

Meeting:	Audit Committee
Meeting date:	25 January 2021
Title of report:	Annual Governance Statement (AGS) Action Plan Update
Report by:	Lisa Kitto Interim Director of Financial Transformation
Decision Type:	Non Key Decision
Ward(s) to which report relates	All

Executive Summary:

The Council's 2019/20 Annual Statement of Annual Accounts includes its Annual Governance Statement (AGS). This sets out the key issues arising from:

- its assessment of its internal governance arrangements;
- its key areas of governance concerns; and
- the actions being undertaken to address them.

The Final AGS was approved by the Audit Committee on 17 November 2020. Members also noted the 2019/20 AGS Action Plan and its current status. This report sets out a further update against this Action Plan.

Later in the agenda, Members will also consider a report which sets out the Plan for the preparation of the 2020/21 AGS, as part of the Council's preparations for the 2020/21 Statutory Accounts.

Recommendation(s)

That:

- The Audit Committee note the further progress made towards achieving the AGS Action Plan as set out in Appendix 1.

KEY CONSIDERATIONS

1. BACKGROUND

- 1.1 The Accounts and Audit Regulations 2015 require the Authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and to prepare an Annual Governance Statement (AGS). As a consequence of the COVID-19 pandemic, the April 2020 amendment to the Accounts and Audit Regulations has altered the statutory timetable of the production and publication of the AGS alongside the Financial Statements.
- 1.2 The AGS is produced in accordance with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework (2016). The AGS should be an open and honest self-assessment of the organisation's performance across all its activities and against these principles. The AGS is included as a statement in the Council's statutory accounts.
- 1.3 Members approved the 2019/20 Final AGS at the meeting of the Audit Committee on 17 November 2020. Members were also made aware of the special considerations, when producing the 2019/20 AGS, including:
- Following the CIPFA guidance issued in April 2020 to include relevant areas of governance impact arising from the COVID-19 pandemic. This guidance was captured throughout the document.
 - A new style document was also produced by the Council as part of a commitment to refresh existing practices and processes, as agreed by the Audit Committee on 30 July 2020.
 - The Annual Governance Statement includes an Action Plan and Members considered an update against this Action Plan at its meeting on 17 November 2020.
- 1.4 The Council has been monitoring the AGS Action Plan and a further update to the Action Plan has been produced; this is set out at Appendix 1. It is proposed that Members continue to receive further updates on progress against the AGS action plan be presented to all future Audit Committees for the remainder of the current financial year.
- 1.5 Appendix 1 sets out that good progress continues to be made against the action plan. Specific achievements include the proposed new Council constitution, the review of capital and risk management arrangements, developments to Internal Audit assurance process and the delivery of key elements of the Internal Audit improvement plan. It is anticipated that more progress will be made over the remainder of the financial year.

2. THE PROPOSAL

- 2.1 Some areas of weakness have been identified and the Council has agreed a programme of activity to address these issues. Further information how the Council plans to address some of the governance concerns is set out in the Action Plan, as Appendix 1, which also incorporates current updates.
- 2.2 Good progress continues to be made and regular progress updates around the action plan will continue to be provided to the Audit Committee.
- 2.3 The Council presented the draft AGS to the Audit Committee on 30 July 2020 for initial consideration in line with statutory requirements.

2.4 The Final AGS will be presented to Cabinet once the external audit of the statutory accounts is completed. Therefore, Members of the Audit Committee are requested to note the progress reported in the Action Plan.

3. OTHER ALTERNATIVE OPTIONS CONSIDERED

3.1 An alternative option is for Members not to note the progress in the AGS Action Plan. However, given that the AGS is one of the Statements in the Council’s statutory accounts, this may not facilitate effective action and monitoring in the Council’s risk management framework.

Community impact / Contribution to the Bury 2030 Strategy

Equality Impact and considerations:

24. *Under section 149 of the Equality Act 2010, the ‘general duty’ on public authorities is set out as follows:*

A public authority must, in the exercise of its functions, have due regard to the need to -

- (a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;*
- (b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;*
- (c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.*

25. *The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying ‘due regard’ in our decision making in the design of policies and in the delivery of services.*

Assessment of Risk:

The following risks apply to the decision:

Risk / opportunity	Mitigation
All risks are set out in the AGS.	Mitigations are set out in the Action Plan which will be monitored on a regular basis and reported to Members.

Consultation:

None required

Legal Implications:

The production of an Annual Governance Statement is a statutory requirement. The report sets out the legal implications and requirements together with the action plan and particularly the proposals for a review of governance and the Council's Constitution.

Financial Implications:

There are no financial implications arising from the annual governance statement.

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Background papers:

1. CIPFA Statements of Professional Practice (SOPP) (including ethics)
2. CIPFA Statement of the Role of the Chief Financial Officer
3. CIPFA Statement on the Role of the Chief Financial Officer in Local Government
4. CIPFA Financial Management Code

Please include a glossary of terms, abbreviations and acronyms used in this report.

Term	Meaning
AGS	Annual Governance Statement

Annual Governance Statement 2019/20

Significant Governance Issues – Progress as at Quarter 3

Issues	Action Plan for 2020/21	Lead Officer
<p>Constitution</p> <p>The Constitution has not been refreshed for some time although has been subject to incremental updates. A full refresh will provide clarity on procedures, decisions and delegations.</p> <p>Officers are not always aware of the correct processes and procedures and there is a risk that decisions could be made outside of the Constitution.</p>	<p>The Council has appointed a specialist legal adviser to support the council in developing a new constitution. An officer/member group has been established, terms of reference agreed and ad a timescale for delivery.</p> <p>As at of the process, a governance survey will be issued and the feedback used to inform the outcome of the review. A new constitution and associated schemes of delegation will be fully signed off for implemented in 2021/22.</p>	<p>Marie Rosenthal</p>
<p>Action to Date</p> <p>A cross party Democratic Arrangements Forum has been established through which a revised Constitution has been developed. The final proposals are to be presented to Cabinet in November 2020 for implementation from January 2021. As part of this, a member training development programme has been developed and training on the new Constitution will be provided. Training on the new Constitution has also been provided to the Executive Team and Directorate Teams. The Council's website has also been updated with new corporate report templates etc.</p> <p>Further work is underway regarding a review of Contract Procedure Rules and a refreshed Scheme of Delegation. This will be</p>		

completed by January 2021.

Financial Strategy

The 2020/21 budget includes efficiency savings of c£4.2m. Whilst the deliverability of these have been externally tested there is a risk that they will not be delivered. There was also an ongoing requirement (when the budget was set in February 2020) to identify c£22m in savings over the next 4 years.

The emergence of COVID-19 has placed even greater financial pressure on local authorities and the real funding gap going forward will be much greater. The volatility and significant financial, fiscal and economic risk makes forecasting and planning difficult.

The lack of funding announcements for future years and the delay in the CSR provides an additional layer of risk and longer term planning more uncertain.

Financial resilience and sustainability is a significant risk for the future.

The Medium Term Financial Strategy (MTFS) will be updated and refreshed throughout the year to take account of changes in funding and cost/income pressures.

Regular monthly monitoring to be provided to Exec Team and quarterly monitoring to Cabinet. Report on slippage on savings will be reported.

Principles for managing the in year impact of COVID and also for the future MTFS to be agreed and implemented.

Framework for developing the budget for 2021/22 to be agreed and actioned over Summer for consideration by cabinet in September.

Reserves strategy to be developed and implemented in 2020/21 to consolidate and bring greater financial control over the use of reserves.

Lisa Kitto

Action To Date

The Medium Term Financial Strategy was updated and reported to Cabinet in July 2020 with a further update in October 2020.

The July report set out principles for managing the in-year deficit and also set out an approach and timeline for setting the 2021/22 budget. Budget options are being developed with the Executive Team (and with member involvement) and will be reported to Cabinet in November 2020. A timetable for all key actions has been set and agreed including consultation requirements, updates to assumptions following the CSR announcements etc.

A reserves strategy was developed and agreed by Cabinet in July 2020 and is now in operation. The quarterly monitoring reports have been updated to reflect the forecast position on reserves as part of the in-year budget monitoring and also as part of the MTF5 updates and 2021/22 budget setting process.

Homes England Grant Claims

Homes England audit reviews identified key weaknesses in the grant claims and gave the council the lowest possible rating. This is the second year this has happened. The reputational risk to the Council and the potential to not be considered for future grant funding rounds is a risk.

Full audit review of Homes England grant claims to be undertaken. Discussions have already highlighted opportunities to improve processes. Higher level sign-off of all grant claims to be introduced.

Lynne Ridsdale/Lisa Kitto

Action To Date

The Homes England compliance report 2020/21 was received in January 2021 and gives full assurance. The report states 'The council has complied with all of the programme requirements and a green grade has been assigned with no breaches identified'.

Risk Management Framework

The risk management approach across the council is inconsistent and the approach to risk assessment and scoring does not align to best practice. The potential of not identifying all major risks is possible.

Governance Review has been commissioned and will be delivered in 3 phases over the year with findings reported to the audit committee. A key area of focus is on the risk management framework and a 'best practice' approach will be

Lynne Ridsdale/Lisa Kitto

	implemented. First report to be presented to audit committee in July 2020.	
<p>Action To Date</p> <p>A revised approach to risk management was agreed by Audit Committee in July 2020. This included an updated format for the risk registers and the Corporate Risk Register (CRR) was agreed. An updated register that takes account of Directorate risks has been developed and was presented to the Audit Committee in November.</p> <p>As the risk management framework continues to be refined, regular updates will be provided to the Audit Committee and the next one is planned for March 2021. This will set out the corporate oversight process and the process to monitor service based risks with the corporate risk register, and will include an update on the combined CRR with the CCG. The Council's Executive Team regularly review the CRR and a further workshop is planned by the end of January 2021, to further embed risk management processes.</p>		
<p>Audit Assurances</p> <p>c40% of audit carried out in 2019/20 were assessed as below adequate/unsatisfactory. There is a risk that the council will not be able to obtain assurance from the audit manager in the future regarding the effectiveness of internal control.</p>	<p>A review of audit reports, formats and assurance levels has been carried out and updates introduced.</p> <p>Executive Directors will be more actively engaged in the audit progress</p> <p>Improved monitoring arrangements will be introduced and communicated to the executive team and more follow up audits will be carried out.</p> <p>Performance monitoring of audit plans will be introduced to ensure audits are conducted on a timely basis and that responses from managers are timely too.</p>	<p>Lisa Kitto</p>
<p>Action To Date</p>		

As included below in the “Internal Audit Provision” update, further refinement continues to Internal Audit processes to facilitate improvement to the assurance framework, including the awareness and knowledge of the audit assurance process by stakeholders. This will support improved internal control across the organisation. As below, work continues in accordance with the agreed improvement plan.

Internal Audit Provision

A review of the internal audit service has identified some weaknesses in service provision, and the approach adopted for internal audit across the council. An independent review identified a number of recommendations to improve the overall approach and quality of the service.

If action is not taken to address these, there is a risk that the Council does not have an effective internal audit provision and overall governance and measures of assurance are ineffective. This will weaken the internal governance arrangements for the Council.

An audit improvement plan has been developed and will be implemented. The external consultant is currently providing additional advice and support as part of the wider governance review including an assessment of the service against national standards.

Capacity and skills update for the team will be considered and factored into the wider finance restructure.

Lisa Kitto

Action To Date

The Internal Audit function continues to develop in accordance with the approved plan and the Public Sector Internal Audit Standards (PSIAS). Key achievements to date include the following:

- As documented above, there have been significant developments to the process for stakeholder engagement, which also provides benefits to the audit clearance process and the ability to develop audit plans.
- Further improvement to Audit Reports and the audit opinion, action prioritisation process.
- Refinements to the Quality Assurance Improvement Programme (QAIP) to support further developments to audit report quality.

Opportunities for training and support continue to be provided to the team and the Internal Audit Manager, who has commenced consideration of the 2020/21 Head of Internal Audit Opinion. The development of the 2021/22 Internal Audit Plan has commenced and will be reported to the meeting of the March 2021 Audit Committee.

This development work will continue in accordance with the plan and professional standards.		
<p>Procurement</p> <p>Processes in relation to procurement need updating and training provided to managers. The reputational risk caused by failure to follow processes and procedures is significant.</p> <p>The consolidated contracts register is not up to date which also means that opportunities for consolidating contracts is lost and that lost value is not achieved.</p>	<p>Procurement survey to be undertaken to identify issues with managers involved in procuring of goods and service, Action plan to be developed and new guidance produced.</p> <p>Contracts register to be brought together – contract management arrangements, accountabilities and responsibilities to be defined and embedded.</p>	<p>Lisa Kitto</p>
<p>Action To Date</p> <p>Procurement survey has been completed and the results discussed with statutory officers. New contract procedure rules are being developed and will be launched from April 2021. As art of the development of the new rules, a draft will be presented to the Audit Committee in January 2021. Further work on the contracts register is still underway.</p>		
<p>Capital</p> <p>The capital financial framework and accounting process requires a refresh in order to ensure that capital accounting records and standards are maintained and are effective. A review of capital processes is also needed to avoid slippage and to ensure that schemes are delivered on time.</p>	<p>Refresh and update the capital strategy.</p> <p>Review, update and reset the capital programme in light of COVID-19 and the funding available.</p> <p>Train and upskill staff to ensure specialist capital knowledge of a high standard is available within the</p>	<p>Lisa Kitto</p>

	Council.	
<p>Action To Date</p> <p>A full review of the capital programme has been carried out and some schemes were reduced by Cabinet in November 2021. New capital gateway groups, underpinned by new governance processes, arrangements and documentation, have been agreed and set up with the first meetings in January 2021. A review of the monitoring arrangements has been completed and new purchase to pay processes have been implemented for capital schemes to provide more accurate commitment accounting and monitoring.</p> <p>A review of the capital strategy is underway and will be presented to Cabinet and Full Council in February.</p>		
<p>DSG</p> <p>The deficit on the DSG reserve has increased by c£5m in 2019/20 and is over £20m in total. There is a danger that the deficit could be greater than the annual High Needs allocation which will make recovery of the position extremely challenging.</p> <p>The DSG Recovery Plan. Agreed with the DfE does deliver a break-even position and therefore sustainability of services may be an issue.</p>	<p>Full root and branch review of the DSG recovery plan to consider options for the future.</p> <p>Establishment of a task and finish recovery group with corporate representation to enable a wider corporate position to be taken.</p> <p>Reports to Cabinet throughout the year.</p>	<p>Sheila Durr/Lisa Kitto</p>
<p>Action To Date</p> <p>The Council is actively engaged with the DfE on a recovery and transformation plan to reduce the DSG deficit. Further updates on the work will be provided as it develops.</p>		
<p>Health and Social Care Integration</p> <p>The ability to deliver savings attributed to health and social care integration may be a reality and will impact on the</p>	<p>Full assessment of savings delivery plan and delivery through the health and social care recovery board.</p>	<p>Will Blandamer/Lisa Kitto/Mike Woodhead</p>

financial plans of both the Council and the CCG.	Monthly updates and reporting on variances that may lead to non-delivery of plans.	
<p>Action To Date</p> <p>Budget reductions are being developed in conjunction with the CCG and are reported via the Executive Director of the One Commissioning Organisation. Monthly updates are provided to the Executive Team as part of the budget process and are reported through to the Policy Advisory Group. The following updates are highlighted:</p> <ol style="list-style-type: none"> 1) There is on-going oversight of the Strategic Commissioning Board; 2) The joint Internal Audit Review of the operation of the pooled budget is due to commence. 		
<p>Fraud</p> <p>The opportunity for fraud during the COVID-19 crisis has increased. Fraudulent claims of business grants and potentially other benefits is likely to have occurred.</p>	<p>Engagement in wider national fraud initiatives focused on these issues.</p> <p>Review of cases that have been identified as unusual and require investigation. Fraud team to report on approach, findings and outcomes to the Audit Committee.</p>	<p>Lisa Kitto</p>
<p>Action To Date</p> <p>The Council is taking part in the national initiative that is looking at fraud for the business grants. Interim results have not yet been received but will be reported to Audit Committee as and when they are available. A report regarding the progress made and the issues identified will be reported to the Audit Committee in January 2021, as part of this agenda.</p>		
<p>Leadership and workforce development</p> <p>The absence of a corporate leadership development does not allow assurance that leaders have the skills and mind-set to drive forward corporate priorities.</p>	<p>A leadership development strategy will be developed over the next financial year as part of an internal transformation programme.</p>	<p>Lynne Ridsdale</p>

<p>The workforce skills/ “behaviour” framework will require review as part of the new Corporate Plan, when developed, to ensure alignment with key skills base and delivery outcomes.</p>	<p>The staff skills and training offer will be updated to underpin the new Corporate Plan once developed this year.</p>	
<p>Action To Date</p> <p>Initial work has commenced with a HR consultant to review organisational development needs and to review HR policies. Executive Team development has been provided through North West Employers which will inform the wide transformation programme for the Council.</p> <p>In summary, the current status of these matters is as follows:</p> <ul style="list-style-type: none"> - External commission has been made for the Executive Team development. - Organisational Development work stream is being developed as an integral part of internal transformation programme. - HR policies have been re-drafted for consultation with the Trade Unions. The target implementation date is set for 2021/22. 		