

BROMSGROVE DISTRICT COUNCIL

AUDIT, STANDARDS & GOVERNANCE

14th December 2022

ANNUAL GOVERNANCE STATEMENT

Relevant Portfolio Holder	Cllr. Geoff Denaro, Finance and Governance Portfolio Holder
Portfolio Holder Consulted	Yes
Relevant Head of Service	Michelle Howell
Report Author	Job Title: Head of Finance & Customer Services email:michelle.howell@bromsgroveandredditch.gov.uk Contact Tel:
Wards Affected	N/A
Ward Councillor(s) consulted	N/A
Relevant Strategic Purpose(s)	All
Non-Key Decision	
If you have any questions about this report, please contact the report author in advance of the meeting.	

1. SUMMARY OF PROPOSALS

- 1.1 The production of the Annual Governance Statement (AGS) forms part of the annual closure of accounts process. It is not a financial exercise but a corporate overview of the processes and procedures adopted by the Council to manage its affairs.

2. RECOMMENDATIONS

Audit, Governance and Standards Committee are Recommended to:

- Note the arrangements for compiling, reporting on and signing the Draft Annual Governance Statement;
- Review and comment on the Draft Annual Governance Statement including any areas which should be considered; and
- Subject to changes identified above, agree and approve the statement for signature by the Chief Executive and Leader of the Council for inclusion in the statement of accounts.

3. Background

Introduction

- 3.1 The preparation of an AGS is necessary to meet the statutory requirements as set out in the Accounts and Audit (England) Regulations 2015. The AGS

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covers the Council's governance arrangements for the 2020 / 2021 reporting year. Set out in the Appendix A is the Draft AGS.

- 3.2 This report includes the AGS for Audit, Governance & Standards Committee to review, challenge and advise the Leader and Chief Executive upon accordingly.
- 3.3 Internal control and risk management are recognised as important elements of good corporate governance. The scope of governance, as covered in the AGS, spans the whole range of the Council's activities and includes those designed to ensure that:
- The Council's policies are implemented in practice;
 - High quality services are delivered efficiently and effectively;
 - The Council's values and ethical standards are met;
 - Laws and regulations are complied with;
 - Required processes are adhered to;
 - Its financial statements and published information are accurate and reliable; and
 - Human, financial and other resources are managed efficiently and effectively.

Arrangements for compiling the Annual Governance Statement

- 3.4 The Council has established governance arrangements which are consistent with the seven principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) Framework – Delivering Good Governance in Local Government.

Supporting Evidence

- 3.5 Evidence has been compiled to confirm the governance arrangements in operation across the Council for the period concerned. This sets out how the District Council demonstrates compliance with the principles of good governance and highlights where action is needed to address any weaknesses in the Council's governance arrangements.

Internal Audit

- 3.6 The Internal Audit Opinion is contained in the Statement of Accounts. Due to the global COVID-19 pandemic, 2020/21 was a very challenging year regarding governance. Changes in the way services needed to be delivered and staff deployed saw a move from traditional office-based working to remote working. This created many challenges with a move to an almost total reliance on back-office ICT solutions for those staff having to work from home. Appropriate and proportionate remote access to files and systems was a

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necessity to ensure the services could continue to be delivered during the national lockdowns experienced during 2020/21.

- 3.7 Based on the audits performed in accordance with the revised plan, the Head of Internal Audit Shared Service has concluded that the internal control arrangements during 2020/21 effectively managed the principal risks in a number of areas, but not all, and can be reasonably relied upon to ensure that the Council's corporate objectives have been met in the main. However, risk remains present which could jeopardise this in the future regarding certain areas and emerging risks will need to be identified and managed. Close monitoring of deployed measures is set to continue but the need to reduce the overall risk and work towards a better and sustainable approach beyond 2020/21 will be critical to create better transparency, expectation, and accountability. This will be necessary to ensure the District can continue to manage risk effectively and, ensure the development and deployment of a sound control environment where there is the potential for emerging risk.

External Auditors

- 3.8 Our External Auditors Grant Thornton issued the Council with a Section 24 Statutory Recommendation on the 31st October 2022 due to non-delivery of the Statutory Accounts for 2020/21. This Statutory Recommendation was debated by the Audit, Standards & Governance Committee on the 9th November and Cabinet on the 23rd November. At both meetings, the Statutory Recommendation was accepted as was the management action plan to rectify that position. The report will be debated at Full Council on the 7th December. This Governance Report, along with the Statement of Accounts Report, address this Statutory Recommendation and by presenting these to Audit, Standards & Governance Committee the draft Statement of Accounts can now be Audited by the External Auditors.
- 3.9 In addition, the External Auditors also presented the Council with its Interim Auditor's Annual Report on the 31st October. This report had 5 Key Recommendations and 13 Improvement Recommendations. The 5 Key Recommendations along with the Statutory Recommendation, and associated Management Action Plans to rectify the situation are set out in the governance issues and risks for the Council in the Governance Statement in Appendix A.

Internal Control and Governance Self-Assessment

- 3.10 Internal Audit issued each Service Area with the Internal Control Assurance Statement and this assessment provides a considered overview of the controls in place in order to come to an opinion on the governance arrangements and internal control environment within their service. Heads of

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Service completed this Assurance Statement which didn't highlight any further areas of risk / concern.

Risk Management

- 3.11 Risk management encompasses a number of areas such as projects, performance and partnerships. In addition, there is a corporate risk register which incorporates significant issues which could have a major impact on the strategic delivery of the Council's objectives. Risk Management had a limited assurance Audit. This has been rectified via a rectification plan since March 2022. Risk Management is overseen through a separate Risk Management Board which has representatives of all Services as well as specific risk specialists such as the Insurance Manager. Meeting on a quarterly basis, it is chaired by the Interim Director of Finance. Risks at a Directorate level are discussed on a monthly basis and those considered strategic escalated through to Corporate Management Team in line with the risk appetite. A report is also submitted to Audit Standards and Governance Committee on a quarterly basis.

Corporate Governance

- 3.12 Regular updates on governance arrangements are reported through Corporate Management Team, Cabinet Audit, Standards & Governance Committee and ultimately to Full Council. This covers all aspects of governance – from constitutional changes, operational procedures such as Financial or Contract regulations or standards issues. Significant governance issues established in the AGS are reported to Audit Standards & Governance Committee.

4. IMPLICATIONS

Financial Implications

- 4.1 Financial implications are set out in section 3.

Legal Implications

- 4.2 The Accounts and Audit Regulations 2015 require that the Council complies with statutory accounting legislation and changes.

Service / Operational Implications

- 4.3 Outputs of Governance Reports must be addressed by Services.

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Customer / Equalities and Diversity Implications

- 4.4 Outputs of Governance Reports must be addressed by Services; however this will reflect best practice.

5. RISK MANAGEMENT

- 5.1 Contained in section 3.11 above

6. APPENDICES and BACKGROUND PAPERS

Appendix A – Annual Governance Statement 2020/21

6. BACKGROUND PAPERS

None.

7. KEY

None

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Scope of Responsibility

Bromsgrove District 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 provides value for money. Bromsgrove District 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, Bromsgrove District 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.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money. It also enables the Council to demonstrate to the public that it has effective stewardship of the public funds it is entrusted to spend.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level, consistent with the risk appetite of the Council. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 Bromsgrove District Council's Policies and Strategic Purposes, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Bromsgrove District Council for the year ended 31 March 2021 and up to the date of approval of the statement of accounts.

The Governance Framework

The framework to deliver good governance across the Council's services in delivering the Strategic Purposes encompasses a number of elements;

- The Strategic Purposes have been developed in line with the needs of our communities and customers and the Council Plan 2020-2021 is in place and reflects the activities that need to be undertaken by the Council to further support the delivery of these purposes. The Plan was reviewed and revised during 2019 to reflect community needs with changes made to the Strategic Purposes and priorities which were approved by the Council.
- Strategic Partnership meetings are held on a regular basis to ensure that all partners and agencies are engaged in supporting the Council's aims to deliver the purposes to our community. Liaison between officers to deliver joint working arrangements is encouraged and actively undertaken by the Council.
- The Council has a dedicated partnership manager who liaises with community groups and other partners

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- A performance dashboard is in place for members and officers to review the performance of key measures, both strategic and operational across the organisation. This includes national statistics where relevant to the community of the District.
- The Council's Constitution clearly sets out the roles and responsibilities of Councillors, and the procedural rules for Full Council, Cabinet and the other Boards operated by the Council. The cross-party Constitution working group considers changes and updates to the roles and responsibilities.
- Terms of reference for member working groups (e.g. Scrutiny Task Groups) are clearly defined.
- Financial Regulations and Contract Procedure Rules have been approved by Council. A full training programme is in place to ensure all relevant officers comply and understand the regulations in place. In addition, an officer contract working group has been established with the aim to improve efficiencies in relation to contract management arrangements.
- A clear scheme of Councillor/Officer delegation exists to provide clarity on the powers entrusted to those appointed to make decisions on behalf of the Council. A Member / Officer protocol is also set out in the Constitution.
- The roles and responsibilities of Councillors are underpinned by an extensive Member Development Programme to include both mandatory and discretionary training. This is developed by the cross-party Member Development Steering Group and includes; induction, chairmanship and specific Committee based training.
- The behaviour of Councillors is regulated by the Member Code of Conduct and is supported by a number of protocols. Updates are presented to the Audit, Standards and Governance Committee by the monitoring officer at each meeting.
- A review of the Constitution is undertaken on a regular basis to ensure it enables members to make informed and transparent decisions. This includes the scheme of delegation to officers.
- Decision making is carried out through Cabinet, Planning Committee and Audit, Standards and Governance Committee. Overview and Scrutiny Board has responsibility to review and scrutinise the activities of the Council.
- Regular staff briefings and 4th tier manager forums are held to ensure staff are aware of changes and are engaged in the systems thinking methodology of supporting service changes across the Council. In addition a commercial approach to fees and charges and other income generation has been adopted. A framework of culture change is in place and managers are working with their teams to build up actions plans to support culture change in the Council
- Robust financial management arrangements in place through regular budget monitoring, on line purchase ordering systems and robust financial internal controls ensure that the Council complies with statutory legislation. A new enterprise system was approved in 2018/19 to improve functionality of the systems and access for managers, this was

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implemented on the 8th February 2021. Existing arrangements were in place on the legacy system through to Quarter 3 of the 2020/21 financial year.

- There is a clear procurement code and policy in place to ensure that purchases are made in a compliant and transparent manner.
- Heads of Service are responsible for establishing and maintaining an adequate system of internal control arrangements when within their own services. They are required to sign off annual Governance and Internal Control returns where they can raise any items of concern. There were no issues raised during 2020/21.
- The Constitution clearly defines the roles of Monitoring Officer, S151 and Head of Paid Service.

Review of Effectiveness

Bromsgrove has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Heads of Service within Bromsgrove District who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors.

The Constitution clearly identifies the terms of reference, roles and responsibilities of Full Council, Cabinet, Overview and Scrutiny and Audit, Standards and Governance Committee all of which have fully understood governance responsibilities.

Throughout 2020/21, the Council adopted a robust approach to corporate governance, which has been advised through the work of the Audit, Standards and Governance Committees, Overview and Scrutiny as well as the statutory roles of the S151 Officer and the Monitoring Officer.

Audit, Standards and Governance Committee

The Committee played a role by reviewing and monitoring internal control issues throughout the year. This included approval of the treasury management strategy, savings reports, regular progress reports from Internal Audit and reports and updates from the External Auditors.

Internal Audit

BDC's responsibility for maintaining an effective internal audit function is set out in Regulation 6 of the Accounts and Audit Regulations 2015.

The Worcestershire Internal Audit Shared Service Team operates in accordance with best practice professional standards and guidelines. It independently and objectively reviews on a continuous basis, the extent to which the internal control environment supports and promotes the achievement of the Council's objectives and contributes to the proper, economic, efficient and effective use of resources.

During 2020/21 the Internal Audit team delivered a comprehensive programme including:

- a number of core systems audits which were designed to suitably assist the external auditor to reach their 'opinion' and other corporate systems for example Governance, and

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- a number of operational systems, for example, compliments and complaints, safeguarding, planning applications, bereavement services were looked at to maintain and improve control systems and risk management processes or reinforce oversight of such systems.

Internal Audits work programme helps to assure Audit, Standards and Governance Committee that the framework and statement can be relied upon based on the following:

- Evidence streams which were verifiable and could be relied upon,
- Monitoring and reporting mechanisms were in place to report issues,
- These streams and reporting mechanisms are embedded in the BDC governance process.

Internal Audit reports are considered by the relevant Head of Service and Interim Director of Finance, before submission to the Audit, Standards and Governance Committee for further scrutiny. At the time of writing this opinion in relation to the 12 reviews that have been undertaken, all have been finalised. There were no Audits returned with an assurance level of 'limited'.

As a result of the Covid-19 pandemic the Council quickly put in place:

- An emergency operations structure
- Movement of staff and resources to cover new pandemic delivery priorities;
- Arrangements to track the financial implications of the pandemic on the Councils resources; and
- Arrangements for the democratic decision making in line with the Council's Constitution and emergency legislation including remote decision making.

Significant Governance Issues

The Annual Governance Statement identifies governance issues and risks for the Council to address:

Area of Assurance	Assurance Gap/Proposal to Mitigate	Progress
Delivery of the 2019/20 Audit Opinion significantly later than planned and inconsistent levels of working papers.	Assignment of staff to specific working papers with a consistent template to follow, plus management of a full closure timetable to deliver the Accounts to statutory deadlines. This is part of the financial recovery process.	Accounts were not delivered to statutory timescales in 2020/21 due to implementation of a new financial system and loss of key financial staff. Following recruitment of new finance staff during the spring of 2022 draft 2020/21 Accounts will be approved by Audit Committee in December 2022. The 2021/22 Accounts process will start in December 2022

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		and so will also be late. This issue will remain until 2022/23 accounts are submitted.
The implementation of a new Finance system on the 8th February 2021.	Ensure data migration is fully documented and signed off, that staff are fully trained to use and support the system to deliver financial information to the required standards. Cash Receipting is not working as expected and so rectification with software providers Tech1 is required to ensure accounts for 2020/21 and subsequent years can be progressed. This is part of the financial recovery process	Financial recovery process highlighted the critical path for recovery and rectification of the Cash Receipting issue, which went live over the weekend of the 5/6 November 2022. Opening balances have been back engineered and await audit signoff. Training did take place with business on key AP/AR processes but still require full embedding
The loss of significant numbers of finance staff during 2021	Recruitment campaign planned for Fall of 2021.	Recruitment campaign was not successful and only 3 staff onboarded. Subsequent recruitment campaign undertaken in Spring of 2022 where 10 staff have been onboarded by August.
Delivery of Services during Covid-19	Ensure processes are in place to keep staff and customers safe while delivering existing and additional services to all stakeholders.	Revised arrangements for services delivery set up with majority of staff working remotely. ICT enabled this to happen quickly. Additional Grants for individuals and business community allocated and BEIS and DLUHC compliance regimes met.

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The following Governance recommendations were highlighted in the S24 Report and Interim Auditors Annual Report 2020/21 submitted on the 31st October 2022

Area of Assurance	Assurance Gap/Proposal to Mitigate	Progress
Section 24 issued due to inadequate arrangements relating to issues with financial systems which further impact on key statutory returns and related financial governance. The non-delivery of the 2020/21 financial statements is a key reason for the S24 Recommendation	Full mitigation steps set out in the S24 Report. Key items include rectification of the Cash Receipting Issue and delivery of the 2020/21 accounts. Full process set out in the finance recovery process which was presented to Cabinet in October 2022.	Cash Receipting issues rectified over the 5th/6th November. 2020/21 Accounts being drafted for presentation to Audit, Standards and Governance Committee on the 14 December 2022
The Council needs to ensure that the Medium Term Financial Plan presented to Members is completely transparent regarding the financial challenge and that any savings schemes included are fully worked up and approved by Members in advance.	Full mitigation steps set out in the Interim Internal Audit Report. Full process set out in the finance recovery process which was presented to Cabinet in October 2022.	MTFP is being produced in 2 Tranches in 2023/24. First Tranche, with full backing papers, went to Cabinet on the 26th October. Second Tranche will take place following the Local Government Settlement in January 2023 when all variables are understood. Existing 2022/23 unallocated savings allocated as part of the Quarter 2 Finance and Performance monitoring report.
The Council needs to improve management of key projects, such as the financial ledger implementation, to ensure that expected benefits are realised. As part of this the Council needs to undertake a comprehensive review of the financial ledger implementation and ensure lessons are learned for future key projects.	Full mitigation steps set out in the Interim Internal Audit Report. Full process set out in the finance recovery process which was presented to Cabinet in October 2022.	Additional working groups (Back Office and 4th Tier) set up to ensure that projects are properly identified and "gatekept". Key projects reviewed by CMT on a quarterly basis. Full learning process will be run following the closure of the 2020/21 account in relation to lessons learnt.

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The Council should review and implement effective governance arrangements in respect of performance monitoring to allow Members to make informed decisions. In order to achieve this the Council should reinstate public reporting on performance, linking this to the Council Plan and the related strategic objectives, allowing Members to scrutinise performance. This should be done at least twice per year.	Full mitigation steps set out in the Interim Internal Audit Report. Full process set out in the finance recovery process which was presented to Cabinet in October 2022.	Performance Monitoring now part of the Combined Finance and Performance Monitoring Report which is presented to Members on a quarterly basis. This includes Corporate Plan KPI's.
The Council should review and implement effective governance arrangements in respect of risk monitoring to allow Members to make informed decisions. In order to achieve this the Council should make risk management reporting a standing item on the Audit, Standards & Governance Committee agenda, with Members considering the Corporate Risk Register and Risk Management arrangements in an appropriate forum.	Full mitigation steps set out in the Interim Internal Audit Report. Full process set out in the finance recovery process which was presented to Cabinet in October 2022.	Risk Management now reported to Audit, Standards and Governance Committee on a quarterly basis with updates in the new format in July and October 2022. This includes a revised definition of a "corporate risk"
The Council should ensure timely and relevant financial monitoring reporting is undertaken and presented to the appropriate public forum.	Full mitigation steps set out in the Interim Internal Audit Report. Full process set out in the finance recovery process which was presented to Cabinet in October 2022.	Performance Monitoring now part of the Combined Finance and Performance Monitoring Report which is presented to Members on a quarterly basis. This includes Corporate Plan KPI's.

The Heads of Service have actions in place to address any recommendations from Audit reviews and all assessed as being either of high or medium importance have been reported to the Audit Standards and Governance Committee. The Internal Audit team will continue to review the actions as they are implemented.

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Conclusion and Evaluation

As Leader and Chief Executive, we have been advised on the results of the review of the effectiveness of the Council's governance framework. Our overall assessment is that this Annual Governance Statement is a balanced reflection of the governance environment and the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Leader of the Council & Chief Executive on behalf of Bromsgrove District Council.