



Audit and Standards Committee Report

Report of: Director of Legal and Governance

Date: 25 July 2019

Subject: Annual Governance Statement 2018/19

Author of Report: Gillian Duckworth, Director of Legal & Governance

Summary: The attached is the Sheffield City Council Annual Governance Statement which forms part of the Council's Statutory Accounts

Recommendations: The Council is required to produce and have signed off, as part of its annual accounts, an Annual Governance Statement. The statement is intended to identify any significant control weaknesses and also to set out how the council intends to address any weaknesses identified.

To note the contents of the Statement and that this has been signed by the Council Leader, Chief Executive and the Executive Director of Resources and that the statement forms part of the Annual Accounts.

Background Papers: None

Category of Report: Open

Statutory and Council Policy Checklist

<u>Financial Implications</u>
YES Cleared by: Eugene Walker
<u>Legal Implications</u>
YES Cleared by: Gillian Duckworth
<u>Equality of Opportunity Implications</u>
NO
<u>Tackling Health Inequalities Implications</u>
NO
<u>Human rights Implications</u>
NO:
<u>Environmental and Sustainability implications</u>
NO
<u>Economic impact</u>
NO
<u>Community Safety implications</u>
NO
<u>Human Resources implications</u>
NO
<u>Property implications</u>
NO
<u>Area(s) affected</u>
<u>Relevant Cabinet Portfolio Member</u>
Cllr Julie Dore
<u>Is the item a matter which is reserved for approval by the City Council?</u>
NO
<u>Press release</u>
NO

Scope of Responsibility

Sheffield 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 efficiently, economically and effectively.

Sheffield City Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Sheffield City Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Sheffield City Council has approved and adopted a Code of Corporate 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: <https://www.sheffield.gov.uk/home/your-city-council/council-operates>. This statement explains how Sheffield City Council has complied with the code. It also meets the requirements of Accounts and Audit Regulations 2015, regulation 6(1), which requires all relevant bodies to prepare an Annual Governance Statement (AGS).

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and also its activities through which it accounts to, engages with and leads the community. This framework enables the Council 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. It 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 Sheffield City Council policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Sheffield City Council for the financial year ended 31 March 2019 and up to the date of approval of the Sheffield City Council annual report and statement of accounts.

The governance framework of the Council is constantly being updated to take account of changes in legislation and working practices.

The Sheffield City Council Governance Arrangements

The governance arrangements of Sheffield City Council contains two key elements, the internal control arrangements of the Council and also how it demonstrates these arrangements to citizens and service users. We have documented the key elements of the control environment and how these are communicated below.

Internal Control Environment

The system of internal control as described below has been in place at Sheffield City Council for the year ended 31 March 2019 and up to the date of approval of the Annual Report and Statement of Accounts.

In discharging its responsibility, the Council has a published constitution that specifies the business of the Council, as well as establishing the role of the Cabinet, Scrutiny Committees and Regulatory Committees. The Leader's Scheme of Delegation lays down the scheme of delegation by which Members of the Council and Officers can make executive decisions on behalf of the Council to ensure the smooth operation of its business.

In order to illustrate the key elements of internal control, the control environment has been subdivided into six elements as outlined below:

1) Establishing and monitoring the achievement of the Council's business

Following the local elections held during May and with the appointment of a new Cabinet, the coming months will see the development of new corporate priorities to replace the current Corporate Plan. The current plan was developed to show clearly the link between the key aims of the Council and the corporate priorities to achieve these. The Council has a business planning process that is designed to align service activity and objectives to the corporate priorities. A quarterly performance monitoring process continues to track progress against the Council's key priorities and to highlight any potential risks and issues in achieving these.

The Council's Executive Management Team (EMT) and Elected Members have the responsibility for formulating the Council's medium term financial strategy in order to ensure that adequate resources are available to meet the Council's objectives.

Cabinet receives regular budget monitoring reports in addition to the Portfolio Leadership Teams. The Council's corporate systems for producing this information have been developed to provide timely and accurate reports for services and the Council as a whole on a consistent basis.

Performance management information about key corporate objectives is also provided regularly to Cabinet members, and may also be considered by Members at the Overview and Scrutiny Management Committee.

The Council has undertaken a number of initiatives to consult with interested groups and the wider citizens of Sheffield on its vision and priorities.

The Corporate Plan and minutes of Council meetings are publicly available through the Council's website – www.sheffield.gov.uk.

2) The facilitation of policy and decision-making

The Council's overall budget and policy framework are set by Full Council. Key decisions are taken by the Executive (Leader, Cabinet, individual Cabinet members, officers as appropriate), within the budget and policy framework set by Council.

The Council has an Overview and Scrutiny function (including a call-in facility), which reports to the Cabinet and Full Council as appropriate.

A scheme of delegation is in place that allows decisions to be undertaken at an appropriate level, so that the functions of the Council are undertaken efficiently and effectively. The scheme includes the Leader's own scheme of delegation, supported by more detailed officer schemes of delegation corporately and within portfolios.

3) Ensuring compliance with established policies, procedures, laws and regulations

Procedures are covered by the Council's Constitution, backed up by Standing Orders, the Financial Regulations and Protocol, and procurement guidelines.

The Monitoring Officer carries overall responsibility for ensuring the lawfulness and fairness of decision-making and supporting and advising the Audit and Standards Committee. The Monitoring Officer's staff work closely with portfolios, to ensure the Council complies with its requirement to review and log all formal delegated decisions.

The Council has set out policies and procedures for people management in the managers' section of the Council's intranet. A formal staff induction process is in place that is designed to ensure that new employees are made aware of their responsibilities. The Executive Director of Resources carries overall responsibility for financial issues, and his staff work closely with services to ensure that all reports are cleared for financial implications prior to submission to a Member forum.

The Council has a Risk Management Framework in place that has been agreed by Cabinet. A risk management report is produced for EMT every quarter and an update report is provided to the Audit and Standards Committee on a 6 monthly basis. All Council reports include a section dealing with risk management. The risk management framework has been significantly updated and the focus of attention is now on developing our risk management practice maturity, both at an operational level and through close alignment and integration between the risk and performance management processes. This is to ensure that the processes used are simple and effective and meet the requirements of the Council. An e-learning module is also available and will be integrated into the new manager learning and development curriculum.

The Council has an Audit & Standards Committee which oversees the Council's Code of Conduct for Members. The Council has a Members' Code of Conduct and a procedure for dealing with complaints under the Code. Independent Persons have been appointed.

As part of the Council's commitment to the highest possible standards of openness, probity and accountability, the Council encourages employees and others with genuine concerns about any of the Council's work, to come forward and voice those concerns. A Whistleblowing Policy is in place that is intended to encourage and enable employees to raise such concerns within the Council rather than overlooking a problem. This policy document makes it clear that employees can do so without fear of reprisals. The procedure accords with the requirements of the Public Interest Disclosure Act 1998 and is compatible with the conventions in the Human Rights Act 1998.

Reviews of services are undertaken on a periodic basis by Internal Audit and agencies including the Care Quality Commission (CQC) and the Office for Standards in Education (OFSTED).

4) Ensuring the efficient, economic and effective use of resources

The Council needs to make well informed decisions through business intelligence to enable it to make changes to the right things, in the right way.

The Corporate Plan acknowledges that it is more important than ever to make the best use of public money. The Council will continue to ensure that it prioritises its efforts and resources for the greatest impact; by having an agreed, prioritised set of strategic changes that it will make, to achieve its long term goals.

5) Financial management of the Council

The effectiveness of the system of financial management is informed by:

- The work of Internal Audit.
- The external auditor's Annual Audit Letter and other reports.
- The role carried out by the Executive Director of Resources under s151 Local Government Act 1972 responsibilities.
- The work of the Contract Management Teams in monitoring the work undertaken by Capita (the Council's contractor for financial business processes).

6) Performance management and its reporting

The performance management regime is an integral part of the Council's business planning process. The business planning process ensures that the Council defines clear priorities and outcomes in its Corporate Plan. Members and officers allocate the Council's resources in a way that aligns with these priorities and outcomes. Council services and commissioners then set clear objectives and targets that reflect the priorities, outcomes, and the level of resource allocated. The Council also has programme boards that commission specific projects to deliver step changes. The Council's performance reporting process ensures that managers and Members have a clear picture of how the Council is performing against the objectives and targets, and whether specific projects are on track. Risks to delivery are escalated and reviewed.

The Human Resources Service support portfolios at respective People Boards to ensure that employee matters are central to the performance management of our organisation and a Strategic Workforce Board was established at a corporate level to ensure that there is clear governance.

The Council has a core development programme for managers and employees that provide a consistent approach to managing resources, including its people, and to develop employee knowledge and skills across a range of subjects.

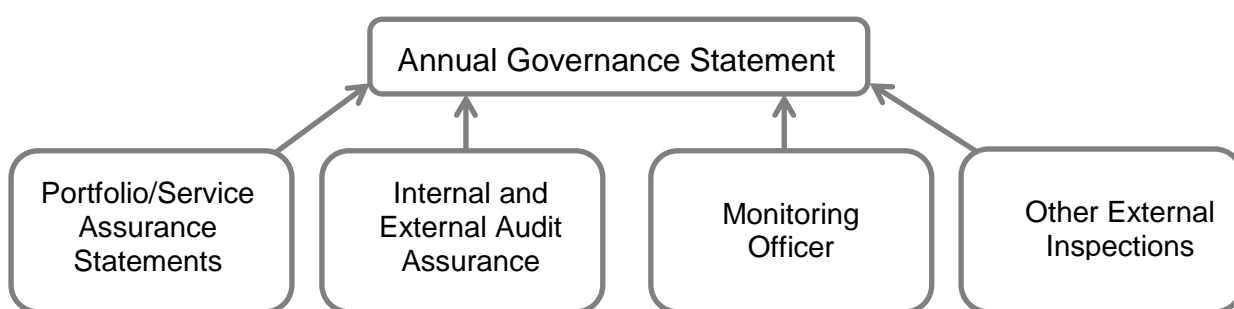
The Council also has a training programme in place, which is specifically tailored to the needs of elected Members in fulfilling their roles and responsibilities, including an induction programme for newly-elected Members.

Review of Effectiveness

Sheffield City Council has a duty to conduct at least annually a review of the effectiveness of its governance framework including the system of internal control, and to publish an Annual Governance Statement.

The review of the effectiveness of the Council's governance framework is informed by the work of the internal auditors and the senior managers within the Council. Senior officers are responsible for the development and maintenance of the internal control environment. The process is also informed by comments made by the external auditors and other review agencies and inspectorates.

The Council's EMT agreed a process of positive verification of the system of internal control in order to formally fulfil the requirements of the Accounts and Audit Regulations. The overall process has been summarised in the diagram below:



All Service Directors have provided written assurance to the effect that they are adhering to the Council's corporate policies, such as those relating to health and safety and personnel procedures, and are maintaining adequate control over areas of Council activity for which they have responsibility, e.g. service areas and control of specific contracts. The review of internal control has been adopted as a positive way forward. Some areas of control weakness have been identified through this process and management action to address them has commenced. Items raised by managers in the previous year's process have been followed up and confirmation has been received that action has been taken to progress the issues raised.

The role of the Council's internal auditors is to provide an independent appraisal function for the review of internal control systems. Internal Audit undertakes reviews of the main financial and operational systems of the Council, based on a risk analysis of the functions undertaken by service areas. Certain aspects of key financial systems are reviewed on an annual basis. Internal Audit also undertakes fraud investigations and other ad hoc responsive investigations relating to the Council's control framework. This element of its work also contributes to the maintenance of a sound system of internal financial control.

Internal Audit complies in all significant respects with the professional standards required of the service as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA). The service works closely with our external auditors, Ernst and Young.

There are some areas of control weakness that have been included on the AGS declarations under the section relating to governance issues. The Senior Finance Manager (Internal Audit) has confirmed that she is unaware of any other significant control weaknesses that have not been considered when compiling this statement. The Audit and Standards Committee is responsible for scrutinising the work undertaken by Internal Audit.

The Monitoring Officer has responsibility to monitor and review the operation of the Constitution to ensure that the aims and principles of the Constitution are working in practice. This review takes place annually. The Director of Legal and Governance as the Council's Monitoring Officer has not raised any issues of significance that are contrary to the findings within this statement.

The Full Council is responsible for setting the overall objectives of the Council and for undertaking statutory duties such as agreeing the budget and setting the level of Council Tax. In the financial year 2018/19 all these duties have been performed.

A significant part of Sheffield City Council's risk liability is connected to its maintained schools, for example: School Finance, Health and Safety, Human Resources, and Premises Maintenance. Whilst the day to day management of these issues is delegated to School Governing Bodies and Headteachers, the Council retains residual liability for maintained schools where it is the employer and the owner of the property.

During the year, the Council has been inspected by a number of external agencies. Reports of external inspection agencies are scrutinised to ensure that for any issues raised, the most appropriate senior officer within the Council has been given the responsibility to implement suitable corrective action.

For all of the inspections, where recommendations were made, assurance has been received through the annual declarations, that appropriate management action is being taken.

A number of schools within the city have been the subject of OFSTED inspections. The School Improvement Service follows up on each review to give advice and support to these schools.

The following significant financial inspection reports were received:

Service	Inspection	Date carried out - result
All Council	External Audit - Statutory Accounts 2017/18	June - July 2018: unqualified opinion but certificate yet to be issued due to objections on the 2016/17 accounts.
Revenues & Benefits	External Audit – Housing Benefits	August - November 2018 – qualified opinion and certificate issued.
People	External Audit – Teachers Pensions	November 2018 – Assurance Letter issued.
Housing	External Audit – Pooling of Housing Capital Receipts	November 2018 – Assurance Letter issued.
All Council	External Audit - Statutory Accounts 2018/19	Interim Audit (part-year February 2019) - Verbal update provided with no significant issues identified.

The Council has an Audit and Standards Committee that was formed in September 2016 and merged the functions of the former Audit and Standards Committees. The Committee is made up of 7 non-Executive elected Members. Non-voting independent co-opted members are also appointed to the Committee to bring additional experience, independence and an external view to the Committee's work. In addition, the three Parish and Town Councils are invited to jointly send one representative when Standards matters are to be considered.

The Audit and Standards Committee has been set up to meet best practice guidelines. Its terms of reference include the need to consider the Council's arrangements for corporate governance and any necessary actions to ensure compliance with best practice. The Committee also considers the Council's compliance with its own and other published standards. The Committee has confirmed that it has a significant overview at the highest level of the Council's systems of internal control; so that it is assured that it fulfils the requirements of "those charged with governance" under the International Auditing Standards.

The Committee is also responsible for promoting high standards of conduct by Councillors and co-opted Members, overseeing the Members' Code of Conduct and considering complaints where a Member may have breached the Code.

The Committee meets approximately six times per year and has a programme of work based on its terms of reference (covering Audit activity, the Regulatory Framework, Risk Management, Governance, Standards and the Council's Accounts) and other issues identified by the Committee during the year. An Annual Report on the Committee's work is also submitted to Full Council. The papers and minutes for these meetings are available on the Council's website.

Development of the Governance Framework

The Council's control framework needs to evolve to take into account the changes that are taking place across the organisation. In the forthcoming year, several initiatives have been planned which will have an impact on the control assurance mechanisms in place:

- The current financial climate has led to significant reductions in the money available for support services such as the finance service. However, the firm foundations laid in previous years of improvements to financial systems, controls and governance

mean that the Council is relatively well placed to cope with these reductions and to report effectively on the budget and savings required.

- The Council continues to closely monitor its most significant external relationships in relation to risk and governance arrangements, and are incorporated within the reports on Risk Management to the Audit and Standards Committee. Ensuring that appointed Members receive appropriate officer support remains an important area of activity.

Governance Issues

In a large and complex organisation such as Sheffield City Council, there will always be opportunities to improve services. In the financial year 2018/19, recommendations have been made by Internal Audit and agreed with relevant managers to address weaknesses identified in the internal controls of financial and other systems.

This review of effectiveness has highlighted the following issues that the Executive Management Team wishes to monitor the arrangements across the Council:

- 1) Inconsistencies in application of the Council's Financial Regulations and Contract Standing Orders.
- 2) Inconsistent application by Portfolios of the decision-making processes for approval of External Funding - compliance with Leaders Scheme of Delegation.
- 3) Information Management– variable levels of data quality, poor application of retention periods and data breaches.
- 4) Overspends on portfolio Budgets.

Significant Governance Issues

The following significant control weaknesses have been identified through the Annual Governance process.

- 1) Performance of the Special Educational Needs and/or Disabilities Service

Areas of weakness have been identified in how the Special Educational Needs and Disabilities (SEND) Reforms (set out by law in 2014) have been introduced in Sheffield.

An Ofsted and CQC inspection of the local area of Sheffield (including Sheffield City Council) in November 2018 found that significant improvements are needed to support children with SEND. Primarily around timescales of; completing Education and Health and Care (EHC) Plans; undertaking Annual Reviews; identifying and meeting needs; processing Tribunals; resolving complaints. This reflected the understanding already held by the Council as to the areas of improvement.

As part of improvements across SEND substantial work has already taken place in the past 12 months and there is more work to do. This is jointly owned by Sheffield City Council and Sheffield's Clinical Commissioning Group. An action plan (Sheffield's 'written statement of action', which has been approved by the Inspectors) has been produced to describe how further

improvements will be made and by when. Governance and challenge around SEND has been developed through the Inclusion Improvement Board and associated improvement plan. Key improvement areas include:

- *Improving the timeliness and quality of Education, Health and Care (EHC) Plans:* Significant improvement has been made over the past 12 months and there are now no EHC Needs Assessments that are in process that are beyond the 20 week statutory timeframe. Activity continues to increase the quality of EHC Plans.
- *Annual reviews being progressed within timeframe:* The SEND Statutory Assessment and Review Service is in the early stages of ensuring that these are all compliant with requirements. A full re-modelling of our processes, systems and training has taken place.
- *Tribunal process:* Whilst tribunals remain high, the service has improved the process for ensuring that these are managed well and in a timely manner. The majority of challenges include a request for a change of school place and we work closely with commissioners to source additional places in some of our special schools. Discussions between secondary and post-16 sector to look at capacity issues and agreement for a further two new schools has been made to address some of these issues.
- *Addressing complaints:* Resource has been put in place to ensure that complaints are dealt with in a timely manner. The service is working to improve practice and decision making from the early stages of when a complaint is raised. There has been further training with services and weekly monitoring meetings take place at service manager and head of service level to ensure complaints are addressed. This includes ensuring that a resolution is offered and progressed.
- *Ensuring children's needs are identified and are being met in mainstream schools:* Although there is some very good practice, this is not happening everywhere. Significant investment has happened to ensure that there is greater consistency across the city, for example using the Sheffield Support Grid (SSG) which provides a 'baseline' for a child's level of need and therefore the type of provision they should receive. Moderation of 50% of mainstream schools against the SSG is taking place during Summer term 2019 in order to understand the complexity of need across the city and the support that individual schools require to ensure that needs are identified and met.
- *Improving communication with children, young people and families, and between services:* There has been training within the service on managing communication and improvement is being seen. Routes of access for parents and carers contacting the service are being

improved. This area will continue to be monitored over the next 12 months alongside the monitoring of complaints and further staff training and support, including through agreed performance management processes.

2) Manager's Compliance with Human Resources (HR) Requirements

The HR Service has responded to concerns previously raised about systems, policy and processes not supporting manager compliance and will continue to engage with Managers to review and implement simplified arrangements.

The Performance Development Reviews (PDRs) completion rates are below expectations: For 2018/19 it was 56% which was a significant improvement on the previous year but still below the organisational target of 95%. PDR performance has been discussed with EMT and it was agreed that this remains a priority area. We expect to see further performance improvements in 2019/20.

Sickness absence is not reducing below the agreed target: Despite it having been a priority for a number of years and despite having a wide range of support and interventions in place, sickness absence is high and has been slowly increasing over recent years. In 2017/18 it was 4.99%, or 12.94 days lost per person per year and sickness absence figures for 2018/19 increased further to 5.21% or 13.65 days per person.

In December 2018 EMT agreed two new initiatives to support employee health and wellbeing: Day One absence reporting and a temporary Attendance & Wellbeing Team. Day One absence reporting is where employees contact a team of qualified nurses (instead of their managers) to report sickness absence and receive medical advice upon their illness/condition. The Attendance and Wellbeing Team comprises 3 full time equivalent HR consultants dedicated purely to supporting services with returning employees to work and trying to prevent sickness.

Large services with high levels of sickness absence were identified to receive both forms of support and several other services were identified to receive just Day One absence reporting. This approach ensures that the additional support is targeted where it can have the biggest impact as it allows the impact of just Day One absence reporting to be assessed to determine if it should be rolled out to all services. The impact of these additional interventions is being monitored regularly by EMT.

Contractual changes and leavers not processed in a timely manner via manager self-service: Although payroll accuracy rates are over 99%, any payroll error can have significant implications for the member of staff concerned. A recent internal audit highlighted the issue of payment errors made when staff were leaving their post and further investigation determined that a proportion of these errors related to correct notifications not being sent by managers to our payroll service. Over the summer we will be implementing a new HR System which gives us the opportunity to improve our business processes by:

- Cleansing data, so that HR has accurate employee records and from which we can produce representative and precise management information to the organisation.
- Reducing manager process tasks, making it easier for managers to complete a HR change for their team.
- Enabling managers to keep their data accurate and up-to-date (saving them time in the long term) by introducing some new tasks.

To complement the work that is being done in these three areas there will also be a focus over the next 12 months on mandatory e-learning, which equips managers with the basic skills and information required to be a manager at Sheffield City Council. The HR service has reviewed all of the e-learning modules and has defined the 9 modules which are deemed to be essential.

The service will do more to communicate why these modules are an essential element of the overall learning & development offer and engage senior managers and gain their commitment to achieving compliance.

From July, 'live' management information will be produced at service level so that Heads of Service can monitor compliance within their services. A learning offer will also be available for staff that do not have direct access to our IT systems.

The other approach to improving compliance has been to set a clear expectation with Senior and Middle Managers as part of our Leading Together Development Programme that they are accountable for ensuring completion, whilst also ensuring that our staff have the right skills and behaviours to fulfil their leadership and managerial responsibilities through a first line manager development programme.

3) Early Payment of Suppliers in Adult Social Care without adhering to the Financial Regulations

An early payment was made to some care providers in September 2018 in order to guarantee payment during the cutover between the outgoing Care First system and its replacement ICT Case Management system Liquid Logic.

Advanced payment was considered necessary given the significant reputational and relationship issues with providers. There was some risk of smaller providers having financial difficulties due to late payment and any delay in implementation of the new system was a risk of increased delay to payment. Whilst this decision was appropriate in the circumstances as it de-risked payment to care providers, approximately £7m was paid early to care providers without the appropriate authorisations, as required by the Financial Regulations. This issue was reviewed by Internal Audit and a number of

recommendations have been made and agreed. The Council has implemented a number of remedial actions including:

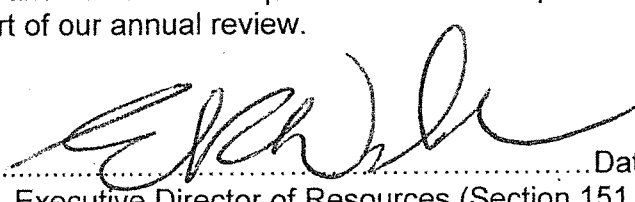
- Implementation of the new Case Management system which has improved overall financial controls
- Implementation of the recommendations made by Internal Audit – which will be verified by a follow up audit to be undertaken by Internal Audit by September 2019.
- Development of new financial controls. These include improved reporting and early flagging of potential overpayments or early payments, which allows better oversight by finance teams. This reduces the risk of advanced payments being released without the correct authorisation.
- Additional guidance and training with the service about financial regulations that has already demonstrated improvements to practice, since September.
- An exercise to check whether any early payments to care providers resulted in any over payment. The results of this are to be verified by internal audit in June 2019.

Statement

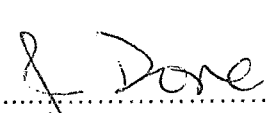
Over the coming year, Sheffield City Council proposes to take remedial actions to address all the issues that have been identified, with regular updates on the progress of this work being made available to the Executive Management Team and the Council Leader.

We have been advised on the outcome of the review of the effectiveness of the governance framework by the relevant Officers and a plan to enhance the Council's ability to identify and resolve weaknesses in its controls, whilst ensuring continuous improvement of the framework will commence.

We will monitor and review the implementation and operation of any new governance framework as part of our annual review.

Signed:  Date: 3/7/19
Eugene Walker – Executive Director of Resources (Section 151 Officer)

Signed:  Date: 5/7/19
John Mothersole - Chief Executive on behalf of Sheffield City Council

Signed:  Date: 9.7.19
Julie Dore - Council Leader on behalf of Sheffield City Council