

<b>Committee(s):</b>	<b>Date(s):</b>
Audit and Risk Management	25 Jun 2013
<b>Subject:</b> Annual Governance Statement 2012/13	<b>Public</b>
<b>Report of:</b> Town Clerk and Chamberlain	<b>For Decision</b>

### Summary

This report presents the annual update of the City Corporation's governance and internal control framework in the formats agreed by this Committee in March 2013. Appendices 1 and 2 set out the City Corporation's Annual Governance Statement (AGS) as required by the Accounts and Audit (England) Regulations 2011. The statement is set out in two versions – one with the main changes highlighted, and the other showing full track changes from the 2011/12 statement.

The AGS is prepared in accordance with proper practice guidance – Delivering Good Governance in Local Government – issued jointly by the Society of Local Authority Chief Executives and Senior Managers (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA). This was revised in 2012, accompanied by a new guidance note and addendum.

Appendix 3 contains an outline schedule of assurances in support of the statement. Although the AGS requires corporate ownership, as it is concerned with corporate controls rather than being confined to financial issues, it must accompany the annual City Fund and Pension Funds Statement of Accounts.

### Recommendation(s)

Members are asked to:

- approve the AGS set out in Appendixes 1 and 2 for signing by the Chairman of the Policy and Resources Committee and the Town Clerk and Chief Executive;
- note that the AGS will be published alongside the 2012/13 City Fund and Pension Funds Statement of Accounts;
- note the future developments in paragraph 63 of the AGS to improve the governance framework; and
- delegate authority to the Town Clerk and Chief Executive, in consultation with the Chairman and Deputy Chairman of this Committee, to amend the AGS for any significant events or developments relating to the governance arrangements that occur prior to the date on which the Statement of Accounts is signed by the Chamberlain.

## Main Report

### Background

1. This report presents the annual update of the City Corporation's governance and internal control framework. The Accounts and Audit (England) Regulations 2011, which apply to the City of London's City Fund activities, require an audited body to conduct a review at least once a year of the effectiveness of its system of internal control and publish an Annual Governance Statement (AGS) each year, alongside the authority's Statement of Accounts. The AGS is set out in Appendix 1, with the main changes from last year highlighted, and in Appendix 2 with all additions, deletions and other changes shown as 'tracked changes'.
2. In June 2007, the Chartered Institute of Public Finance and Accountancy (CIPFA), in association with the Society of Local Authority Chief Executives and Senior Managers (SOLACE), published a *Delivering Good Governance in Local Government: Framework* and an accompanying guidance note, which represented the proper practice guidance in relation to internal control. During 2012, a CIPFA/SOLACE Joint Working Group reviewed the Framework, to ensure it remains fit for purpose. In December 2012, the Joint Working Group issued an addendum to the framework and a revised guidance note. The City's AGS has been prepared in accordance with this revised guidance.
3. In 2010, CIPFA issued its *Statement on the Role of the Chief Financial Officer in Local Government*. The governance requirements in this document are that the Chief Financial Officer should be professionally qualified, report directly to the Chief Executive and be a member of the leadership team, with a status at least equivalent to other members. The Statement requires that, if different arrangements are adopted, the reasons should be explained in the organisation's AGS, together with how these deliver the same impact. The role of the Chamberlain conforms to the requirements of the Statement on the Role of the Chief Financial Officer.

### Approval

4. The AGS must be signed by the most senior officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent).
5. The AGS should be approved by an appropriate committee, but there is no statutory timetable for approval, other than that the AGS must accompany the Statement of Accounts.
6. Following a resolution of this Committee in March 2012, the Policy and Resources Committee approved a report on the process for producing the AGS, and approved the practice whereby the AGS is approved by this Committee and signed by the Chairman of the Policy and Resources Committee.
7. There is a requirement that any significant events or developments relating to the governance arrangements that occur between the Balance Sheet date (31<sup>st</sup> March 2013) and the date on which the Statement of Accounts is signed by the Chamberlain are reported within the AGS. Delegated authority is,

therefore, sought for the Town Clerk, in consultation with the Chairman and Deputy Chairman of this Committee, to amend the AGS if necessary

### **Ownership**

8. As a corporate document, the AGS should be owned by all senior officers and members of the authority. CIPFA argues that it is essential that there is buy-in at the top level of the authority; otherwise, there is a risk that the preparation of the AGS is not perceived as an important task and, if the work is delegated to a single officer, it is likely to dilute the statement's significance. The draft AGS was considered and agreed at the Performance and Strategy Summit Group of Chief Officers on the 12<sup>th</sup> June.
9. The signatories need to ensure that the AGS accurately reflects the governance framework for which they are responsible. To achieve this, reliance may be placed on many sources of assurance, such as:
  - Chief Officers and Senior Managers;
  - the Chief Financial Officer responsible for the accounting control systems and records and the preparation of the statement of accounts;
  - the Monitoring Officer in meeting his/her statutory responsibilities;
  - members (e.g. through audit or scrutiny committees);
  - the Head of Internal Audit;
  - performance and risk management; and
  - external audit and other review agencies.
10. The Audit and Risk Management Committee has a key role within the 'review of effectiveness' of the City's governance framework, including the system of internal control. One of its prime responsibilities is to review the work of the internal auditors, consider the risk management framework, and consider comments made by the external auditors and other review agencies and inspectorates.

### **Future Developments**

11. Paragraph 63 of the AGS lists future developments planned for 2013/14, to further improve the governance framework, as follows:
  - Reviewing future arrangements for the City's Local Strategic Partnership;
  - Conducting a detailed review of the Corporate Plan, including consultation with Members;
  - Consulting on and agreeing a revised IS Strategy;
  - Implementing a service based review process, to generate further efficiency savings, in response to reductions in government grant;
  - Reviewing the level of cash reserves to ascertain whether the investments could be re-allocated to other higher yielding asset classes, such as property;
  - Embedding the City Of London Procurement Service arrangements, so procurement and payment efficiencies and compliance from a centralised service are realised;

- Commissioning an independent review of the effectiveness of risk management processes and controls;
- Implementing the risk management improvement plan to strengthen and raise awareness of risk management across all areas of the City Corporation; and
- Amending existing internal audit processes in accordance with the new Public Sector Internal Audit Standards.

### **External Audit**

12. The AGS is required to accompany an authority's Statement of Accounts, but is not part of the accounts. This is an important distinction, as the statement is not then covered directly by the Chief Financial Officer's certification. The external auditors review whether the AGS reflects compliance with "Delivering Good Governance in Local Government" and report if the AGS does not comply with proper practices or if it is misleading or inconsistent with other information the auditor is aware of from the audit of the Statement of Accounts

### **Conclusion**

13. If your Committee approves the AGS, the Chairman of the Policy and Resources Committee and the Town Clerk will be requested to sign the document, which will then be sent to all Members of the Policy and Resources Committee, and published on the City of London website.

### **Appendices**

1. Appendix 1 – Draft Annual Governance Statement 2012/13 – main changes highlighted
2. Appendix 2 – Draft Annual Governance Statement 2012/13 – all changes tracked
3. Schedule of reporting to Members

### **Background Papers:**

- Report to Audit and Risk Management Committee, March 2013: *Annual Governance Statement - Methodology*
- CIPFA/SOLACE publications:
  - Delivering good governance in Local Government: Framework (reissued 2012)
  - Delivering good governance in Local Government: Framework – Addendum (December 2012)
  - Delivering good governance in Local Government:– Guidance Note for English Authorities (2012 Edition)

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