

**Derby City Council**

**Annual Governance Statement 2016/2017 – updated December 2017**

It should be noted that this document has been prepared to complement the Annual Governance Statement 2015 / 2016 approved by the Audit and Accounts Committee in September 2017, which also detailed pertinent issues relevant to the period 2016 / 2017. With the agreement of Ernst & Young, External Auditors, this report will provide an update for the period of 30 March 2017, through to the presentation of the 2016 / 2017 Statement of Accounts in December 2017.

1. Introduction

- 1.1 Corporate Governance is a term that is used to describe how organisations direct and control what they do. As well as systems and processes this includes culture and values. For Councils this also includes how they relate to the communities and the citizens they serve.
- 1.2 Good corporate governance requires Councils to carry out their functions in a way that demonstrates accountability, transparency, effectiveness, integrity, impartiality and inclusivity. Corporate governance provides the structure through which the strategic objectives, which allow the Council to achieve its goals, are set and their performance monitored. It enables the Council to monitor the achievement of its strategic objectives and consider whether these objectives have led to the delivery of appropriately targeted, cost effective services.
- 1.3 Derby City Council is committed to the principles of good corporate governance identified in the CIPFA / SOLACE guidance “Delivering Good Governance in Local Government” as set out in its 2016 Framework. Derby City Council as a body, confirms its intentions to adhere to these principles through the adoption, monitoring and ongoing development of its own Local Code of Corporate Governance. In doing this the Council recognises that achieving high standards of corporate governance will encourage stakeholders to have confidence in it and will allow the Council to undertake its role in the community more fully.

- 1.4 The governance framework which the Council operates brings together a set of legislative requirements, governance principles and management processes. To achieve this, this Code is written around the following seven core principles which in turn have sub principles sitting below them:

Principle A: Behaving with integrity, demonstrating commitment to ethical values and respecting the rule of the law.

Principle B: Ensuring openness and comprehensive stakeholder engagement.

Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits.

Principle D: Determining the interventions necessary to optimise the achievement of outcomes.

Principle E: Developing the Council's capacity, including the capability of its leadership and the individuals within it.

Principle F: Managing risks and performance through robust internal control and strong public financial management.

Principle G: Implementing good practices in transparency reporting and audit, to deliver effective accountability.

- 1.5 Within this Code there are documents or policies referenced that cover more than one of the principles or sub-principles. Therefore in order to avoid repetition and the Code becoming unwieldy these documents are only referred to against the principles where it is considered they have the biggest impact.

## 2. Applying the Principles

- 2.1 The principles of good governance, set out below, can be demonstrated by the attributes set out alongside each principle. However, it is not possible within this document to cover each of the principles, and the documents that are associated with them, in depth. As a result reference should be made to the section 4 below entitled, 'What documents form our governance framework?' for further reading on how the principles of good governance are applied.

Principles	Sub Principles	Demonstrated by
<b>Acting in the public interest requires a commitment to effective arrangements for:</b>		
<b>Principle A</b>  <b>Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law</b>	<b>Behaving with integrity</b>	<p>The Council's political and managerial leadership sets the tone for the Council by creating a climate of openness, support and respect. Through this leadership the Council ensures that the required policies are put into place and monitored. The Officer/Member Protocol which forms part of the Constitution sets out the way Members and Officers should interact. In July 2017, Councillors received training on this protocol as part of a wider ethical governance training session. Training is also provided to Members who are involved in a number of committees including Licensing, Audit &amp; Accounts Committee and Planning. The Code of Conduct for Elected Members also forms part of the Council's Constitution.</p>
	<b>Demonstrating a strong commitment to ethical values</b>	<p>In accordance with the Localism Act 2011 the Council has adopted a Code of Conduct for its elected Members that is in keeping with the general principles of public life. All elected and co-opted Members undertake that they will observe the Code of Conduct. Training on the ethical standards framework is provided to all Members (most recently in July 2017) and training is provided on an annual basis immediately following the local elections which are by way of thirds. The Standards Committee monitors and reviews the Members' Code of Conduct and prepares an annual statement to Full Council. The Standards Committee is in the process of reviewing the Code of Conduct so as to ensure that it is fit for purpose going forward. Any breaches of the Code are determined by the Monitoring Officer (or another officer acting under delegated powers) who carries overall responsibility for legal compliance. Members are required to register their interests with</p>

		<p>these registers placed online and declarations of these interests are required at each meeting where the matter under discussion has the potential to affect that interest. Standards Committee does have the opportunity, if it chooses, to review the Members Declarations of Interest as part of its annual work programme.</p> <p>Sitting alongside the Member / Officer Protocol is the Employee Code of Conduct which has recently been updated and forms part of the Council's Constitution. Every employee (new and existing) is required to undertake mandatory e-learning in respect of governance which includes bespoke training about the understanding and application of the Employee Code of Conduct. Some posts are designated as being politically restricted in accordance with the relevant legislation and officers whose posts are so designated are informed of the fact and the implications of that designation by their Head of Service.</p> <p>As aforementioned, all employees are required to undertake a number of mandatory e-learning courses and policies which includes information governance, data protection, children's and adults safeguarding and governance. The governance element also covers training in respect of compliance with the Constitution, Contract Procedure Rules and Finance Procedure Rules and Employee Code of Conduct. The uptake of the training for both Councillors and Officers is monitored on a regular basis.</p> <p>The effectiveness of the Employee Code of Conduct is subject to internal audit and is reviewed on a regular basis to ensure that it meets all current best practice.</p>
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	<p><b>Respecting the rule of law</b></p>	<p>Codes of Conduct set out the standards of behaviour that are expected of our Members and Officers. Should these standards be breached they will be dealt with, either through the Member Code of Conduct complaints process or, in relation to Officers, action taken under the Councils capability and/or disciplinary procedures.</p> <p>The Whistleblowing Policy (Confidential Reporting Code) adopted by the Council reflects the recommendations in the British Standards Institution Whistleblowing Arrangements Code of Practice to ensure its effectiveness from a safeguarding perspective and to make it easier for staff to raise concerns about malpractice or illegal activity. The Policy contains clear guidance about how to report a concern, who to contact and sources of internal and external support. The Whistleblowing Policy is complemented by the Anti-Fraud, Bribery and Corruption Policies.</p> <p>In order to assist with complying with the law the Council has a designated Monitoring Officer as is required by the Local Government and Housing Act 1989. In addition, the Constitution sets out how decisions are to be legally made and other policies such as the equality and diversity policy ensure that officers adhere to the law in their day to day work. Each report presented to Council, Cabinet or Scrutiny is supported by a detailed Implications Appendix which seeks to offer reassurance to the Council's decision makers that they are in receipt of sufficient information, for example in respect of financial, legal, personnel, risk etc, in order to make a fully informed decision.</p>
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<p><b>Principle B</b></p> <p><b>Ensuring openness and comprehensive stakeholder engagement</b></p>	<p><b>Openness</b></p>	<p>The Council is committed to openness and publishes information online in accordance with the provisions of the Local Government Transparency Code and the Publication Scheme.</p> <p>Only a minimal number of reports are considered in closed session (known as Part II) and for the majority of these reports there is a public facing report (known as Part I) which sets out the matter to be decided upon, but without the information that is exempt from publication.</p> <p>The Council has in place procedures which allow, within certain parameters, the recording and filming of Council meetings. Plain English is used by the Council whenever possible.</p>
	<p><b>Engaging comprehensively with institutional stakeholders</b></p>	<p>As a unitary authority the Council gives full consideration to, and engages with large numbers of stakeholders. With statutory Stakeholders such as the NHS, CCG, Derbyshire Constabulary and Derbyshire Fire and Rescue Service, the Council has a comprehensive engagement system. The Council has further subject based stakeholders particularly economic development such as the LEP, Derby Nottingham Metro and Renaissance Board. The Council is reviewing these subject based stakeholder relationships following a review of best practice and is looking to strengthen them further.</p>
	<p><b>Engaging with individual citizens and service users effectively</b></p>	<p>To give the Council a local focus and to ensure that we work closely with communities and partners on local issues, the council promotes Neighbourhood Forums and Neighbourhood Boards across the City.</p>

		<p>In addition, through a variety of methods including a comprehensive Compliments, Comments and Complaints Policy, promotion of Derby Direct and an improved self-service process, formal consultations and face to face engagement sessions, the Council seeks to engage with citizens on specific services it provides, on the expectation of the public going forward on a single issue and generally on its services. Additionally, the Council seeks to learn from its complaints processes in collecting and evaluating the information it receives to ensure that it engages in an effective and realistic manner.</p> <p>Wider consultation is undertaken on specific areas of service, or on matters that may have a substantive impact on residents. The Council's Communications and Consultation Team ensure that specific matters are placed in the media and engage with the media over enquiries on specific matters.</p>
<p><b>In addition to the overarching requirements for acting in the public interest found in principles A and B, achieving good governance also requires a commitment to, and effective arrangements for:</b></p>		
<p><b>Principle C</b></p> <p><b>Defining outcomes in terms of sustainable economic, social and environmental benefits</b></p>	<p><b>Defining outcomes</b></p>	<p>The Derby Plan 2030: A safe, strong and ambitious city brings together the key partners across the city and promotes:</p> <p>Safe – a place where people are safe and the vulnerable are put first and supported;  Strong – a place where people work together, can enjoy good health and wellbeing throughout their life and feel that they belong to a thriving community;</p>

		<p>Ambitious – a place where we support our children and young people to achieve their full potential, skills are valued, jobs and businesses are growing and we have the infrastructure to create a city for the future.</p> <p>The Council Plan 2016-2016 “A Different Council” describes the priorities, resources and how progress is monitored, and sets out the Council’s aim to be a modern, flexible and resilient Council by establishing a new relationship with communities, working collaboratively and focussing on productivity.</p> <p>The Finance Strategy sets the budget for the Council, aligning available resources to the activities of the Council and setting out the financial plans for the future.</p> <p>The Council operates a Leader and Executive model and all Councillors are involved with the decision making process through the Council’s Committee structure, including through the ability to make recommendations to either an individual Cabinet Member or Cabinet, or make decisions as part of a Committee, for example the Audit and Accounts Committee and at Council. There is also a robust scrutiny framework which ensures that decisions can be scrutinised if required and the Council operates a ‘call in’ process to facilitate this. Improved pre-decision scrutiny means that recommendations are now received at every meeting of Cabinet so as to ensure greater degrees of effectiveness and challenge to the Cabinet’s decision making.</p>
	<b>Sustainable economic, social and</b>	<p>Working to achieve the Council’s Strategy and Business Plan individual services within the Council develop their own service plans. These seek to ensure that, inter alia, in all matters the</p>



	<b>environmental benefits</b>	sustainable economic, social and environmental benefits and impacts of the work undertaken by each service are always considered.
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<p><b>Principle D</b></p> <p><b>Determining the interventions necessary to optimise the achievement of the intended outcomes</b></p>	<p><b>Determining interventions (courses of action)</b></p>	<p>The Council has a business and service planning process and the service plans are co-ordinated to reflect the Council's business plan aspirations for the year where possible.</p> <p>Reports are made to elected Members on a standard template and quality sampling of reports is undertaken all of which require clearance by legal and finance as a minimum.</p> <p>The Scrutiny Committees, the Standards Committee and the Audit and Accounts Committee set work plans setting out business to be transacted which when undertaken can help determine if interventions are required. The Audit and Accounts Committee is also informed by the work of Internal Audit.</p> <p>Risk Management procedures set out how risks may be mitigated and residual risks managed with these risks and their mitigation measures and then monitored on a regular basis and intervention where needed. The Council is currently in the process reviewing its Strategic Risk Framework and is running a series of workshops across the Departments.</p> <p>In addition, both the Monitoring Officer and the Section 151 Officer (Chief Financial Officer) have powers of intervention.</p>
	<p><b>Planning interventions</b></p>	<p>Performance, audit, risk and finance information is used to identify areas of concern and plan required interventions.</p>

		<p>There is an annual cycle of meetings that are planned through the municipal year, but internal procedures are flexible enough for Members to intervene, such as via call in or the calling of extraordinary meetings, at any point in the year.</p>
	<p><b>Optimising achievement of intended outcomes</b></p>	<p>Outcomes are monitored on a regular basis and open to scrutiny. Matters which are formally project managed are required to be reported upon to the project teams at regular intervals. The performance framework ensures capacity is considered in balancing priorities against affordability and social value.</p> <p>Service planning and objectives within the Managing Individual Performance system respectively set the objectives for the year for services and individual members of staff and the outcomes of these are reviewed regularly.</p> <p>Programme Management ensures that programmes across services and directorates are managed effectively.</p> <p>The Council's Chief Officer Group, supported by the Directors, has strategic oversight of major issues affecting the Council.</p>
<p><b>Principle E</b></p> <p><b>Developing the Council's capacity, including the capacity of its leadership and the individuals within it</b></p>	<p><b>Developing the Council's capacity</b></p>	<p>The Head of Paid Service is responsible for the organisation of the Council's staff.</p> <p>The Council uses a Managing Individual Performance system which comprises of the development of objectives and personal development plan through which every member of staff has a clear direction for the year against which they are appraised. This</p>

		<p>identifies strategic and operational objectives, alongside the role profiles for each post and for development capacity. The process also involves appraisal by way of regular reviews of performance of those objectives including formal mid-year and end of year reviews. The end of year review and contribution rating awarded is indicative of how well each member of staff is performing.</p> <p>The Council will be imminently commencing a consultation process in respect of a Senior Management restructure (November 2017) with a view to increasing capacity and re-introducing the posts of Strategic Director of Resources and Director of HR as well as the creation of a post of Director of Property. This restructure will affect Tiers 1-3.</p> <p>The Council considers collaborative working with other authorities and other bodies to increase capacity.</p>
	<p><b>Developing the capability of the Council's leadership and other individuals</b></p>	<p>Through role profiles and a robust recruitment process the Council seeks to ensure the right people are placed in roles. The induction process starts the officers' training and all officers are required to undergo mandatory training, whilst professional members of staff are required to undertake additional training requirements as set by their governing bodies.</p> <p>As previously detailed, there is a programme of training (predominantly e-learning) available for both Members and Officers (at all levels). As part of the increased focus on the refresh of a Workforce Development Strategy, there has been an increased emphasis on increasing the offer of more traditional face to face learning sessions.</p> <p>The Council has a People Strategy and a proposed restructure to</p>

		integrate HR with Organisational Development will deliver a more structured and cohesive Workforce Development Plan.
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<p><b>Principle F</b></p> <p><b>Managing risks and performance through robust internal control and strong public financial management</b></p>	<p><b>Managing risks</b></p>	<p>Robust and proactive risk management is not yet fully embedded within processes and procedures within the Council and significant action is being taken to raise awareness of the importance of effective risk management. The Council is currently in the process of refreshing its Strategic Risk Framework and handbook (initially launched in January 2017).</p> <p>The Budget and Policy Framework Procedure Rules, Financial Regulations and Procedure Rules, Scheme of Delegation and Responsibility for Functions sections of the Constitution along with the various Procedure Rules, including those for Council, Cabinet, Scrutiny and Access to Information, clearly define how decisions are taken</p> <p>Risk is considered as part of the standard decision-making template.</p> <p>On a Departmental basis, risks are detailed within respective business plans with the expectation that they are reviewed regularly by the Departmental Management Teams.</p> <p>The strategic risk register is being updated and will be reviewed on a regular basis by the Chief Officer Group.</p> <p>The Council is in the process of establishing regular assurance meetings to be chaired by the Chief Executive and part of this Group's remit will be to review the Departmental Risk Registers.</p>

	<b>Managing performance</b>	<p>Principal performance targets are captured within DORIS and are subject to review. Individual projects have their own targets and performance reviews set within them and are reported via the projects teams as required.</p> <p>Performance management is reported on a quarterly basis to the Cabinet, the Chief Officer Group and Executive Scrutiny Committee</p>
	<b>Robust internal control</b>	<p>Historically, there have been weaknesses in the Council's internal controls and a Governance Working Group was established in 2015, to address the concerns. These concerns have been reported in previous Annual Governance Statements. Preventative procedures that are in place include the segregation of duties, approval/authorisation process, security of assets, reconciliations and regular internal audits.</p> <p>Assurance is gained by the role of the Section 151 Officer and Monitoring Officer, and the financial and legal review of reports that go before the Council or its Committees, or the Cabinet, for a decision.</p> <p>The Council is in the process of updating its risk management procedures and strategic risk register.</p> <p>The Council has in place Codes of Conduct for Members and employees. However the Code of Conduct for Members is in the process of being reviewed to ensure it is fit for purpose going forward.</p>

		<p>Internal Audit undertake reviews of aspects of the Council's work throughout the year. There have been historic concerns about Chief Audit Executive's opinion and in response, the Internal Audit Team is going through a restructure so as to add resilience. A new Chief Audit Executive for Derby City Council has been appointed and the Team is receiving professional support from a highly skilled Internal Audit qualified consultant, Robert Milford.</p> <p>The Team has also completed the mandatory assessment against the Public Sector Audit Standards.</p> <p>The Audit Plan for Derby City Council is now a dynamic document better reflecting the needs of the Council and has been approved by the Audit and Accounts Committee.</p> <p>A statement of assurance is presented to the Audit Committee annually.</p> <p>Counter fraud arrangements are in place to ensure that fraud is reported both internally and externally.</p>
	<b>Managing data</b>	<p>The Council has in place robust Information Governance Policies and Procedures that are monitored by the Information Governance Team with the support of the Senior Information Risk Owner and the Caldicott Guardian.</p> <p>The Council is expected to comply with guidance issued by the Information Commissioner on information management and respond to case law if the outcome may affect the way the Council manages its data.</p>



		<p>Information Governance training is mandatory for all staff handling personal data.</p> <p>The Council has in place a suite of Information Governance Policies which are distributed to staff via mandatory e-learning.</p> <p>All Officers are made aware of the importance of reporting data breaches to the Information Governance Team.</p> <p>The Information Governance Team is currently being restructured so as to be equipped to meet the demands of the GDPR from May 2018.</p>
	<b>Strong public financial management</b>	<p>The Council has a budget setting process with the budget and Medium Term Financial Plan decided annually by Council. This is reflected in the Finance Strategy which sets the overall direction for how the Council will fund its activities and invest in the future. To oversee this, the Council has in place a statutory Section 151 Officer (and deputy) and finance teams that support the service budget holders in managing budgets effectively, including the delivery of savings plans.</p> <p>Expenditure is governed by the Council's Financial Regulations and Procedure Rules and Contract Procedure Rules both of which are set out in the Constitution.</p>

<p><b>Principle G</b></p> <p><b>Implementing good practices in transparency reporting and audit, to deliver effective accountability.</b></p>	<p><b>Implementing good practice in transparency</b></p>	<p>The Council complies with the Local Government Transparency Code 2015 and publishes all required information online and has policies in place, such as for the Reporting and Filming of Council Meetings, to ensure it complies with The Openness of Local Government Bodies Regulations 2014.</p> <p>Fraud investigations are completed and any fraud is reported to the appropriate person.</p>
	<p><b>Implementing good practices in reporting</b></p>	<p>The Council has in place comprehensive procedures for the making of decisions, either by Full Council, Committee, Cabinet or individual decisions made by Directors and Cabinet Members. All reports are taken through Democratic Services and require clearance by legal and finance as a minimum.</p> <p>Reports for Council, Committees and Cabinet business and minutes of these meetings are placed online, save for reports which contain information that is exempt from publication.</p> <p>Exempt reports are kept to a minimum and, if appropriate, a public version of the report without the exempt information is published online.</p>

	<p><b>Assurance and effective accountability</b></p> <p>The Council's Constitution sets out the executive arrangements and the roles and responsibilities of the Leader of the Cabinet, the Cabinet and each of the Cabinet Members individually and the roles and responsibilities of other Council Members. The Leader determines the Portfolios for Cabinet Members setting out the nature and extent of the individual delegations and the limitations on those delegations.</p> <p>Certain matters are reserved to full Council in the Constitution where the functions of Council, Cabinet and the various committees are also set out, primarily in the Responsibility for Functions section of the Constitution. The Council has an effective Scrutiny function with a number of Scrutiny Sub Committees whose responsibilities are also set out in the Constitution. The Scrutiny Committees are made up of non-executive members to and, apart from exercising the power of call-in of decisions, can and do provide pre-decision consideration of executive matters and recommendations to inform the decisions to be made by the Cabinet, Portfolio Holders and officers.</p> <p>The principal roles and responsibilities of the Chief Executive and senior officers, including the Chief Financial Officer (Section 151 Officer) and the Monitoring Officer, are described in the Constitution, primarily in the Scheme of Delegation and the Articles. The Budget and Policy Framework and the Financial Regulations and Procedure Rules further define responsibilities.</p> <p>The Chief Financial Officer is authorised to exercise the Proper Officer functions of the Council relating to financial matters in the Local Government Acts (see the Scheme of Delegation in the Constitution).</p>
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		<p>The Monitoring Officer is authorised to exercise the Proper Officer functions of the Council relating to legal matters in the Local Government Acts (see the Scheme of Delegation in the Constitution) and such other Proper Officer functions as are not otherwise allocated.</p> <p>Assurance is obtained by a regular review of decisions made recommendations by Internal Audit and the Annual Governance Statement.</p> <p>The Budget sets out where money will be collected from and what it will be spent on.</p>

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## **The Council's Governance Framework**

Derby 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 or can be obtained from the Council's Head of Governance and Assurance. This Annual Governance Statement demonstrates how the Council has complied with its Code.

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 and 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 the Council's objectives, to evaluate their likelihood and impact, and to manage them effectively.

The Council's assurance framework that was in place in 2015 / 16 and 2016 / 17 is shown in the diagram on page 21.

## Where do we need assurance?

Delivery of corporate priorities  
Service performance and quality  
Financial planning and performance  
Partnership governance and effectiveness  
Project management and delivery  
Procurement processes  
Management and engagement of our staff  
Clarity of roles and responsibilities  
Decision making protocols  
Leadership effectiveness  
Standards of conduct and ethics  
Compliance with laws, regulations etc.  
Effectiveness of the scrutiny function  
Effectiveness of internal control  
Effectiveness of safeguarding arrangements  
Management of risks  
Training and development of elected Members and staff  
Staff engagement  
Community engagement  
Research  
Openness and transparency

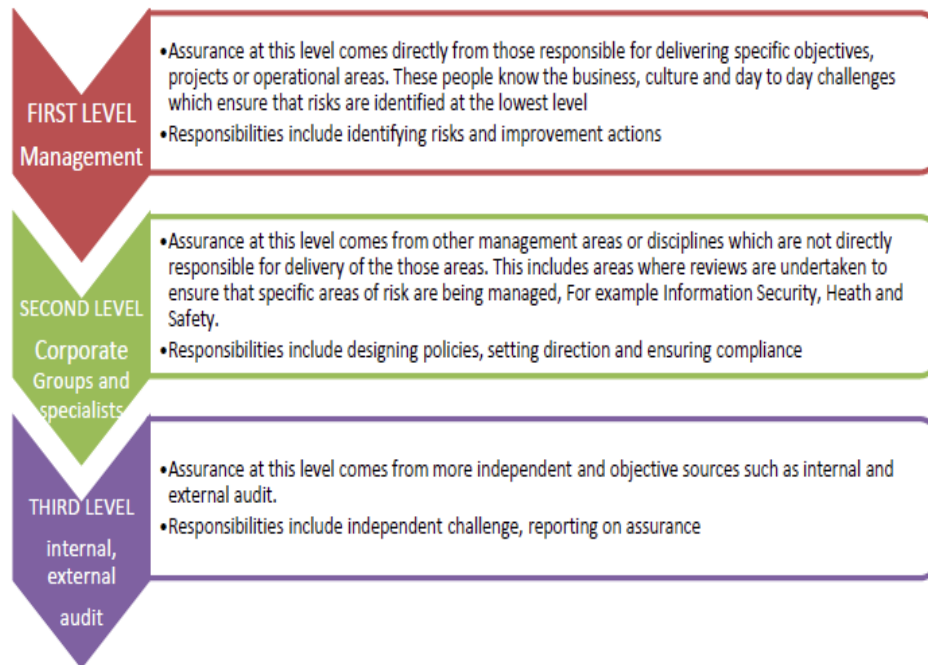
## What do we have in place?

Derby Plan  
Council Plan  
Departmental Business Plans  
Council Constitution, democratic arrangements, scheme of delegation for decision making  
Audit & Accounts Committee and Standards Committee  
Policy framework  
Performance Frameworks (service and employee)  
Effective financial management e.g. Annual Statement of Accounts, Medium-term Financial Plan, regular reporting of performance  
Engagement mechanisms and Complaints processes  
Partnership governance framework  
Project management methodology  
Corporate procurement strategy  
Consultation Policy  
OD Strategy, policies and procedures  
Specific job roles for CEO, S151 Officer and Monitoring Officer  
Member/officer protocols  
Terms and conditions for remuneration  
Pay and Reward Strategy  
Officer and member Codes of Conduct  
Registers of interest/hospitality  
Anti-fraud and corruption policy and whistleblowing arrangements  
Financial Procedure Rules & Contract procedure Rules  
Staff and member training through a blended learning approach  
Risk management framework  
Corporate Safeguarding Board  
Equalities framework  
Core Values and behaviours  
Effective systems, processes and controls  
Electronic Policy management and E Learning system

## What are our sources of assurance?

External auditor reviews and reports  
Internal Audit reviews and reports  
Internal audit planning linked to governance framework and risk  
External reviews and inspectorate reports  
Self-assessments  
Peer reviews  
Staff engagement  
Benchmarking/VFM data  
On-going review of governance  
Partnership boards  
Council's democratic arrangements e.g. scrutiny and 'audit' committees  
Customer feedback  
Community Engagement through:  
    Reach-out Consultation Panel  
    Statutory Surveys  
    Service User Forums  
    Diversity Forums  
    Voices in Action Youth Council  
    Neighbourhood Boards/Forums  
    Streetpride Champions  
    Your City, Your Say

Assurance can come from many sources within the Council. The Governance Working Group is responsible for mapping out where those assurances come from in order to identify any gaps. The Council uses the standard model of assurance within its governance framework, enabling it to understand how each contributes to the overall level of assurance and how best they can be integrated and mutually supportive. The key areas of assurance that underpin the governance framework are shown below:



### **Review of Internal Controls - Comments from the Interim Director of Finance and S151**

The Council's constitution contains the financial control framework setting out the Financial Regulations and the Contract Procedure Rules. The Council's section 151 Officer is responsible for ensuring these remain relevant and appropriate to secure the effective financial management and control of the Council's activities.

During 2016/17 it was apparent that certain key controls had not been operating effectively and key accounting processes in respect of the valuation of the Council's assets had been ineffective. As a result the Council's external auditor, Ernst & Young issued a Section 24 Notice to the Secretary of State and the Council setting out the substantive issues around key control weaknesses and the requirement for the Council to make proper arrangements for its statutory financial statements to be prepared in a timely manner. Specifically, to complete 2015/16 accounts by 30 September 2017 and 2016/17 accounts by 31 December 2017.

The Council has resolved these matters but, as a result of the identification of these key issues, it is not possible to provide full assurance that the Council's overall framework of internal control was working effectively throughout the year. Despite these weaknesses, the Council's financial statements for 2015/16 have been audited and an unqualified opinion provided by its external auditor; the 2016/17 financial statements are currently subject to audit but are expected to be completed and published on 19 December with an unqualified opinion and as such are deemed to be free from material error or misstatement.

In order to resolve the weaknesses identified, the Council's Financial Regulations, Contract Procurement Rules and Scheme of Delegation are being reviewed and revised and key controls being evidenced and monitored on a monthly basis. In addition to the preventative control framework, the Council operates a number of key detective controls to provide assurance to officers and members that the Council's control of its finances, in respect of revenue and capital expenditure, reserve utilisation and treasury management, is operating effectively. In respect of 2016/17 these controls ensured that the Council met its statutory obligation to deliver a balanced budget for that financial year.



## **Opinion of the Chief Audit Executive**

### **Internal Audit Opinion- 2016/17**

The Audit Manager is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, there is an understanding that no system of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give absolute assurance that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any issues that have carried forward into the following year
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of City Council's audit need that has been covered within the period.

#### **Audit Opinion - 2016/17**

**I can confirm that sufficient assurance work has been carried out to allow me to form a conclusion on the adequacy and effectiveness of Derby City Council's internal control environment.**

**Based on the work undertaken during the year, in my opinion, Derby City Council's framework of governance, risk management and management control is INADEQUATE.**

**Audit testing has demonstrated that controls were not working in practice across key areas and there was need for urgent remedial actions.**

**Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement. However some actions have not progressed sufficiently to address the severity of control weaknesses identified.**

Audit Opinion Categories:

- **Inadequate System of Internal Control** – Findings indicate significant control weaknesses and the need for urgent remedial action. Where corrective action has not yet started, the current remedial action is not, at the time of the audit, sufficient or sufficiently progressing to address the severity of the control weaknesses identified.
- **Adequate System of Internal Control Subject to Reservations** – A number of findings, some of which are significant, have been raised. Where action is in progress to address these findings and other issues known to management, these actions will be at too early a stage to allow a satisfactory audit opinion to be given.
- **Satisfactory System of Internal Control** - Findings indicate that on the whole, controls are satisfactory, although some enhancements may have been recommended

### **Significant Governance Issues:**

A governance issue arises when something has gone or is going wrong which will affect the achievement of the Council's objectives. There is a need to respond and often recover from an issue in financial terms, responding and recovering may add significant cost to the organisation or its processes. An issue may arise unexpectedly which may result from a poorly managed risk. Determining the significant of a governance issue will always contain an element of judgement and an issue is likely to be significant if one or more of the following criteria applies:

- It has seriously prejudiced or prevented or prevented achievement of a principal objective;
- It has resulted in the need to seek additional funding to allow to be resolved;
- It has required a significant diversion of resources;
- It has had a material impact on the accounts;
- It has been identified by the Audit and Accounts Committee as significant;
- It has resulted in significant public interest or has seriously damaged reputation;
- It has resulted in formal actions being taken by the Section 151 Officer of the Monitoring Officer;

- It has received significant adverse commentary in external or internal inspection reports that has not been able to be addressed in time.

The following have been identified as areas requiring focus:

A) Report issued by Ernst & Young pursuant to s24 Local Audit & Accountability Act 2014:

The Audit and Accounts committee has accepted the recommendation of Full Council to monitor delivery against the Council's action plan in response to the s24 recommendation. The Council's Interim s151 Officer is the lead officer in ensuring effectively delivery against the action plan. The Governance Working Group has also established a Corporate Improvement Plan to ensure robust focus remains in delivery against the action plan.

B) Equal Pay:

As is widely documented, job evaluation was implemented across the Council (including schools based non-teaching staff) on 1 June 2016. Within the schools environment there has been significant disruption by way of industrial dispute by Members of Unison. This industrial action was resolved in April 2017, however discussions between Unison, Chief Officers and Senior Elected Members remains ongoing in respect of the delivery against the recommendations in the settlement agreement.

Directly arising from the implementation of job evaluation, the Council has now received a growing number of equal pay claims and these are being managed by external solicitors appointed to act on behalf of the Council. It is anticipated that these will be ongoing for a significant period of time.

C) Risk Management

As detailed above, significant work is ongoing to refresh the Council's Strategic Risk Framework so as to ensure awareness is raised across all Officers about the need to be risk aware and also to ensure that effective procedures are embedded across all

areas of the Council's Services. Departmental and Directorate workshops are ongoing and a meeting with the Chief Officer Group is scheduled for December 2017.

#### D) Taxi Licensing Arrangements

The Council successfully launched the administrative arrangements for taxi licensing in July 2017. These arrangements are reviewed regularly by Licensing Committee and the initial evidence suggests that these arrangements are proving to be robust.

#### E) People Services:

Recent case law impacting on the liability of Local Authorities in respect of the experiences of former foster children placed in local authority foster placements. Andy Smith, Strategic Director of People Services, is undertaking action as necessary to advise of the Council's position however he also supports the position of the ADCS which is as follows:

*"The view of the Association of the Directors of children's services is that the moves to professionalise foster carers (in light of the recent court case) would drive up costs and hinder recruitment without benefiting children and young people. In the context of reduced resources and increasing demand for services, establishing foster care as a profession would significantly increase costs to local authorities; crucially for ADCS members, it remains unclear what the benefits of such a move would bring for those children and young people in care. The idea of foster care being a 'profession' in the same way as social work is not what we need from foster carers. Using terms such as 'professional' could disenfranchise people who would be excellent foster carers."*

#### F) Code of Conduct for Elected Members

As detailed above, the Standards Committee has commissioned a review of the Code of Conduct for Elected Members and it is anticipated that a revised procedure will be implemented for the new Municipal Year 2018.

#### G) Senior Management Restructure:

As detailed above, a Senior Management restructure is proposed and consultation with Tiers 1-3 is imminent. There is an acknowledgement of the lack of resilience at the most senior Officer levels and there is a pressing need to secure the appointment of a permanent s151 Officer via the recruitment to a Strategic Director of Resources.

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Date:	December 2017