2012/13 published October 2013, 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. In relation to governance, Grant Thornton recognised that issues had been identified and were being addressed by the Council, however, they considered that the importance of establishing a greater corporate 'compliance culture' for the Council's internal controls and governance arrangements was of sufficient priority that they decided to make the following 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 embedded throughout the organisation.

Council accepted the recommendation and delegated oversight of these actions to Audit Committee. These actions have been built into the work programme of the Corporate Governance Forum set out above. The key findings of the draft report state that "based on the work of the Corporate Governance Forum to date, as well as the significant assurance opinion given by the Internal Audit review, and the findings within this report, we consider that the Council is making sufficient progress in addressing the recommendation made in the 2012/13 Annual Audit Letter".

b)   The Annual Report to Those Charged with Governance, published September 2013, which provided an unqualified opinion of the 2012/13 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.

c)   Grant certification report, reported to Audit Committee February 2014, covering grant certification work for 2012/13. This covered the external audit of 3 claims and returns amounting to c£223m of the council's expenditure. 1 claim was submitted late to the auditors and the audit certification was completed within the required deadlines for all 3. All three returns/claims have required amendments, however, the values of these amendments were not significant. Two medium priority recommendations were made by the Auditors, which officers have agreed with and implemented.

d) Financial resilience report, reported to Audit Committee in September 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. Grant Thornton's overall conclusion is that whilst the council faces some significant risks and challenges during 2013/14 and beyond, our current arrangements for achieving financial resilience are adequate.

e) The results of the interim audit work, reported to Audit Committee in July 2014, included a review of the council's overarching controls, with three recommendations arising, none of which are material. Further, as mentioned above, Grant Thornton concluded that "*the internal audit service continues to provide an independent and satisfactory service to the council and that internal audit work contributes to an effective internal control environment at the Council*".

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, Scrutiny Panels, Audit Committee and Cabinet, including corporate risks, financial health indicators, the medium term financial outlook 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, finance rules and scheme of delegations 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/close to the approved budget. Treasury management activities are operated in accordance with the statutory Code of Practice.

In 2013/14, 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 further consideration by Audit Committee.

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.

Performance Management

As previously stated, the Corporate Plan 2013/14 - 2014/15 explains what we are doing as a council. 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 by strategic leaders. 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 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. The refreshed corporate performance management framework was approved by Cabinet in February 2014 has been designed to demonstrate progress against objectives and outcome measures. This involves developing report styles to suit the measures being reported on and an increased focus on delivery of activity to address the priority issue. This work is in hand and the outcome or effectiveness is yet to be assessed. The Governance Forum and corporate governance internal audit report has re-emphasised the need to strengthen performance management and reporting.

Other Inspectorates

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 continued to be monitored by the Children's Improvement Board during 2013/14 and a report was made to Audit Committee on 11 November 2013. The Secretary of State for Children and Families wrote to Walsall Council Leader on 23 July 2014 confirming that the improvement notice on Walsall Council has been lifted with immediate effect.

An OFSTED inspection of the Council's school improvement service took place in June 2014. OFSTED concluded that arrangements are ineffective. This will be reported to Audit Committee shortly.

Information Governance

The Council takes information management very seriously and has prioritised effort and resources into raising awareness to members and employees of everyone's responsibilities when handling information of all types but particularly personal and sensitive information which relates to our residents.

There are designated officers who carry out the roles of Senior Information Risk Owner (SIRO) and Caldicott Guardian. Through the Forum for Information Governance (FIGA) there is senior management representation from across the council to review and action information risks. Corporate Management Team receive updates on the information risks through quarterly update of the Corporate Risk Register, where there is a specific risk relating to Data Control – Information, ICT and Cyber Risk.

In March 2013 Cabinet approved the Information Governance Policy Framework and supporting Policies: Information Risk and Security Policy, Information Rights Policy and Records Management Policy. Developing new or revised procedures as part of the Policy framework is prioritised based upon the most significant impact and likelihood of a breach of the relevant legislation. During 2013/14 five new procedures have been developed and added to the Policy Framework.   These cover topics such as Removable Media, Agile Working, Document Retention, Data Breach Handling and records retention with a Mobile Device procedure being developed.

Handling Breaches of the Data Protection Act (DPA)

Through the newly implemented data breach handling process, during 2013/14 there were 84 breaches reported and investigated by the Information Governance team. Categorised from Level 1 (minor breach) through to Level 4 (major serious breach), there were no breaches at level 4. Five breaches were categorised at level 3, with one of these being reported to the Information Commissioner. The remaining breaches were categorised as lower level breaches - Level 1 or 2. Learning has been fed back into the service to reduce the risk of the same breaches occurring again.

The introduction of Information Asset Owners and Information Custodians role across all areas of the business has enabled the council to build a register of information assets held in systems such as IT applications and document storage systems (currently 267 assets are registered).   When a breach occurs the register enables the appropriate Asset Owner to be alerted and any immediate actions implemented.

Protecting Information Training and Awareness

The Chief Executive and Corporate Management Team have fully endorsed the roll out of training and awareness raising across the council. Training roll out has been a significant piece of work, delivered through the council's E-learning facilities and providing the recognised Cabinet Office On-Line Protecting Information training Levels 1 – 3.

Level 1 of the training is mandatory for employees and elected members with Level 2 being a requirement for supervisors and areas where people are dealing with sensitive personal information and level 3 for staff in key Information Governance roles. Alternative formats have been developed for employees who do not use ICT equipment.

As at March 2013, the council has successfully achieved a pass rate at Level 1 Protecting Information Training for the majority of employees. There is also good progress being made in the achievement of Level 2 of the course, with over 75% compliance. Training delivery has been adapted i.e. via classroom and workbooks where access to IT facilities is not possible. Training will remain a high priority for employees who join the organisation or change their job role and refresher training is planned.

Bespoke training has been delivered to 63 Information Asset Owners and Custodians, with 16 staff to receive training during 2014/15.

To support the training, which is seen as one element of maintaining information governance awareness there are regular updates in Core Brief on the Intranet on Pay Slips and through support from Information Champions and Information Asset Owners.

Data Protection (DPA), Freedom of Information (FOI) and Environmental Information Regulation Access Requests (EIR)

The table overleaf shows an analysis by calendar year of the numbers of requests received by the council:

Request Breakdown	2011	2012	2013	2014 (Jan – March only)	Forecast for 2014
FOI/EIR	800	842	990	346	1384
DPA	62	64	243	89	356
Total	**862**	**906**	**1233**	**435**	**1740**

Year on year, the number of requests has increased significantly for both FOI/EIR and DPA, with many of the requests under Freedom of Information emanating from the media. Recent requests consistently comprising of complex multiple enquiries within a single request and the same request being sent to all councils within the West Midlands or even nationally.

The approach to the way in which requests are handled in currently under review, due in part to the continuing growth in numbers and also the complexity of requests.

Information Assurance and Data Sharing Agreements

To comply with the integration of the Public Health function into the council in April 2013, approval was given by Connecting for Health to enable Public Health to access health data held by the NHS once the function became part of the local authority.

Following approval of the Council's Information Governance Toolkit in March 2013 the N3 network connection to the NHS was confirmed. A further submission of the Toolkit in 2014; reaffirmed the continuing acceptance of the information governance arrangements of the council as being acceptable to the NHS.

Through recognition by partner organisations (Police, Health and Fire) that the council takes information management seriously it has led to the establishment of a Walsall Partnership Information Sharing Agreement to which all parties are signed up to. A separate agreement exists with the council and Department for Work and Pensions. This provides an overarching agreement and level of confidence that partner organisations are working together and have confidence in how they can share information to improve services to residents and businesses in the borough.

Other Supporting Evidence

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

f)   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 Public Sector Internal Audit Standards and including such areas as discussion/agreement of the risk based audit plan and each individual audit review;

g)   The role of the Audit Committee in endorsing Internal Audit's work plan and in their regular review and scrutiny of audit performance and;

h)   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.

i)   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.

j)   The regular review of Internal Audit work by the CFO including meetings with the Head of Internal Audit;

Based on the work of Audit Committee, internal and external audit assurances, and the work and findings of the Corporate Governance Forum and progress in addressing the 2 significant governance issues identified in the 2012/13 Statement, the system of Internal Control is assessed as satisfactory overall. Some improvements have been identified as set out in this report and the Annual Governance Statement attached.

Annual Governance Statement

1.   Scope of responsibility

This statement is given in respect of the 2013/14 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 2014 and up to the date of approval of the statement of accounts.

3.   The Governance Framework

The key elements of the council's governance arrangements, including the system of internal control, are documented in the council's Local Code of Governance available at the following link http://cms.walsall.gov.uk/local_code_of_governance_2014.pdf

The Local Code of Governance incorporates 6 key principles of good governance:

1.   Focusing on the purpose of Walsall Council and on outcomes for the community, and creating and implementing a vision for the local area.

2.   Elected Members and Officers working together to achieve a common purpose with clearly defined functions and roles.
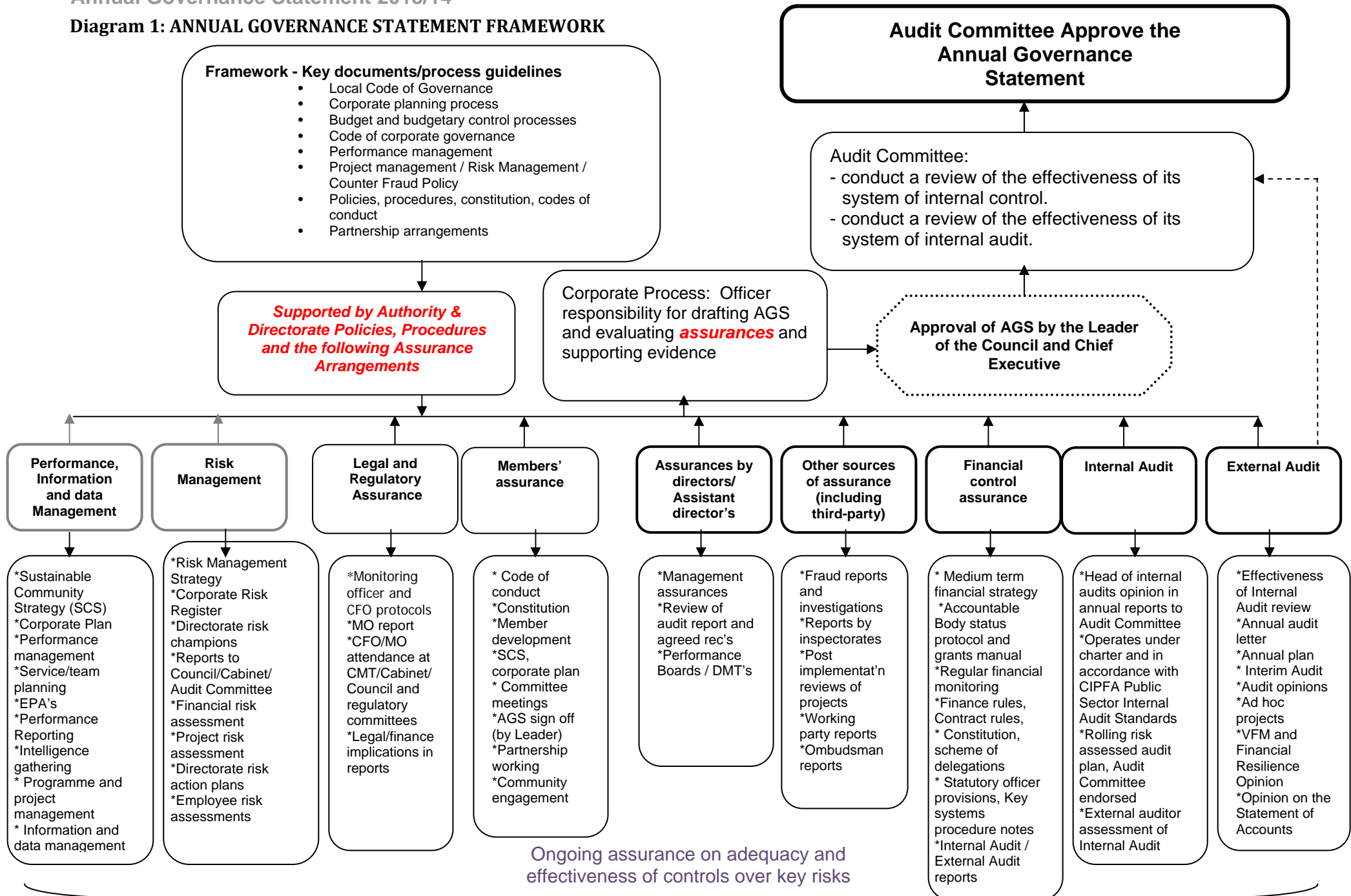
3. Promoting Values for Walsall Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

5. Developing the capacity and capability of Elected Members and Officers to be effective.

6. Engaging with local people and other stakeholders to ensure robust public accountability.

The Local Code also sets out how the council will put these into practice, including by:

- 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.
- Complying with established policies, procedures, laws and regulations, 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.
- 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 Government (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.
- Developing and maintaining an effective Audit Committee
- Identifying and supporting development needs of members and senior officers.
- Ensuring effective 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.
- Incorporating good governance arrangements in respect of partnerships and other group working.

The governance framework consists of management information, finance 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, an agreed Walsall Change Approach 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

Framework - Key documents/process guidelines
- Local Code of Governance
- Corporate planning process
- Budget and budgetary control processes
- Code of corporate governance
- Performance management
- Project management / Risk Management / Counter Fraud Policy
- Policies, procedures, constitution, codes of conduct
- Partnership arrangements

Audit Committee Approve the Annual Governance Statement

Audit Committee:
- conduct a review of the effectiveness of its system of internal control.
- conduct a review of the effectiveness of its system of internal audit.

Supported by Authority & Directorate Policies, Procedures and the following Assurance Arrangements

Corporate Process: Officer responsibility for drafting AGS and evaluating ***assurances*** and supporting evidence

Approval of AGS by the Leader of the Council and Chief Executive

Performance, Information and data Management

Risk Management

Legal and Regulatory Assurance

Members' assurance

Assurances by directors/ Assistant director's

Other sources of assurance (including third-party)

Financial control assurance

Internal Audit

External Audit

*Sustainable Community Strategy (SCS)
*Corporate Plan
*Performance management
*Service/team planning
*EPA's
*Performance Reporting
*Intelligence gathering
* Programme and project management
* Information and data management

*Risk Management Strategy
*Corporate Risk Register
*Directorate risk champions
*Reports to Council/Cabinet/ Audit Committee
*Financial risk assessment
*Project risk assessment
*Directorate risk action plans
*Employee risk assessments

*Monitoring officer and CFO protocols
*MO report
*CFO/MO attendance at CMT/Cabinet/ Council and regulatory committees
*Legal/finance implications in reports

* Code of conduct
*Constitution
*Member development
*SCS, corporate plan
* Committee meetings
*AGS sign off (by Leader)
*Partnership working
*Community engagement

*Management assurances
*Review of audit report and agreed rec's
*Performance Boards / DMT's

*Fraud reports and investigations
*Reports by inspectorates
*Post implementat'n reviews of projects
*Working party reports
*Ombudsman reports

* Medium term financial strategy
*Accountable Body status protocol and grants manual
*Regular financial monitoring
*Finance rules, Contract rules,
* Constitution, scheme of delegations
* Statutory officer provisions, Key systems procedure notes
*Internal Audit / External Audit reports

*Head of internal audits opinion in annual reports to Audit Committee
*Operates under charter and in accordance with CIPFA Public Sector Internal Audit Standards
*Rolling risk assessed audit plan, Audit Committee endorsed
*External auditor assessment of Internal Audit

*Effectiveness of Internal Audit review
*Annual audit letter
*Annual plan
* Interim Audit
*Audit opinions
*Ad hoc projects
*VFM and Financial Resilience Opinion
*Opinion on the Statement of Accounts

Ongoing assurance on adequacy and effectiveness of controls over key risks

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 Approach.
- An agreed approach to change (Walsall Change Approach) under which change management activity is delivered.
- An information governance framework.
- A comprehensive risk management strategy and framework, operating at both strategic and operational levels.
- An approved Constitution, including finance 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.
- 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.

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; change management approach, and directorate strategy and planning documents. These documents set out the council's priorities.

The approved Corporate Plan 2013/14 to 2014/2015 explains what we are doing as a council, the Working Smarter Programme being 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. During 2013/14, all major change activity and projects was 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 were many and varied.

A refreshed corporate performance management framework has been developed and implemented and has been designed to demonstrate progress against objectives and outcome measures. This will be monitored by senior leaders and aligns with progress reported through to Walsall Partnership and the Borough Management Team Management Board.

The council has an established 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. Audit Committee chose to review the following risks during 2013/14:

Risk 12 - Governance Failure - January 2014
Risk number 15 – Welfare Reform Act 2012 – April 2014

Audit Committee also reviewed and endorsed a revised corporate risk management strategy in February 2014.

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. Individual posts are risk assessed within the council and are subject to review. Risk workshops are held to ensure managers and those involved in the assessment and management of risk are appropriately trained.

Audit Committee attended a risk management training workshop in June 2013 to support their role in reviewing risk management within the council.

The council's Constitution sets out how the authority operates and refers to required procedures to be followed to ensure all activity and decision making 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. The scheme of delegations was reviewed and updated during 2013/14.

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.

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.

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 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 statutory 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 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, it's opinion on VFM and the 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, corporate management team 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 for reporting. For example, in 2013/14, Audit Committee made a number of suggested improvements to the reporting of corporate risks which are currently being incorporated into the risk management process and corporate risk register for consideration by 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.

In respect of the system of internal audit and based on:

1. The work of the Audit Committee in 2013/14 in:
   - receiving no and unlimited audit reports,
   - reviewing strategies under their remit,
   - fully complying with the CIPFA "A Toolkit for Local Authority Audit Committees"
2. The work of internal audit and substantial compliance with Public Sector Internal Audit Standards which came into effect on 1 April 2013.
3. The work of the Council's external auditors, Grant Thornton, and their opinion. Grant Thornton have undertaken a review of internal audit. In their interim report dated June 2014, they concluded that "*the internal audit service continues to provide an independent and satisfactory service to the council and that internal audit work contributes to an effective internal control environment at the Council*".

The system of internal audit is considered satisfactory overall.

In respect of the system of internal control, a review of the following areas has been undertaken and reported to Audit Committee in September 2014 to inform the overall opinion as to the effectiveness of the system of internal control:

- Governance Issues and control weaknesses identified in 2012/13 AGS – progress in addressing these
- The work of the Corporate Governance Forum
- The annual report of the Head of Internal Audit on the overall adequacies of the internal control environment.
- Internal Audit 2013/14 Identified Control Weaknesses
- The work of regulatory Committees – Standards and Audit
- The work of External Audit and Inspectorates
- Financial and risk performance reporting
- Information Governance and data protection arrangements
- Other Supporting Evidence

Some control weaknesses have been identified as a result of the work of the above, including the result of the OFSTED inspection of the Council's school improvement service which took place in June 2014 whereby they concluded that arrangements are ineffective. The results of the Inspection, once received, will be reported to Audit Committee along with an action plan. Overall, however, the arrangements continue to be regarded as fit for purpose in accordance with the council's governance framework.

The key areas for improvement to be specifically addressed with action plans are outlined below. A number of issues were identified in the 2012/13 Annual Governance Statement and an update of the progress made in implementing the actions to improve these areas of weakness has been included above.

Further detail on the review can be found on the council's website in the report to Audit Committee 24th September 2014, where the effectiveness review was received and considered.

A key area of assurance highlighted above is from external audit. In their Governance Review report they make the following comments:

"Our specific work on this assignment and our cumulative knowledge, gained from our role as the Council's external auditors over the last seven years, has confirmed that having in place an effective governance framework remains a challenge for the Council. It is important that this framework is proportionate to the risks the Council responds to and the levels of value for money it seeks to provide.

A key observation from this work is that it is not just the systems and procedures of governance that need to be effective but also (and arguably more importantly) the attitudes and behaviours of its workforce.

In establishing the Governance Forum the Council has recognised the importance of this agenda and made good progress in reviewing its systems and procedures. However, continued strong leadership from officers and members will be required in order that the necessary cultural understanding, engagement and compliance is served.

We commend the Council for its response to date and will continue to support its work on embedding a strong well-governed culture in support of its services.

Based on the work of the Corporate Governance Forum to date, as well as the significant assurance opinion given by the Internal Audit review, and the findings within this report, we consider that the Council is making sufficient progress in addressing the recommendation made in the 2012/13 Annual Audit Letter."

5. Significant Governance Issues

Whilst the officers who drafted this Annual Governance Statement, 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, there is a particular area for improvement:

- There is still further work to do to embed good governance across the organisation and to ensure that the Local Code of Governance is adequately disseminated, understood and followed. This is being addressed through the Corporate Governance Forum.

....
Paul Sheehan
Chief Executive

Date: 24 September 2014

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.

....
Councillor Mike Bird
Leader of the Council – April 2013 to August 2014

Date: 24 September 2014

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.

Councillor Sean Coughlan
Leader of the Council – August and September 2014

Date: 24 September 2014

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.