

## **Wiltshire Council**

### **Cabinet**

**14 September 2010**

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**Subject: Annual Governance Statement 2009/10**

**Cabinet member: Fleur de Rhé-Philippe – Finance, Performance and Risk**

**Key Decision: No**

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### **Purpose of the report**

1. To ask Cabinet to consider a draft Annual Governance Statement for 2009/10 for preliminary comment before final approval is sought from the Audit Committee at its meeting on 30 September 2010.

### **Background**

2. The Council is required, as part of its annual review of the effectiveness of its governance arrangements, to produce an Annual Governance Statement (AGS) for 2009/10. This has to be signed by the Leader of the Council and the Chief Executive after final approval by the Audit Committee on 30 September 2010.
3. Based on advice from the Chartered Institute of Public Finance and Accountancy (CIPFA), the AGS should include:
  - an acknowledgement of responsibility for ensuring there is a sound system of governance, incorporating the system of internal control;
  - an indication of the level of assurance that the systems and processes that comprise the Council's governance arrangements can provide;
  - a brief description of the key elements of the governance framework, including reference to group activities where those activities are significant;
  - a brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements;
  - an outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

4. The AGS for Wiltshire Council should demonstrate how the Council is meeting the six principles of good governance adopted in its Code of Corporate Governance. These principles are:
  - focusing on the purpose of the council and on outcomes for the community and creating and implementing a vision for the local area;
  - councillors and officers working together to achieve a common purpose with clearly defined functions and roles;
  - promoting values for the council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
  - taking informal and transparent decisions which are subject to effective scrutiny and managing risk;
  - developing the capacity and capability of councillors and officers to be effective;
  - engaging with local people and other stakeholders to ensure robust accountability.
5. The AGS is primarily retrospective. It reports on the assurance framework and measures in place for the financial year 2009/10, but must take account of any significant issues of governance up to the date of completion on 30 September. The AGS should outline the actions taken or proposed to address any significant governance issues identified.
6. The AGS is drafted by members of the Assurance Group, which comprises senior officers who have lead roles in corporate governance and member representatives from the Audit Committee and the Standards Committee.
7. The evidence for the AGS comes from three primary sources - an assurance framework, based on the Use of Resources assessment documents, directors' assurance statements, and from relevant lead officers within the organisation.

#### **Draft AGS - Content**

8. A copy of the draft AGS for 2009/10 is attached at Appendix 1.
9. The draft reflects the elements described in paragraph 3 of this report and has regard to revised guidance from CIPFA. The draft is based on work undertaken to date and will be revised in the light of further reviewing of assurance sources by the Assurance Group and any observations of Cabinet, Audit Committee and the Audit Commission.

10. A first draft of the AGS was considered by Audit Committee on 30 June 2010 and the Standards Committee on 21 July 2010. The AGS has been revised to reflect the comments of both these committees.
11. Section C of the AGS describes the Council's governance framework for the relevant period, namely April 2009 to date. The final version will need to reflect the position up to the date of approval and signature in September 2010.
12. Section D provides a review of the effectiveness of the Council's governance framework. This section has been structured to reflect the key governance principles set out in the Council's Code of Corporate Governance.
13. The levels of assurance obtained from the range of audits completed during the year by Internal Audit has led to the overall audit opinion that for 2009-10, the Council's overall control environment must be seen as limited in terms of its adequacy and effective operation. A key factor influencing this outcome has been the major structural reorganisation which took effect from 1<sup>st</sup> April 2009, moving from five councils into one, and the inevitable significant transition and upheaval which followed as a result. The overall response of management to the various risks and issues raised has been positive and constructive. The need to improve controls is recognised and work is in progress to achieve the desired outcomes.
16. The Assurance Group is obtaining assurance statements from directors in relation to their services. These will be reviewed over the summer period and any issues which impact upon the Council's governance arrangements will be included in a further revision of the draft and highlighted at the next meeting.
17. Section E of the draft AGS requires the Council to identify any significant internal control issues affecting the Council during the relevant period. i.e. the financial year 2009/10 through to the date of publication of the AGS at the end of September 2010.
18. CIPFA guidance suggests that an internal control issue is to be regarded as significant if:
  - the issue has seriously prejudiced or prevented achievement of a principal objective;
  - the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
  - the issue has led to a material impact on the accounts;
  - the audit committee, or equivalent, has advised that it should be

considered significant for this purpose;

- the Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment;
- the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;
- the issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.

19. At this stage the following have been identified as potential significant governance issues in view of their size, complexity and impact on the delivery of the Council's services and priorities:

- **Transformation Programme**

Implementation of the Council's major transformation programme following reorganisation, including Workplace Transformation, transformation of services and harmonisation of policies and practices (including staff terms and conditions);

- **Management of Budget Pressures in 2010/2011**

The economic situation is placing increased pressures on the availability of resources within the public sector. This is, in part, due to the combination of higher take up of some services and a reduction in usage of some discretionary services.

The pressures have been exacerbated by the reductions in availability of resources as the new coalition government aim to tackle the national deficit.

The Council takes regular monthly reports to members, which show the current position against budget and highlight any major variances. These reports reflect the information from the coalition Government's emergency budget in June 2010 and other announced changes. The reports include action plans and management actions with details on how to reduce any potential overspends.

The authority will continue to regularly monitor the final position, report to Members and, where necessary propose and undertake management actions to deal with cost pressures.

- **SAP Financial Systems**

Many of the Council's main financial systems were transferred into the newly-implemented SAP system from 1<sup>st</sup> April 2009. This represented a very significant transition for the processing of financial transactions, and throughout 2009-10 staff have needed time to become conversant with a wide range of new processes, whilst trying

to ensure that financial functions continue to work within an adequate control environment. This transitional period has therefore had an adverse impact on system controls, which have not been fully effective throughout the year. This has been a contributory factor in internal audit giving an opinion of limited assurance on the Council's control environment for the year. It has also resulted in external audit raising a significant number of recommendations for improvements.

Following the implementation of SAP the Council's financial systems have been undergoing gradual developments and improvements during the latter part of 2009-10, when management has been able to give increased focus and attention to improving control issues. This work is continuing through 2010-11 in order to ensure that financial controls are improved further within SAP systems, and are brought up to the required standard as systems and procedures become more established and robust.

20. Any further significant governance issues that are identified will be reported to the meeting of Audit Committee in September for final consideration and approval.

21. The Audit Commission will be consulted on the content of the draft AGS and their comments will be taken into account in the presentation of the final version to the Audit Committee in September.

### **Financial implications**

22. There are no financial implications arising directly from the issues covered in this report.

### **Risk Assessment**

23. The production of the AGS is a statutory requirement. Ongoing review of the effectiveness of the Council's governance arrangements is an important part of the Council's risk management strategy.

### **Environmental Impact**

24. There is no environmental impact regarding the proposals in this report.

### **Equality and Diversity Impact**

25. There are no equality and diversity issues arising from this report.

## **Reasons for the Proposal**

26. To prepare the AGS 2009/10 for publication in accordance with the requirements of the Audit and Accounts Regulations.

## **Proposal**

27. The Committee is, therefore, asked:

- a. consider the draft AGS in Appendix 1 and to make any amendments or observations on the content.
- b. to note that the draft AGS will be revised in the light of any comments Cabinet may wish to make and the ongoing review work by the Assurance Group. It will then be taken back to the Audit Committee for final approval for publication by 30<sup>th</sup> September 2009.

**Ian Gibbons**  
**Solicitor to the Council and Monitoring Officer**

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Report Author: Marie Lindsay, Ethical Governance Officer

Date of report: 19 August 2010

## **Background Papers**

The following unpublished documents have been relied on in the preparation of this report:

The CIPFA Finance Advisory Network - The Annual Governance Statement

## **Appendices**

Appendix 1 - Draft Annual Governance Statement