



## Audit Committee Report

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**Report of:** Director of Modern Governance

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**Date:** 26 September 2012

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**Subject:** Annual Governance Statement 2011/12

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**Author of Report:** Alistair Griggs, Director of Modern Governance  
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**Summary:** The attached is the Sheffield City Council Annual Governance Statement which forms part of the Councils Statutory Accounts.

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**Reasons for 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.

**Recommendations:**

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

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**Background Papers:**

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**Category of Report:** OPEN

If Closed add – ‘Not for publication because it contains exempt information under Paragraph... of Schedule 12A of the Local Government Act 1972 (as amended).’

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## Statutory and Council Policy Checklist

<b>Financial Implications</b>
NO Cleared by: Eugene Walker
<b>Legal Implications</b>
NO Cleared by: Lynne Bird
<b>Equality of Opportunity Implications</b>
NO Cleared by:
<b>Tackling Health Inequalities Implications</b>
NO
<b>Human rights Implications</b>
NO:
<b>Environmental and Sustainability implications</b>
NO
<b>Economic impact</b>
NO
<b>Community safety implications</b>
NO
<b>Human resources implications</b>
NO
<b>Property implications</b>
NO
<b>Area(s) affected</b>
<b>Relevant Cabinet Portfolio Leader</b>
Councillor Bryan Lodge
<b>Relevant Scrutiny Committee if decision called in</b>
Not applicable
<b>Is the item a matter which is reserved for approval by the City Council?</b>
NO
<b>Press release</b>
NO

**SHEFFIELD CITY COUNCIL**

**ANNUAL GOVERNANCE STATEMENT**

**THE POSITION FOR THE FINANCIAL YEAR 2011/12, INCLUDING PLANS FOR THE FINANCIAL YEAR 2012/13**

**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 economically, efficiently 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, and 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/your-city-council/constitution-and-governance/code-of-corporate-governance.html>. This statement explains how Sheffield City Council has complied with the code. It also meets the requirements about the publication of the Annual Governance Statement of regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2009.

**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 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. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is 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 the

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impact should they be 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 2012 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 the Council contains two key elements, the internal control arrangements of the Council and also how Sheffield City Council demonstrates these arrangements to its 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 2012 and up to the date of approval of the annual report and 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 document also lays down the scheme of delegation by which Members of the Council and Officers can make decisions on behalf of the Council to ensure the smooth operation of 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**

The Council has set out its vision and corporate priorities in its Corporate Plan 2011-2014 ("Standing Up for Sheffield") – agreed by Cabinet on 9 November 2011. The current plan has been developed to clearly show 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 new quarterly performance monitoring process has been implemented 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.

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Cabinet receives regular monthly budget monitoring reports in addition to the portfolio members. 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 is considered bi-monthly 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](http://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 to 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 Standards Committee. Her 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 Resources carries overall responsibility for financial issues, and her 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. There is also a Corporate Risk Management Group that includes senior officers from across the Council. The group's prime functions are to oversee the

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development of the framework, ensure there is portfolio operation of risk management within the framework, and assure the identification, management and mitigation of risks. 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 risk and performance management processes in particular. This is to ensure that the processes used are simple and effective and meet the requirements of the Council. Workshop training has been delivered to senior managers, and an e-training module has been developed that will be integrated into the manager learning and development curriculum.

The Council has a Standards Committee which oversees the Council's Code of Conduct for Members. This Committee operates outside the main Council structures and the Chair and Deputy Chair are independent of the Council. There are agreed terms of reference for this committee which meets on a quarterly basis. These arrangements are in line with statutory provision, which is abolished on 1 July 2012 by the Localism Act. The statutory committee will then be abolished. Plans are in place to ensure the Council will comply with the new statutory requirements.

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 Whistle-blowing 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.

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

### **4 - Ensuring the economical, effective and efficient use of resources**

The Council has previously instigated the Modern Efficient Council (MEC) Programme. The programme has developed, leading our corporate plan ambition of putting the customer first and achieving better value for money. As a Modern and Efficient Council, we will;

- be led and shaped by what the people of Sheffield want, and what matters to them most;
- provide excellent services to our citizens and businesses, first and every time;
- provide outstanding value for money.

The programme makes it clear how each part will help the Council to achieve its vision. Not only will the process apply to the whole of the Council and its services, but will also extend to partner organisations and contractors where applicable.

## **5 - The financial management of the Council**

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

- The work of Internal Audit.
- The external auditors' Audit and Inspection letter and other reports.
- The role carried out by the Executive Director Resources under s151 Local Government Act 1972 responsibilities.
- The work of the Contracts Administration team 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, 'Standing up for Sheffield'. 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 ensure 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 Council has introduced an Individual Performance Review framework which requires scoring of individual staff and managers against the Council's Imperatives, which are set at Leadership, Service and Individual level. These scores will enable the Council to map performance distribution. The Imperatives were co-produced using a range of consultative techniques with staff groups in the organisation. Completed reviews will be collated by HR who will gather information which will then be used to identify and consolidate good performance and identify where there is less than optimum performance. Development interventions will be provided to support improvements, where necessary.

The Council has identified a core development programme for managers and employees to embed a consistent approach to management of resources, including its people, and to develop employee knowledge and skills across a range of subjects. Alongside this the Council is developing Portfolio Commissioning Groups to identify, commission and monitor specific development needs of its employees, and to consider the qualitative and quantitative data relating to Individual Performance Reviews.

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.

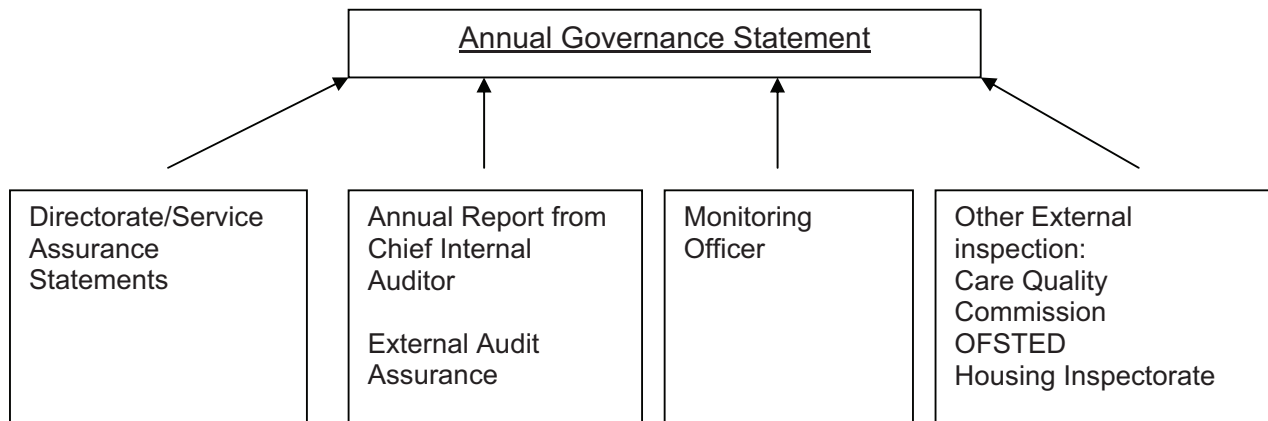
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### Review of Effectiveness

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 (AGS).

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 Executive Management Team (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, for example, 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 initiated. 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. The section also undertakes fraud investigations and other ad hoc responsive investigations relating to the Council's control framework. This element of Internal Audit's work also contributes to the maintenance of a sound system of internal financial control. The section complies in all significant respects with the professional standards required of the



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service as defined by the Chartered Institute of Public Finance and Accountancy (CIPFA). The section also works closely with the external auditors (Audit Commission). The service has undertaken a programme of preventative work to mitigate the potential for fraud.

There are some areas of control weakness that have been included under the section relating to weaknesses. The Chief Internal Auditor has confirmed that he is unaware of any other significant control weaknesses that have not been considered when compiling this Statement. The Audit 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. Such a review has taken place during the year. The Deputy Chief Executive, as the Council's Monitoring Officer, has not raised any issues of significance that are contrary to the findings within the statement.

The Council is responsible for setting the overall objectives of the Authority and for undertaking statutory duties such as agreeing the budget and setting the level of Council Tax. In the year 2011/12 all these duties have been performed.

A significant amount of Children's and Young People's Services activity is undertaken within Schools. The Portfolio has in place a number of monitoring processes which monitor the various aspects of performance. The Portfolio has provided assurance that overall they are satisfied that maintained schools are operating within the expected policies and procedures in terms of their local governance, accountability and management. This is based upon their own system and also from written assurance gained from individual schools.

During the financial year 2011/12 the Council has been inspected by a number of external agencies and a summary of their findings is noted in the following paragraphs. The 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.

- The Council's external auditors, the Audit Commission, were able to issue an unqualified opinion on the Council's Accounts in their Annual Governance Report for 2010/11.

Individual Council services are the subject of external inspections. In the current year the following significant inspection reports were also received:

- The Council's Insurers undertook a review of the insurance service which found that overall the standard was Excellent. This was supported by a 95% technical service proficiency result being achieved.
- The Council's Customer Services department has been inspected and has retained the Customer Service Excellence accreditation.
- Within Modern Governance, the external inspection into Member Development Activity awarded the service Charter Plus status. This inspection was carried out by Local Government Yorkshire and Humber (LGYH) and the Local Government Improvement and Development Agency (IDeA).

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- In the Children and Families Service OFSTED undertook a number of inspections. The inspections of Fostering and the Adoption Service resulted in ratings of Good. The inspections of Children's Homes (including secure children's homes) resulted in ratings of Good or Outstanding. The inspection of Contact, Referral and Assessment Service found one area for development.

In addition to the above, a number of schools within the city have been the subject of OFSTED inspections. The Children and Young People's Service's Advice and Inspection Service follow up on these reviews and give support to the schools.

For all of the above inspections, recommendations were made. Assurance has been received that appropriate management action is being taken.

The Council has an Audit Committee made up of 6 non-Executive elected Members. In May 2011, the Committee was strengthened with the appointment of 2 non-voting co-opted members to bring additional experience, independence and an external view to the Committee's work.

The Audit 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 Audit 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 and Risk Management and the Council's Accounts) and other issues identified by the Committee during the year. This included monitoring the financial and commercial risks of the Council's major external relationships and a process for consideration of all High Opinion Audit Reports. 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 upon 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 Modern Efficient Council Organisational Programme continues to commission and govern change targetted to deliver lasting improvements to

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the Council's organisational capability, enabling innovative, efficient and customer-focussed services: Challenging the organisation to be innovative and maximise the benefits of change to support the Council's Future Shape.

- The Council continues to monitor closely its most significant external relationships in relation to risk and governance arrangements, with quarterly reports to both the Executive Management Team and Audit Committee. A further review of appointments of elected Members to external organisations will be undertaken shortly. Ensuring that appointed Members receive appropriate officer support remains an important area of activity

### **Significant 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 2011/12, 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.

A number of control weaknesses identified in the 2010/11 Annual Governance Statement have now been resolved, or the risks have been reduced to a level where they no longer require reporting in this statement.

However, as part of the 2011/12 Annual Governance Statement process, some significant control weaknesses have been identified. Details of these are recorded below. These issues are significant in that they cover large parts of the Council and its activities and require a corporate solution.

Description of the Control Weaknesses	Officer Action
<p><b><u>MuseumSheffield (Sheffield Galleries and Museums Trust)</u></b></p> <p>Control weaknesses relating to the Sheffield Galleries and Museums Trust have been highlighted in the Annual Governance Statement for the last two years. Concerns have primarily related to the adequacy of cash flow and the client function management of the trust.</p> <p>Last year we reported that the MuseumSheffield Board had recognised the need for more timely financial information. To this end they had recruited a new Head of Finance. This new post holder has accomplished much in the past year so that whilst this work is still ongoing on improving financial systems, there is now more confidence in the financial reporting both to the Board and between MuseumSheffield and the Council.</p> <p>These changes have however occurred at the same time as MuseumSheffield undertook an unsuccessful bidding process for an Arts Council Major Award to replace the Renaissance Funding they had previously received. As a result there has been a significant reduction in external funding. This in turn has resulted in a downsizing of the organisation with the Chief Executive and the Director of Resources both standing aside in order to reduce management costs.</p> <p>The reduction in funding has again highlighted the extent to which MuseumSheffield had used external funding to finance their underlying level of expenditure.</p>	<p>In June 2012 further action is being taken by the Council to ensure the continued operations of a museums and galleries service for the people of Sheffield. This is only possible because both Culture and Environment, and Finance, are now more confident in the financial management of the organisation and believe that the future can be managed back into a stable position from which to rebuild.</p> <p>In summary therefore:</p> <ul style="list-style-type: none"> <li>• MuseumSheffield have appointed a new Head of Finance who in turn has reviewed and upgraded significantly the quality, accuracy and timeliness of the financial information supplied to the Board and the Council.</li> <li>• At the conclusion of that governance review, new Service Level Agreements will be implemented aligning outcomes to the current Corporate Plan.</li> </ul>
<p><b><u>HR Data Reliability Concerns</u></b></p> <p>Externally commissioned reviews of the HR System have found that whilst the system itself is sound, not all standard parts are fully</p>	<p>A project to rectify weaknesses in the HR System has been commissioned that forms part of the People Transformation</p>

<p>used. Current operational processes may also not be in step with recommended business practices. A project has been commissioned to rectify this. Until the project's completion, there remains a significant risk that the Council is unable to manage its people resources and associated budgets as effectively as it should, and that there may be errors in the operation of the payroll function is operating. In addition, the reputational effect of poor quality data continues to impact on the wider HR service and customer perceptions.</p>	<p>Programme. This is governed by the Modern Efficient Council (MEC) Board. The project has a clear Project Initiation Document and timescales, and reports to a sub-committee of MEC on a monthly basis.</p>
<p><b><u>Improving compliance with Payment Card Industry Regulations</u></b></p> <p>These standards cover the processes used to handle payment card information (i.e. debit card or credit card transactions) whether they are manual or electronic or both. Manual processes are generally (but not exclusively) run by Council staff and electronic solutions are provided by or through Capita.</p> <p>In July 2011 Internal Audit produced a helpful report on the Council's compliance with the standard. A good standard of compliance is a key target for the City Council as it helps provide reassurance both to people using payment cards with us and payment card providers.</p> <p>Complete compliance with all the standards is extremely challenging. Whilst the Council and Capita have arrangements in place to comply with the basic standards, work is outstanding to achieve higher standards of compliance.</p>	<p>Capita is working hard to place its payment card electronic solution – called AIM – in a more secure environment. This work is scheduled to be complete by October 2012 and it follows considerable planning, testing and implementation work. That work will move us to closer compliance with the Data Security Standard.</p> <p>Work is also continuing to improve City Council processes which involve payment card information; a recent example being in Customer Services.</p> <p>Both the Council and Capita have committed considerable resources to improving compliance in this area; these efforts will continue where required.</p>

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**Statement**

We have been advised on the review of the effectiveness of the governance framework by the relevant Officers and a plan to address weaknesses and ensure continuous improvement of the system is in place. Regular updates on progress will be made available to the Council Leader.

Sheffield City Council proposes 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 our review of effectiveness. We will monitor their implementation and operation as part of our next annual review.

**Signed:**

.....  
Laraine Manley – Executive Director Resources (Section 151 Officer)  
(Signed by Eugene Walker, Director of Finance on behalf of the Executive Director)

**Signed:**

.....  
John Mothersole - Chief Executive on behalf of Sheffield City Council

**Signed:**

.....  
Julie Dore - Council Leader on behalf of Sheffield City Council