

ABERDEEN CITY COUNCIL

COMMITTEE	Audit and Risk
DATE	21 September 2010
REPORT BY:	Head of Finance
TITLE OF REPORT	Annual Governance Statement
REPORT NUMBER:	CG/10/108

1. **PURPOSE OF REPORT**

- 1.1 To seek approval from the Committee on the content of the Annual Governance Statement. An initial Statement was prepared for inclusion within the draft Annual Accounts, and final Statement, following external audit scrutiny, now requires to be approved for inclusion within the final Annual Accounts.

2. **RECOMMENDATION(S)**

- 2.1 It is recommended that the Committee:
a) approve the Annual Governance Statement for inclusion in the Council Accounts for financial year 2009/10.

3. **FINANCIAL IMPLICATIONS**

- 3.1 There are no financial implications arising directly from this report.

4. **SERVICE & COMMUNITY IMPACT**

- 4.1 By approving this statement this will enable the Head of Finance to incorporate into the Council's Annual Accounts a single statement, where two statements were previously included.
- 4.2 This would ensure that the Council uses an approach which is seen as best practice and in line with the External Auditors recommendations.

5. **OTHER IMPLICATIONS**

- 5.1 The adoption of the Annual Governance Statement moves the Council towards the adoption of the Solace / Cipfa guidance on 'Delivering Good Governance in Local Government'.

6. REPORT

Background

- 6.1 In the past the Council has, as part of its Annual Accounts process, prepared for inclusion a Governance Statement and a Statement on the System of Internal Financial Controls.
- 6.2 The latter of these was a requirement of the Accounting Code (the Statement of Recommended Practice or SORP) which has to be followed in the preparation of the accounts, and this was subject to the regular external audit process.
- 6.3 The SORP in 2008, for the 2008/09 financial year, amended the requirements in England and Wales to make it mandatory for the inclusion of an Annual Governance Statement. In Scotland however the minimum requirement remained as was and this meant that the Council could produce simply the Statement on the System of Internal Financial Controls. In accordance with the SORP this is how the Council approached the annual accounts for 2008/09.
- 6.4 In their reporting the external auditors recommended that the Council should move to adopt the Annual Governance Statement on a voluntary basis as it was seen as best practice in carrying out a review of the different aspects of governance. This approach would incorporate a review of the financial control environment.

2009/10

- 6.5 The Council has approached the annual review process differently in 2009/10 and has not only issued a comprehensive review document to all Heads of Service but has done so in order to prepare an Annual Governance Statement.
- 6.6 The annual review has drawn information from Heads of Service, specific information and audit opinion from the Internal Audit Manager and from a review (self assessment) by Finance of the previous year Statement on the System of Internal Financial Control.
- 6.7 The statement covers the full extent of the Council and its interrelation with other organisations, which are part of its 'Group', and in so doing assurance has been sought by obtaining specific statements from the individual companies or through the review of their draft accounts / internal control statements for the same period.
- 6.8 The draft Annual Accounts were prepared with the inclusion of a Statement that had been approved by the Corporate Management Team.

- 6.9 Attached at appendix A is the proposed Annual Governance Statement for approval by the Committee. This has been amended from the Statement included in the draft Annual Accounts following the scrutiny and recommendations from External Audit.
- 6.10 It should be noted that the Statement has been produced by management and is not an independent expression of audit opinion.

7. **REPORT AUTHOR DETAILS**

Jonathan Belford, Corporate Accounting Manager

jbelford@aberdeencity.gov.uk

01224 522573

8. **BACKGROUND PAPERS**

'Delivering Good Governance in Local Government, Framework' CIPFA & SOLACE, 2007;

'Delivering Good Governance in Local Government, Guidance Note for Scottish Local Authorities' CIPFA & SOLACE, 2008

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

Aberdeen City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically efficiently and effectively. The Council has a duty under section 96 of the Local Government (Scotland) Act 1973 to keep accounts, and section 12 of the Local Government in Scotland Act 2003 sets out the statutory duty for Scottish local authorities to follow proper accounting practices.

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

The CIPFA / SOLACE Framework 'Delivering Good Governance in Local Government' sets out a standard for good corporate governance and this Annual Governance Statement follows the principles contained therein. The Statement explains how Aberdeen City Council has complied with the standard and meets the requirements of relevant legislation and current good practice.

Aberdeen City Council has approved and adopted a code of corporate governance. A copy of the code is on our website at www.aberdeencity.gov.uk¹ or can be obtained from the Office of the Chief Executive, Town House, Broad Street, Aberdeen, AB10 1FY. This statement explains how Aberdeen City Council has complied with the code.

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 those 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 Aberdeen City 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.

A governance framework has been in place at Aberdeen City Council for the year ended 31 March 2010 and up to the date of approval of the statement of accounts.

¹ A copy of the Local Code can be obtained at: (copy the following link into your web-browser)
http://committees.aberdeencity.gov.uk/acc_data/committee%20reports/cs_sta_r2h_060425.pdf

ANNUAL GOVERNANCE STATEMENT

The Governance Framework

The Local Code of Corporate Governance was revised and updated in 2006 and has been developed to set out the arrangements which the Council has put in place, and the arrangements which the Council is developing, to ensure that the Council complies with the principles of corporate governance.

These principles are openness, inclusivity, integrity and accountability, and they are intended to be demonstrated through a wide range of actions, policies and approaches under the headings of –

- Community focus
- Service delivery arrangements
- Structures and processes
- Risk management and internal control
- Standards of conduct

The Local Code currently structures its approach to corporate governance by reference to the 5 headings listed above. The Council demonstrates its commitment under these headings as follows:-

Community Focus

- Extensive involvement of the public, service users, community planning partners and other external stakeholders in the development and maintenance of a comprehensive and coherent structure of community, corporate, service and neighbourhood planning, and in the Best Value review of individual services
- A detailed, structured and coherent set of processes for performance management and reporting at all levels, and the adoption of a strategy for Public Performance Reporting
- Its continuing work on Citizen Relationship Management involving 3 workstreams of customer care training, the development of a City-wide contact centre, and the establishment of a network of local customer access points
- The use of a Citizens Panel, and of a number of Community Planning Forums to monitor the delivery and review of the Community Plan
- The adoption of a Tenant Participation Strategy, and annual consultation with Council house tenants on rent-setting
- The opportunity for individual citizens to make their views known through the Council's Comments Card system and its Website.

Service Delivery Arrangements

- Developing a culture of high performance through appraisal and performance monitoring
- Setting, and measuring achievement against, performance targets at community planning, corporate planning and service planning levels
- Allocating resources to priority service areas through the process of developing service plans linked to budget plans
- Responding positively to external scrutiny and implementing agreed actions arising from audits/inspections
- Adopting a strategy for mainstreaming equality
- Pursuing the development and implementation of service standards
- Carry out Best Value service review and option appraisal.

ANNUAL GOVERNANCE STATEMENT

Structures and Processes

- Completing fundamental restructuring of the organisation
- Clarifying roles, responsibilities, accountabilities and relationships, at elected member and officer levels and embedding a culture of accountability throughout the organisation
- Developing and ensuring adherence to robust evidenced management systems for the efficient and effective management of resources
- Providing training for elected members
- Setting out clearly all policies and processes which govern the work of the Council.

Risk Management and Internal Control

- Having in place a Risk Management Strategy
- Having in place processes for assessing, prioritising and managing risk at corporate and service levels, including the creation of a Strategic Risk Register and Service Risk Registers
- Ensuring that the management of risk forms an input into the corporate and service planning
- Having in place effective and structured internal audit arrangements
- Working effectively with external auditors and statutory inspectors
- Ensuring that services are delivered by trained and experienced people
- Developing its business continuity planning
- Annually preparing balanced budgets for each Council account
- Regularly monitoring the budgets of the Council and routinely reported to Service Committees and Finance and Resources Committee
- Working jointly with other public sector bodies in the area to maximise the effective use of the joint resources
- Creating a standardised approach to project management
- Having in place Financial Regulations and a Treasury Management policy
- Having in place a Health and Safety Policy and Action Plan.

Standards of Conduct

- Having in place a Local Statement of Organisational Culture
- Having in place arrangements to observe the requirements of the National Code of Conduct for Councillors
- Having policies to deal with fraud and corruption, whistle-blowing, complaints and discipline/ grievance issues

ANNUAL GOVERNANCE STATEMENT**Review of Effectiveness**

Aberdeen City Council has a responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

In 2008/09 the principal driver for review was the Accounts Commission holding a Hearing on Aberdeen City Council's audit of Best Value and Community Planning and this work continued in 2009/10 through the implementation of certain key recommendations.

The Council has reviewed and made approvals in a number of areas, including introducing a new organisational and management structure to ensure the Council is organised to deliver Best Value, to strengthen overall accountability and its ability to deliver effectively the commitments set out in 'Vibrant, Dynamic and Forward Looking' and the Single Outcome Agreement.

The Council has a statutory requirement to appoint a Chief Social Work Officer. In order to strengthen the governance and leadership arrangements within Social Care and Wellbeing this role, which was previously discharged at Head of Service level, has been moved during the year to be the personal responsibility of the Director.

The requirement of every local authority to appoint a professionally qualified Chief Social Work Officer (CSWO) is contained within Section 45 of the Local Government (Scotland) Act 1994. The particular qualifications are set down in regulations. This is one of a number of statutory requirements in relation to posts, roles or duties, with which local authorities must comply.

The minimum qualifications for the post are prescribed in Regulations. There is an expectation that holders of this post will be registered as a social worker with the Scottish Social Services Council.

The over objective of the CSWO is to ensure the provision of effective, professional advice to local authorities - elected members and officers - in the authority's provision of social work services. The post should also assist authorities in understanding the complexities of social work service delivery and the key role social work plays in contributing to the achievements of national outcomes, local outcomes, overall performance improvement and the management of corporate risk.

At Head of Service level a revised structure has been introduced in the latter part of the year for which there has been a complete review and revision of job descriptions, roles and remits. Other statutory posts, namely the Monitoring Officer² and Chief Financial Officer³, remain at Head of Service level and both are members of the Corporate Management Team.

This is particularly important as CIPFA has recently (April 2010) published 'the role of the chief financial officer in local government' in which it sets out five principles that define the core activities and behaviours that belong to the role of the chief financial officer (CFO). The principles are:

² **Monitoring Officer – as required by s.5 of the Local Government & Housing Act 1989**

³ **Chief Financial Officer – as required by s.95 of the Local Government (Scotland) Act 1973**

ANNUAL GOVERNANCE STATEMENT

- i) the CFO is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver those strategic objectives sustainably and in the public interest;
- ii) the CFO must be actively involved in, and bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the financial strategy;
- iii) the CFO must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the CFO:

- iv) must lead and direct a finance function that is resourced to be fit for purpose; and
- v) must be professionally qualified and suitably experienced.

The effectiveness of the Council's arrangements can be evidenced through the relationship that the chief financial officer had throughout the year with the Council and its officers, being a full member of the Corporate Management Team, being in attendance to advise not only the Council at its meetings, but the Audit and Risk Committee and the Finance and Resources Committee,

A qualified accountant with many years experience at a senior level the CFO was responsible for a finance team where the only exception to the role was the day to day responsibility for the Internal Audit Function. Fundamentally all reports were provided to the CFO during the year and this extended to all Council reports under Standing Orders and Financial Regulations requirements, providing a process by which influence could be brought to bear in relation to all business decisions.

In reviewing this it has been assessed that the Council'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).

During 2009/10 a revision of the Council's decision making structure was effected and new Standing Orders were adopted. The revised Committee structure now follows and supports the organisational and management structure, incorporating a culture of accountability that has been introduced throughout the Council. Clarification of Service Committee 'Orders of Reference' and the link to the Finance and Resources Committee in relation to budget setting and monitoring has also been achieved.

In revising the Committee structure the Audit and Risk Committee has been formed and takes over responsibilities from the Scrutiny Panel. The purpose of Audit and Risk includes ensuring the effectiveness of the internal audit function and considering all reports prepared by the external auditor.

In the second half of the year the Audit and Risk Committee considered the effectiveness of internal audit and reached the conclusion that officers progress the outsourcing of the internal audit function. This resulted in the Council going out to tender for internal audit services, with the preferred supplier being identified early in 2010/11.

ANNUAL GOVERNANCE STATEMENT

The wider review of the effectiveness of Council governance is informed by:

- (i) a review of the work of Internal Audit by the Internal Audit Manager and the audit opinion contained therein;
- (ii) assurance statements on internal control received from senior management;
- (iii) the work of managers and finance staff;
- (iv) internal audit reports from across the Council;
- (v) external audit reports and annual audit letter;
- (vi) reports from external review bodies such as the Controller of Audit and Audit Scotland, Her Majesty's Inspectorate of Education (HMIE) and the Social Work Inspection Agency (SWIA); and
- (vii) governance arrangements being in place within the Council's subsidiary and associated companies.

In future the work of the Local Area Network (LAN), comprised of representatives from all the scrutiny bodies who engage in the Council, will become more important in this process. A key objective of the LAN is for the production of a three year Assurance and Improvement Plan (AIP) commencing April 2010. This marks a move away from standard cyclical inspection and benefits the Council by having a shared assessment of risks for the Council and planned and proportionate external scrutiny agreed.

Significant Governance Issues

While the review of effectiveness allows the Council to place reasonable reliance on the Council's systems of internal control the Council continues to address control weaknesses identified during audits and good progress is being made in the implementation of recommendations.

The exceptions highlighted have been, or will be, addressed through the actions set out below.

Issue Ref.	Issue Description	Source of Evidence	Action
1	Improvement required in relation to the rollout of updated financial monitoring arrangements. This includes training, service engagement and regularising the process each month.	Head of Service Assurance Statements	A new approach to training and a review of the financial systems is being undertaken to aid understanding and use. The monitoring timetable including the reporting arrangements for Services and Committees has been clarified.
2.	Realignment of financial system to revised Council operational structure	Review of 2008/09 Statement on the System of Internal Financial Control	Following the appointment of Heads of Service and clarification of portfolios a structured approach to financial planning is being undertaken by the Council and this is underpinned by the completion of realignment work on the financial systems.

ANNUAL GOVERNANCE STATEMENT

Issue Ref.	Issue Description	Source of Evidence	Action
3.	The Local Code of Corporate Governance has still to be refreshed to fully incorporate the Cipfa / Solace guidance.	Corporate Policy and Performance report OCE/10/033 dated 21 January 2010, and Committee Business Statement	Work is progressing to prepare an updated Local Code of Corporate Governance reflective of the changes made to the governance arrangements of the Council over the past two years. An update on preparations to revise the Code will be presented to the Council's Corporate Policy and Performance Committee in September 2010. The work is being led by the Office of Chief Executive.
4.	ICT Asset Register; this was not operating at the desired level of accuracy throughout the financial year and it was only at February 2010 that upgrades were applied and improved accuracy was achieved	Review of the weaknesses highlighted in the Statement on the System of Internal Financial Control for 2008/09, based upon an Internal Audit report previously issued	Having achieved a level of accuracy that ICT have been satisfied with, the next stage is to continue the development of the system to further improve that accuracy. This is particularly important in light of increased use of mobile technology and the office moves that are presently taking place.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Councillor John Stewart
Leader of the Council

Sue Bruce
Chief Executive

on behalf of Aberdeen City Council
September 2010