

**Audit Committee – 20 July 2015**

**Annual Review of Effectiveness of the Systems of Internal Audit and Internal Control and the Annual Governance Statement 2014/15**

**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 framework.

This review supports production of the AGS for 2014/15 and requires Audit Committee approval prior to publication alongside the post-audit Annual Statement of Accounts (SoA), in September 2015. CIPFA recommend that it is good practice for Audit Committee to receive the draft AGS before or during the audit of the accounts to enable Audit Committee to raise any points that they feel may need to be addressed prior to formal approval in September, as such the AGS is being provided in draft to this Committee alongside the pre-audit SoA.

**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 and review the attached final draft Annual Governance Statement, for publication alongside the pre-audit Statement of Accounts.
3. Note that the final AGS will be presented to members for approval in September, alongside the post-audit Statement of Accounts.
4. Note that the final AGS will be updated as necessary for any changes or findings as a result of the audit of the AGS and Accounts over the summer period.

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 Statement 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. 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 timescales agreed.

#### 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 an 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 various external audit reports

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## **Review of Effectiveness of Governance Arrangements**

Walsall Council (via Audit Committee) has a statutory responsibility for conducting a review of the effectiveness of its governance framework including the system of internal control and its internal audit in respect of 2014/15.

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 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.
- Findings of the external auditor and other review agencies and inspectorates.
- The Head of Internal Audit's annual report.
- 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 have been incorporated into the revised Corporate Risk Management Strategy and associated processes and the 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 2014/15 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 (PSIAS) which came into effect from 1 April 2013 and Internal Audit's progress against the standards has been regularly reported to Audit Committee (24 June 2013, 2 September 2013, 24 February 2014 and 1 September 2014).

Of the 206 point checklist which makes up the PSIAS, only 10 points now remain outstanding, all relating to one action which is the requirement for a 5 yearly external assessment of internal audit's PSIAS compliance, to be undertaken by April 2018.

On 1 September 2014, Audit Committee agreed the form of the external assessment, a peer review of Internal Audit's self assessment to be undertaken by WM Ambulance Services. A memorandum of understanding has been agreed between the Council and WM Ambulance Services and work is progressing. The outcome of this work will be reported to Audit Committee in due course. The committee concluded that practice generally conforms to the standard overall, with the exception of that noted above.

In addition, the Chief Finance Officer has independently reviewed the files and can confirm that the standards are being met.

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 2014/15.

In June 2013, the Audit Committee endorsed the self-assessment of its effectiveness using CIPFA's "A Toolkit for Local Authority Audit Committees. 68 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 compliant in all areas with the requirements.

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 undertook a review of internal audit and reported in their interim report dated June 2014, 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*".

As part of the Interim Audit work in preparation for the audit of the 2014/15 accounts, Grant Thornton further advise that "*We have concluded that internal audit's*

*responsibilities are appropriate and they have appropriate status within the authority. Internal audit has adopted appropriate methods for undertaking their work and their plan includes coverage of internal controls, including financial, and consideration of governance issues. They report their findings effectively and are able to report independently to Audit Committee. Our review of internal audit work has not identified any weaknesses which impact on our assessment of the control environment”.*

**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 2014/15**

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 20 July 2015.

In respect of the 2014/15 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 2014/15, 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 2014/15 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 2014/15.*

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

## Internal Audit 2014/15 Identified Control Weaknesses

The AGS effectiveness review is also informed by work undertaken in 2014/15 to follow up on actions agreed to improve control weaknesses identified in the previous year's (2013/14) AGS.

During 2013/14, Internal Audit reviews were undertaken of the 12 fundamental financial systems all of which were found to be operating satisfactorily.

During the 2014/15 review, all fundamental financial systems were found to be operating satisfactorily, receiving a significant assurance opinion. Housing Benefit & Council Tax Reduction and Bank Account Reconciliations received a significant (borderline) assurance opinion.

The AGS effectiveness review is also informed by internal audit work undertaken in 2014/15, the findings of these reviews and actions plans put in place by managers address control weaknesses.

### Planned work:

Excluding unplanned irregularity, consultancy and follow up work, 83 planned audits were undertaken. Of these:

- 4 reviews (5%) received a full assurance opinion;
- 74 reviews (89%) received a significant assurance opinion, 13 of these were borderline;
- 5 reviews (6%) received a limited assurance opinion; and
- 0 reviews (0%) received a no assurance opinion.

Overall, 78 reviews (94%) were given significant assurance or above.

In addition to fundamental financial systems, audits were undertaken in 2014/15 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.

The table below details the 5 reviews where a limited assurance opinion was given:

| <b>Directorate</b>      | <b>Audits with a Limited Assurance Opinion</b>                |
|-------------------------|---|
| Children's Services     | Butts Primary School  |
|                         | Greenfield Primary School                                     |
|                         | Stroud Avenue & Dale Street Family Centres                    |
| Regeneration            | Schools Property Maintenance                                  |
| Social Care & Inclusion | Dudley & Walsall Mental Health Partnership & Integrated Teams |

These reports are considered in detail as part of the Audit Committee's routine consideration of no and limited assurance audit opinions.

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.

While most cases were not material in the context of this opinion, four cases gave cause for concern this year and these have been reported to Audit Committee (see separate report on the agenda - Internal Audit Annual Report).

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

Of significance to the 2012/13 – 2014/15 opinion was the investigation of allegations (including whistle blowing) which were received from different sources in respect of procurement practices, the management of appointments and systems to implement personalisation within social care and inclusion. During 2014/15, audit, legal and finance teams have continued to assist in resolving matters arising from this. This work is now reaching its resolution.

Also noted of concern in the 2011/12 – 2014/15 opinions was anonymous allegations received concerning financial mismanagement within Fibbersley Park Children's Centre. This long standing case has now concluded and recovery action is commencing.

### **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 25<sup>th</sup> 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 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 2014/15 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 13<sup>th</sup> June 2014. In addition the council has reviewed the effectiveness of its scrutiny function assisted by an external report produced by Professor Steven Leach.

### **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 no reports of unlawfulness in the last 12 months. 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 which has been supported by a general review of corporate governance carried out internally, which has been validated by Grant Thornton the councils external auditors. The outcome of this review has been reported to audit committee.

## Governance Issues identified in 2013/14 AGS

Some governance issues were identified in the 2013/14 AGS, of most significance were:

1. The result of the OFSTED inspection of the Council's school improvement service which took place in June 2014 whereby they concluded that arrangements were ineffective. An action plan was put in place to address the findings and progress towards the six key themes of this post Ofsted plan are reviewed and reported to HMI quarterly. The Authority awaits a date for inspection follow up.
2. The Annual Audit Letter 2012/13 published October 2013. 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 governance 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 were built into the work programme of the Corporate Governance Forum (Chaired by the Chief Executive). One of the actions within the plan was the commission of independent external advisors to provide an independent review and challenger to the Forum's work as well as comment on the council's wider corporate governance arrangements. This work was undertaken by Grant Thornton and the outcome reported to Audit Committee in January 2015.

In this report, Grant Thornton concluded that:

*“The specific failures that triggered this review were not evidence of fundamental weaknesses to the Council's overall governance framework. This led us to conclude that the Council is making sufficient progress in addressing the statutory recommendation made in the 2012/13 Annual Audit Letter. On this basis no statutory recommendations are required at this time. We do, however, consider that maintaining and reinforcing the Council's 'corporate governance compliance culture' will an area of ongoing priority for its political and officer leadership. This matter is fully accepted by the Council.”*

Grant Thornton also “commend the council for its response to date and will continue to support the council's work on embedding a strong well governed culture in support of its services”. An action plan arising from Grant Thornton's review was agreed by the Corporate Management Team in December 2014.

## **External Audit Assurance**

Grant Thornton is the Council's independent external auditor, appointed by the Audit Commission. They have a broad role covering finance and governance matters. In addition to their independent challenge of the work of the Governance Forum, their work in 2014/15 included:

- a) The Annual Report to Those Charged with Governance, published September 2014, which provided an unqualified opinion of the 2013/14 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.
- b) Grant certification report, reported to Audit Committee February 2014, covering grant certification work for 2013/14. This covered the external audit of 2 claims and returns amounting to c£128m of the council's expenditure. 1 claim was amended during the audit totalling £8,897.
- c) Value for Money report, reported to Audit Committee in September 2014, 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 in respect of both securing financial resilience, and challenging economy, efficiency and effectiveness was consistent with prior years, in that, whilst the Council faces some significant challenges during 2014/15 and beyond, our current arrangements are adequate.
- d) The results of the interim audit work to be reported to Audit Committee on 20 July 2015, including a review of the council's overarching controls and a review of IT controls. NO material weaknesses have been found as part of this review.
- e) The Annual Audit Letter 2013/14, reported to Audit Committee on 10 November 2014, which identified three recommendations.

## **Other Inspectorates**

The Parliamentary Under Secretary of State for Children & Families, Edward Timpson MP wrote to the Council in March 2015 formally lifting the remaining extra oversight by the Department for Education following the lifting of the Improvement Notice in July 2014 (which was originally imposed following the Inadequate Ofsted Inspection of Safeguarding in 2012).

The Office of the Public Guardian (OPG) inspected the council's arrangements for deputyships in September 2014. The result was a largely critical report, detailing a lack of ownership, compliance issues on client files and lack of a co-ordinated approach in joint visits / reviews. The OPG performed a re-inspection in June 2015. While their report is awaited, initial feedback from the inspector is positive.

## **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 financial 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 2014/15, Audit Committee made a number of suggested improvements to the reporting of corporate risks which were incorporated into the register and revised risk management arrangements reported back to 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**

The Corporate Plan 2015-2019 explains what we are doing as a council and what we are trying to achieve. 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.

The refreshed corporate performance management framework has been designed to demonstrate progress against the corporate plan along with wider outcome measures deemed strategically important. 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.

## **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.

The Forum for Information Governance (FIGA), which meets quarterly, consists of senior management representation from across the council to review and address information risks. CMT 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. There are also designated officers who carry out the roles of Senior Information Risk Owner (SIRO), Caldicott Guardian and Data Protection Officer.

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 2014/15 procedures have continued to be developed and added to the policy framework.

### Handling Breaches of the Data Protection Act (DPA)

During 2014/15 there were 70 breaches reported and investigated by the Information Governance team compared to 84 the previous year. These breaches were categorised from Level 1 (minor breach) through to Level 4 (major serious breach). There were no breaches at level 4. 3 of the data breaches were categorised at level 3, meaning that the breach involved sensitive personal data. 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.

In addition following revisions to the Checklist Guidance for Reporting, Managing and Investigating Information Governance and Cyber Security Serious Incidents Requiring Investigation, published by the Health and Social Care Information Council, the Information Governance Team is currently revising the Council data breach handling procedure. This procedure will set out the new requirements relating to the recording and reporting of data breaches involving data originating from Adult Social, Care, health and or Public health. These data breaches are now required to be assessed and reporting using a separate tool which will automatically report more serious breaches to the Information Commissioner's Office.

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. When a breach occurs the register enables the appropriate Asset Owner to be alerted and any immediate actions implemented. It will also assist with the plotting of data flows within and outside of the Council in order to identify and mitigate risk.

### Protecting Information Training and Awareness

The council wide mandatory Protecting Information training, based on the Cabinet Office On-Line Protecting Information training Levels 1 – 3, continues to be delivered through the council's E-learning facilities. 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 January 2015, the council had successfully achieved a pass rate at Level 1 Protecting Information Training for the majority of employees with a small number still to complete via appropriately accessible formats. In addition all new starters now complete this as part of the Corporate Induction. There is also good progress being made in the achievement of Level 2 of the course, with compliance at approximately 70%. 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 for July 2015. 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.

Bespoke training has been delivered to 78 Information Asset Owners and Custodians. Newly appointed Information Asset Owners and Information Asset Custodians will receive training 2015/16.

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

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

| Request Breakdown | 2011       | 2012       | 2013        | 2014        | 2015 ( Jan to March ) |
|-------------------|------------|------------|-------------|-------------|-----------------------|
| FOI/EIR           | 800        | 842        | 990         | 1277        | 347                   |
| DPA               | 62         | 64         | 243         | 224         | 61                    |
| Combined Requests |            |            | 3           | 11          | 7                     |
| <b>Total</b>      | <b>862</b> | <b>906</b> | <b>1233</b> | <b>1512</b> | <b>415</b>            |

Year on year, the number of requests and complexity 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 comprise 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 is currently under review, due in part to the continuing growth in numbers, the complexity of requests and the reduction in resources in the Information Governance Team. A recent pilot carried out in Money, Home Job with requests being dealt with at the point of service, has been successful and will shape this review.

### 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. The Public Health team confirmed its compliance with the Information Governance toolkit in March 2013.

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.

A number of additional information sharing arrangements has been established and information Asset Owners are consistently working with the Information Governance team to ensure that these are compliant.

### **Other Supporting Evidence**

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

- a) Quality assurance controls put in place by 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;
- b) The role of the Audit Committee in endorsing Internal Audit's work plan and in their regular review and scrutiny of audit performance and;
- c) 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.
- d) 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.

- e) 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, the work and findings of the Corporate Governance Forum and Grant Thornton, and progress in addressing the significant governance issue identified in the 2013/14 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 2014/15 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 2015 and up to the date of approval of the Statement of Accounts (September 2015).

### 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](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:

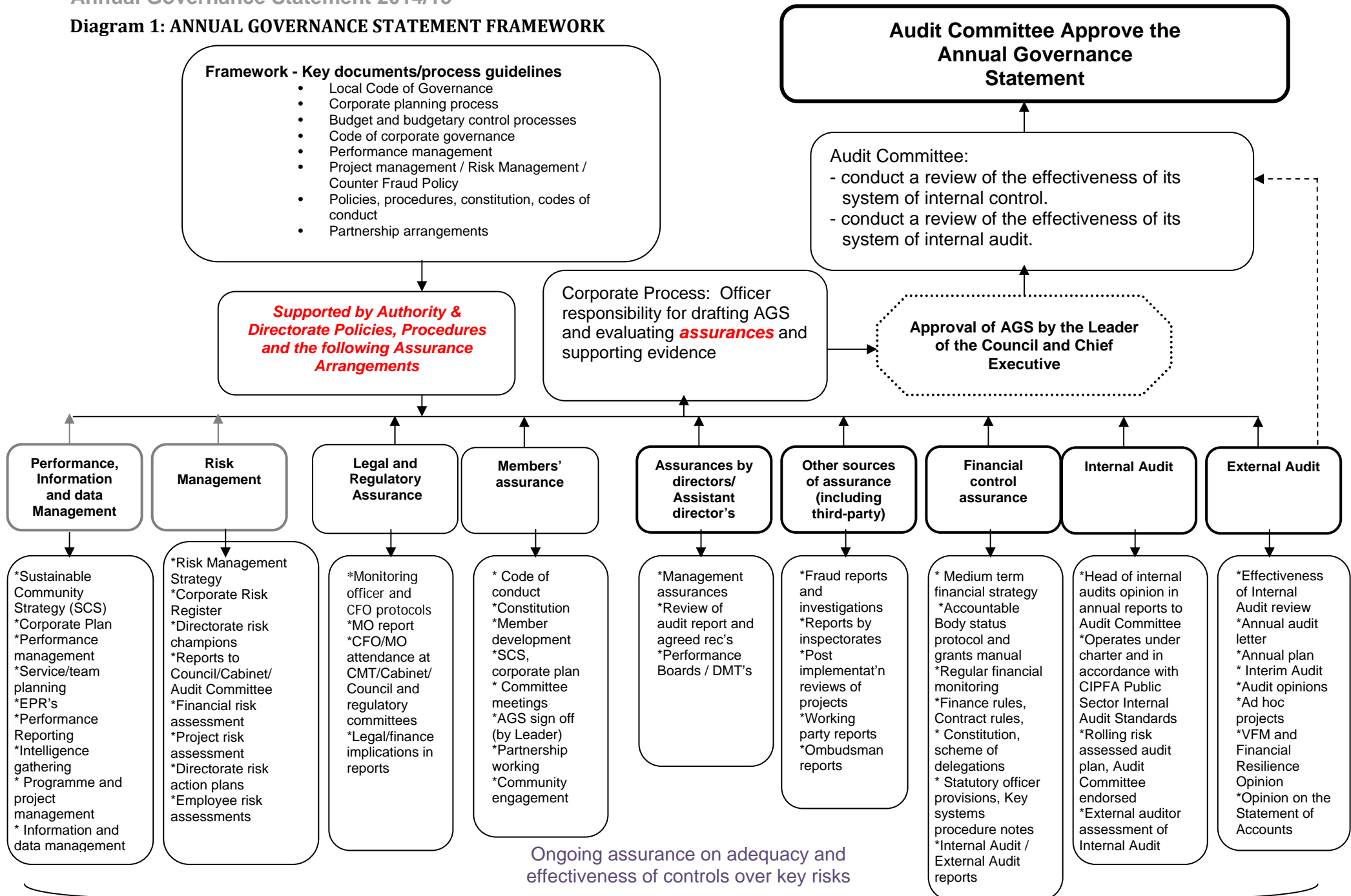
- Identifying and communicating the authority's vision and intended outcomes for citizens and service users, reviewing the vision and its implications for the authority's governance arrangements.
- Establishing and monitoring the achievement of the Authority's objectives, including measuring the quality 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.

## Annual Governance Statement 2014/15

- 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 review (EPR) 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



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 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, compliance with which is assessed by the S151 Officer.
- An independent external audit function which reports on the financial and governance arrangements of the council.

## Annual Governance Statement 2014/15

- 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 Corporate Plan 2015-2019 explains what we are doing as a council and what we are trying to achieve. 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.

The refreshed corporate performance management framework has been designed to demonstrate progress against the corporate plan along with wider outcome measures deemed strategically important. 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.

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, CMT and Audit Committee. This includes actions to mitigate risks, as appropriate, for each key strategic risk. Audit Committee chose to review the following risks during 2014/15:

Risk number 15 – Welfare Reform Act 2012 – April 2014

Risk number 1 – Inability to deliver the right service to the right people at the right time/place within available resources – January 2015

Risk Number 9 – Failure to manage institutional and individual change – February 2015.

Audit Committee also reviewed and endorsed the revised Corporate Risk Management Strategy in April 2015.

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.

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.

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 Constitution was reviewed and updated during 2014/15.

Since 2011/12, the AGS has been 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 formal approval in September of each year.

### **4. Review of Effectiveness**

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.

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

- The annual work programme of the 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 2014/15, Audit Committee made a number of suggested improvements to the reporting of corporate risks which were incorporated into the revised risk management strategy and corporate risk register considered by Audit Committee in April 2015.
- 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 2014/15 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 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 Interim Audit report, which concluded that *“Internal audit’s responsibilities are appropriate and they have appropriate status within the authority. Internal audit has adopted appropriate methods for undertaking their work and their plan includes coverage of internal controls, including financial, and consideration of governance issues. They report their findings effectively and are able to report independently to Audit Committee. Our review of internal audit work has not identified any weaknesses which impact on our assessment of the control environment”*.

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 July 2015 to inform the overall opinion as to the effectiveness of the system of internal control:

- Governance Issues and control weaknesses identified in the 2013/14 AGS and progress in addressing these
- The work of the Corporate Governance Forum and Grant Thornton’s independent review and challenge work and report on this.
- The annual report of the Head of Internal Audit on the overall adequacies of the internal control environment.
- Internal Audit 2014/15 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 were 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 were ineffective. Actions have been put in place to address the findings and a follow up inspection date is awaited.

## 5. Significant Governance Issues

Officers who drafted this Annual Governance Statement, evaluated assurances and supporting evidence, have concluded that the effectiveness of the governance framework, in respect of the systems of internal audit and internal control is satisfactory overall, and there are no significant governance issues to report. Identified control weaknesses have been reported within the report on the review of effectiveness and actions are in place to address these.

.....  
Paul Sheehan  
Chief Executive

Date: 20 July 2015

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 2014 to June 2015

Date: 20 July 2015

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 – June 2015 onwards

Date: 20 July 2015

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.