DERBY CITY COUNCIL

AUDIT AND ACCOUNTS COMMITTEE
24 JUNE 2010

ITEM 11

Report of the Deputy Chief Executive

ANNUAL GOVERNANCE STATEMENT 2009/10

RECOMMENDATION

1.1 To approve the inclusion of Annual Governance Statement (AGS) in the 2009/10 Statement of Accounts.

SUPPORTING INFORMATION

2.1 When publishing its annual accounts, the Council is required to consider and approve an Annual Governance Statement (AGS). The Statement (at Appendix 2) sets out the Council's responsibilities, the purpose of the governance framework, the governance environment, its effectiveness and any significant areas of weakness identified with proposed actions to address these.

2.2 The governance framework is designed to facilitate the achievement of the Council's policies, aims and objectives, identifying and managing any risk to a reasonable level. The governance framework is embedded within the Constitution and the systems, policies procedures and operations in place.

2.3 The preparation and publication of the AGS in accordance with the CIPFA/SOLACE "Delivering Good Governance in Local Government" framework is necessary to meet the statutory requirement set out in Regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006 for authorities to prepare a statement of internal control (SIC) in accordance with "proper practices".

2.4 The CIPFA/SOLACE framework sets out the 6 fundamental principles of corporate governance; these are:

1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
2. Members and officers working together to achieve a common purpose with clearly defined functions and roles
3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
5. Developing the capacity and capability of members and officers to be effective

6. Engaging with local people and other stakeholders to ensure robust accountability

2.5 The AGS has been structured around the 6 fundamental principles. The statement is produced following a review of the council's governance arrangements and includes an action plan to address any significant governance issues identified. The AGS explains the processes and procedures in place to enable the council to carry out its functions effectively. It is a formal statement that recognises, records and publishes an authority's governance arrangements as defined in the framework. The aim of the various elements of the framework is to ensure that:-
- The Council's policies are put into practice;
- The organisation's values are met;
- Laws and regulations are complied with;
- Council processes are adhered to;
- Financial statements and other published information are accurate and reliable; and
- Human, financial and other resources are managed efficiently and effectively.

2.6 The review of the effectiveness of the governance environment is informed by a number of sources including the work of Internal Audit and the Head of Audit Opinion (see separate report), External Audit and other external review bodies, the Governance Working Group, the Audit and Accounts Committee, the Standards Committee, the Scrutiny Commissions and the evaluation of the effectiveness of the system of internal audit (see separate report). The AGS is also reviewed by Chief Officer Group.

2.7 The arrangements required for gathering assurances for the preparation of the annual governance statement provide an opportunity for authorities to consider the robustness of their governance arrangements.

2.8 At the centre of the review process for the governance framework within the Council, there is a corporate working group of officers who contribute to the drafting of the final document, evaluating assurances and the supporting evidence and whether or not there is consistency with existing policies and the authority's "assurance framework". This group is chaired by the Deputy Chief Executive and currently consists of:

- Head of Audit and Risk Management
- Head of Performance and Improvement
- Assistant Director - Democratic Services,
- Head of Policy, Research and Engagement

2.9 Assurances on the effectiveness of the governance framework are obtained throughout the year. This allows the Council to take any remedial action necessary at the earliest opportunity.

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Background papers:	CIPFA/SOLACE Framework
	AGS Supporting Evidence
	Governance Action Plan
List of appendices:	Appendix 1 – Implications
	Appendix 2 – Annual Governance Statement 2009/10

IMPLICATIONS

Financial

1.   None directly arising.

Legal

2.   The statutory reporting requirement for the Annual Governance Statement is linked to the publication of the authority's financial statements, which is 3 months after the deadline for approval.

Personnel

3.   None directly arising.

Equalities impact

4.   None directly arising.

Corporate objectives and priorities for change

5.   None directly arising.

Derby City Council
Annual Governance Statement - 2009/10

1. Scope of Responsibility

Derby City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The 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, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

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 Audit and Risk Management. This statement explains how [the authority] has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment)(England) Regulations 2006 in relation to the publication of a statement on internal control.

2. The Council's Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled, and by which it accounts to, engages with and leads the community. It includes arrangements to monitor the achievement of its strategic objectives and to consider whether this has led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It can not 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 the Council's, aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically.

The following paragraphs summarise Derby City Council's Governance Framework which has been in place for the year ended 31st March 2010 and up to the date of approval of this Statement and the Statement of Accounts. The framework is described to reflect the arrangements in place to meet the six core principles of effective governance.

3. Determining the Council's Purpose, its vision for the local area and intended outcomes for the Community

The Corporate Plan sets out the vision and priorities for the Council in the context of the wider Sustainable Community Strategy.

The overarching LSP 2020 vision is for Derby to become a city for all ages' – *'People of all ages and from all walks of life will feel they belong to Derby and that Derby offers them everything they need - for work, education, housing, leisure and a safe, healthy lifestyle'.'*

Derby City Partnership is the Local Strategic Partnership for the city. Chaired by the Leader of the Council, the partnership was restructured in 2006 to reflect current priorities and is divided into five 'cities' or themed areas…
- City for Children and Young People.
- City Growth.
- Cultural City.
- Healthy City.
- City for Stronger and Safer Communities.

The Council is a leading member of the Derby City Partnership. The new Sustainable Community Strategy was launched in April 2009 covering the period to 2011.

Derby City Partnership manages Derby's Local Area Agreement, LAA, which was set up in 2005 to help deliver a set of shared priorities agreed between Government and key partners in Derby. In July 2006, the Government Office for the East Midlands rated Derby's LAA as 'Green', which is the highest rating. A new three-year Local Area Agreement was negotiated in June 2008.

The Community Strategy, LAA and the Corporate Plan reflect the outcome of extensive consultation, analysis of current and future needs, and consideration of current performance.

In 2009/10 the Council further developed its Shared Evidence Base for the city, bringing together a range of demographic and socio-economic data. A State of the City report has been produced highlighting major trends in areas such as community cohesion and involvement, education and learning, culture and recreation, transport and access, environment, community safety, housing, health, social and economic well-being. This will inform the review of the Sustainable Community Strategy and setting of new priorities in 2011. The Shared Evidence Base will be continually updated through the Council's Data Warehouse system.

For 2008-2011, we set six key priorities for improvement in our Corporate Plan…

- Making us proud of our neighbourhoods.
- Creating a 21st century city centre.
- Leading Derby towards a better environment.
- Supporting everyone in learning and achieving.
- Helping us all to be healthy, active and independent.
- Giving you excellent services and value for money.

The Corporate Plan identifies actions and resources over a three year period, most recently 2008-11 and the Annual Report contains specific targets for improvement. The Council has a range of performance indicators used to measure progress against its key priorities in the Corporate Plan and in the Local Area Agreement. Performance is reported to Council Cabinet on a quarterly basis, and is monitored by the Overview and Scrutiny Commissions. Performance reports are also prepared for the Derby City Partnership City Groups, Management Group and Board on a quarterly basis. Performance information is available across the Council and Partnership through the DORIS information system.

There are service delivery plans for all service units. These plans include clear identification of objectives and targets and reflect Corporate Plan priorities. They are updated annually.

The Council has a medium term financial plan and capital programme, to ensure that resources are aligned to priorities. The budget process incorporates consideration of the allocation of resources for the Corporate Plan aims. The medium term plan allows annual strategic review in the context of performance against Corporate Plan aims, and sets targets of efficiency improvement, to release resources for redeployment. Quarterly monitoring reports for the revenue budget and the capital programme are submitted to the Corporate Management Team, to Cabinet and to Resources Scrutiny Commission, and issues are referred to other Scrutiny Commissions as appropriate.

In 2009 The City Council launched a major transformation programme called One Derby One Council which brings together a number of corporate, programmes and projects designed to improve business efficiency including standardisation of processes, improved customer services, rationalisation of Council accommodation and greater value for money. The programme will enable a reduction of staffing numbers by 465 over the next three years. The programme has included 150 members of staff working as Change Champions to review areas such as performance management, equalities and communication. The ideas put forward will be incorporated into an improvement plan.

Value for money is embedded in our culture; it is one of the components of our strategic priorities and has been for many years. The Improvement and Efficiency Board has been leading the process to develop a new Value for Money strategy, define priorities and improve monitoring arrangements.

The Council's Performance Strategy sets out the planning and performance framework to manage the delivery of priority outcomes. The strategy is reviewed regularly (currently in place for 2007-10) and is supported by an action plan to develop arrangements for managing performance. The strategy is based on clear accountabilities, balanced information to support decision making, sound data quality and prompt action to tackle underperformance. For example, performance surgeries are held to discuss indicators that have missed targets or compare poorly with other authorities. In 2008, a new Performance Support Group was established at Partnership level to review cross cutting areas of service delivery, focused on the Local Area Agreement. This group meets quarterly and is composed of Cabinet, Scrutiny and Partnership representatives.

In 2008, a Data Quality Policy was approved by the Council and Partnership. The policy sets out the standards, roles and responsibilities for those involved in collating,

analysing and reporting information. The policy is supported by an action plan, updates on which are regularly presented to Audit & Accounts Committee.

The Council has published a set of customer service standards and operates a complaints procedure and uses this to identify areas where service quality is not satisfactory, and to take action to improve.

As an organisation we are committed to meeting the service needs of a very diverse community. The Council was assessed at Level 3 of the 'Equality Standard for Local Government'. We are now working towards achieving "excellent status" under the new "Equality Framework for Local Government" which builds on and develops the work we have done under the old standard.

4. Members and Officers working together to achieve a common purpose with clearly defined functions and roles

The Council aims to ensure that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear.

The Council appoints a Cabinet, made up of the Leader, Deputy Leader and five other members, who are responsible for proposing budgets and policies and taking key decisions. Each Cabinet Member is responsible for a portfolio.

Over the last few years, the Council has sustained robust governance during a period of changing political administration. Indeed, since July 2005, the Council has had 4 different types of political control, which has not affected overall performance.

The Council has six Overview and Scrutiny Commissions which are tasked with scrutinising the Council's decisions and contributing to the development of its policies. Although they have no decision making powers, the Commissions are able to 'call-in' and review certain decisions of Council Cabinet. Until the call-in process is completed the decision cannot be implemented.

Additionally, the Council appoints a number of committees to discharge the Council's regulatory and scrutiny responsibilities. These leadership roles, and the delegated responsibilities of officers, are set out in the Constitution which came into effect on 3 December 2001.

All Committees have clear terms of reference and work programmes to set out their roles and responsibilities. An Audit and Accounts Committee provides assurance to the Council on the effectiveness of the governance arrangements, risk management framework and internal control environment.

The Constitution also includes a Member/Officer protocol which describes and regulates the way in which Members and Officers should interact to work effectively together

The Council's Chief Executive (and Head of Paid Service) leads the Council's officers and chairs the Chief Officer Group – COG – which meets on a weekly basis. Strategic Directors meet with their respective Cabinet members on a regular basis. A Service Directors Group supports the work of COG focussing on HR issues. A number of Officer Working Groups meet to deal with a range of specific service as well as cross-cutting issues.

All staff, including senior management, have clear conditions of employment and job descriptions which set out their roles and responsibilities. Terms and conditions of employment are overseen by the Consultative Joint Committee.

The Strategic Director of Resources, as the section 151 Officer appointed under the 1972 Local Government Act, carries overall responsibility for the financial administration of the City Council. A corporate finance function provides support to departmentally based finance teams, and determines the budget preparation and financial monitoring process.

The Service Director of Legal and Democratic Services, as Monitoring Officer, carries overall responsibility for legal compliance. Staff in the Legal Department work closely with departments to advise on requirements.

The Council has developed a partnership register which is updated annually.

5. Promoting our Values and Upholding High Standards of Conduct and Behaviour

Member and Officer behaviour is governed by Codes of Conduct. These include a requirement for declarations of interest to be completed.

The Council takes fraud, corruption and maladministration very seriously and has the following policies which aim to prevent or deal with such occurrences:
- Anti-Fraud and Corruption Policy and Fraud Response Plan
- Confidential Reporting Code (Whistleblowing Policy)
- Anti- Money Laundering Policy
- HR policies that includes disciplinary action against staff involved in such incidents

Conduct of Members is monitored by a Standards Committee, which also investigates allegations of misconduct by Members.

The Corporate Complaints Procedure enables the Council to receive and investigate any complaint made against it, a Member or a member of staff.

Our Workforce Development Plan 2007/10 was a three-year delivery plan for our People Strategy. Implementing the Plan was a key objective in the Corporate Plan.. Going forward a new Workforce Strategy has been approved. The Strategy sets out an exciting and challenging agenda for change that we believe will maintain and develop a workforce fit for the challenges on the years ahead.

6. Taking Informed and Transparent Decisions and Managing Risk

The Council's Constitution sets out how the Council operates and the process for policy and decision making.

Full Council sets the policy and budget framework. Within this framework, all key decisions are made by the Cabinet. Cabinet meetings are open to the public (except where items are exempt under the Access to Information Act). The council uses

webcasting of Full Council, Council Cabinet and Planning Control meetings. The Forward Plan of key decisions to be taken is published on our website.

All decisions made by Cabinet are made on the basis of written reports, including assessments of the legal and financial implications. The financial and legal assessments are provided by finance and legal officers.

The decision-making process is scrutinised by a scrutiny function which has the power to call in decisions made, but which also undertakes some pre-decision scrutiny and some policy development work.

Other decisions are made by officers under delegated powers. Authority to make day to day operational decisions is detailed in departmental Schemes of Delegation.

Policies and procedures governing the Council's operations include Financial Procedure rules, Contract Procedure Rules, Procurement Regulations and a Risk Management Policy. Ensuring compliance with these policies is the responsibility of managers across the City Council. The Internal Audit Section checks that policies are complied with. Where incidents of non-compliance are identified, appropriate action is taken.

The Council's Risk Management Strategy requires that consideration of risk is embedded in all key management processes undertaken. These include policy and decision making, service delivery planning, project and change management, revenue and capital budget management and partnership working. In addition, a Corporate Risk Register is maintained and a monitoring group meets quarterly to review the extent to which the risks included are being effectively managed.

Departmental Risk Registers are maintained through the Business Planning process. A Strategic Risk Group which is chaired by the Corporate Director - Resources, meets to identify best practice in respect of risk management and to provide opportunities for shared learning across departments. The Audit and Accounts Committee oversees the effectiveness of risk management arrangements and provides assurance to the Council in this respect. Risk management is also built into our project management methodology.

Financial Management processes and procedures are set out in the City Council's Financial Procedure Rules and include:
- comprehensive budgeting systems on a medium term basis
- clearly defined capital and revenue expenditure guidelines
- regular reviews and reporting of financial performance against the plans for revenue expenditure
- overall cash limited budgets and a clear Scheme of Delegation defining financial management responsibilities
- regular capital monitoring reports which compare actual expenditure plus commitments to budgets
- key financial risks are highlighted in the budgeting process and are monitored through the year departmentally and corporately.
- robust core financial systems
- documented procedures are in place for business critical financial systems,
- and these are also checked on a regular basis by the Internal Audit Section.

Having a set of clearly defined priorities means that sometimes we have to make difficult decisions and adopt alternative methods of service delivery providing services which better meet the needs of our citizens or which provide better value for money.

7. Effective Management - Capacity and Capability of Members and Officers

The Council's structure gives clear accountability for the performance management of services, both within departments and corporately.

The Council aims to ensure that Members and managers of the Council have the skills, knowledge and capacity they need to discharge their responsibilities and recognises the value of well trained and competent people in effective service delivery. All new Members and staff undertake an induction to familiarise them with protocols, procedures, values and aims of the Council.

Progress towards accreditation for the East Midlands Member Development Charter continues with an assessment date set for 22 June 2010. An action plan, developed as a result of the diagnostic report in October 2009, should enhance the probability of success. A Member Development Policy is in place and the budget for Member Development has been further enhanced. Member Role Descriptions and Person Specifications have been developed. Training of Members before they are allowed to sit on regulatory panels and committees has been reinforced, with separate sessions for Planning, Taxi and General Licensing and Employee Appeals all completed within three weeks of confirmation of Constitutional appointments at the Annual Meeting.
The Council recognises the value of the I&DeA Leadership Academy and funds Members involvement. There is a commitment to enhance support services to Members and funding for this growth area was approved in May 2010 for implementation before the end of the year.

Members of the Audit and Accounts Committee are provided with training specific to its responsibilities on an annual basis. The focus is on key governance issues such as risk management and internal control. Individual briefings are provided to Members of the Committee as and when required. In 2009/10 this included briefings on the implementation International Financial Reporting Standards and on Treasury Management.

Over 100 managers have been through our Leading Manager Programme, designed and delivered in partnership with the University of Derby. The programme is delivering leadership capacity to a critical mass of our Leaders and generating a real and measurable return on investment. The programme has been featured nationally and internationally as a best practice example and was shortlisted for a Training Journal 'Best Public Service Initiative Award'.

The Council's Achievement and Development Scheme for all staff ensures performance is managed and development needs for each member of staff are identified and met. We have recognised the need to review the scheme and launched a new Managing Individual Performance scheme in April 2010 following extensive piloting, which it is hoped will better meet the needs of employees as well as promoting effective performance management. We are continually looking to develop the potential of our staff and one initiative in achieving this is the creation of a "Succession Pool" for heads of service and service directors.

The Council has successfully achieved the Investors in People accreditation in all its departments which is due for reassessment in 2010.

8. Engaging with Local people and other stakeholders to ensure robust accountability

The Council's planning and decision making processes are designed to include consultation with stakeholders and the submission of views by local people.

Every year, together with our partners, we carry out many consultation exercises, including the community safety audit, Derby Pointer survey of a representative sample of residents, Police budget survey, the NHS patient satisfaction survey and many more. These surveys and events enable the Council and our partners to gauge understanding of our shared vision and priorities for the city. We have adopted a Community Engagement Strategy with DCP to ensure a co-coordinated approach to community engagement across partner organisations.

Following publication of the Place Survey results in 2009, the Council consulted further with local residents to explore particular issues around satisfaction with services and perceptions of the Council. A workshop was also held in November 2009 with Members, senior officers and partners to develop an action plan for improvement, which was formally approved by Cabinet in February 2010.

The Sustainable Community Strategy has been re-launched in April 2010. Extensive consultation is planned during the summer following a leadership away day on 11 June 2010 attended by all key partners, to engage with local people about their needs and aspirations for Derby.

Neighbourhood working in Derby has been set up by public services and local people to create stronger communities that are safer, cleaner, healthier, better informed, friendlier and empowered.

The neighbourhood model has four key objectives…
- Empowering local communities.
- Strengthening local democracy.
- Building more responsive public services.
- Developing integrated frontline public services.

In every part of the City, a partnership of services and organisations has come together to create a Neighbourhood Team. Each team reflects the neighbourhood's needs and is committed to working with residents for the benefit of the community. Neighbourhood Teams are made up of a Neighbourhood Co-ordinator, a Neighbourhood Environmental Action Team (NEAT), a Police Community Support Officer, a Community Safety Officer, a Police Neighbourhood Team and a Community Engagement Officer. In addition, there is frequent input from other agencies, such as Derby Homes' Community Watch Patrol, Derbyshire Fire and Rescue Service and Central and Derby City Primary Care Trust.

To give local citizens a greater say in local decision making, every ward or neighbourhood has a forum and board. Neighbourhood forums are open public meetings that are held at a local venue every two or three months. The forum is an opportunity for residents to find out what's happening in their area and to discuss the big issues and priorities. Residents meet with councillors and representatives from police, health, council and community safety. Neighbourhood boards are local leadership

groups that agree priorities, decide where community grants are to be spent, monitor performance and decide on the vision for the neighbourhood.

In May 2010, the Council launched Streetpride, a new service aimed at giving communities more control over the appearance of their street and local environment, including some control over how and where money is spent. Streetpride focuses on the customer and will make a positive difference to the way customers interact with us and our street-based services.

Other arrangements for consultation and for gauging local views include the Derby Pointer Citizen's Panel. Your Derby magazine provides summary information on the Council's vision and priorities and is delivered to homes and businesses across Derby.

The Community Strategy is drawn up in consultation with stakeholders across the city including…
- the results of Citizens Panel consultations
- the results of surveys/consultations on other supporting strategies and plans
- stakeholder meetings and events
- advice from Government advisors and consultants.

Let's Talk Budget is our process for engaging residents and organisations interested in the budget setting process. We have used a budget-modelling tool and encourage participation in the budget setting process through our consultation and engagement framework.

Performance and progress against the Community Strategy, LAA and Corporate Plan is evaluated regularly using performance indicators on DORIS. Regular monitoring reports are presented to the DCP Board and there is an extensive annual review process.

9. Review of Effectiveness

Derby City Council annually reviews the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by managers within the Council who have responsibility for the development and maintenance of the governance environment, the work of the internal auditors and by comments made the external auditors and other inspection agencies.

Both in year and year end review processes have taken place. In year review mechanisms include:
- the Cabinet is responsible for considering overall financial and performance management and receives comprehensive reports on a quarterly basis. It is also responsible for key decisions and for initiating corrective action in relation to risk and internal control issues.

- there is a well resourced Scrutiny function which holds the Cabinet to account. The Scrutiny Management Commission is responsible for maintaining an overview of service and financial performance, efficiency and effectiveness.

- the Standards Committee has met regularly throughout the year to consider and review issues relating to the conduct of Members including referrals from the standards board. Their work has included reviewing the Code of Conduct for

Members and preparation/training for the new requirements for dealing with investigations into Members' conduct.

- the Audit and Accounts Committee met throughout the year to provide independent assurance to the Council in relation to the effectiveness of the risk management framework and internal control environment. The Committee met 5 times during the year receiving regular reports on governance, risk and internal control matters.

- Internal Audit is an independent and objective assurance service to the management of the City Council who complete a programme of reviews throughout the year to provide an opinion on the internal control, risk management and governance arrangement. In addition, the Section undertakes fraud investigation and proactive fraud detection work which includes reviewing the control environment in areas where fraud or irregularity has occurred. Significant weaknesses in the control environment identified by Internal Audit are reported to senior management and the Audit and Accounts Committee.

- the External Auditor's Annual Audit and Inspection Letter is considered by the Audit and Accounts Committee, Cabinet and the Chief Officer Group. A number of external audits and inspections have also taken place.

- the External Auditors completed their CAA Use of Resources Key Lines of Enquiry assessment during the year and awarded the Council's governance arrangements a score of 3 overall.

- the Performance and Improvement Team monitor National and Key Performance Indicators on a quarterly basis and recommend improvements to the performance framework on a regular basis.

- the Strategic Risk Group reviews newly identified corporate risks and ensures that actions are being taken to effectively manage the Council's highest risks. The Group reviews the effectiveness of the Council's Risk Management Framework

- the Controls Review Group reviews internal control issues within the key financial systems of the Council

The review of the Council's governance arrangements and the control environment included:

- the role of the Governance Working Group in reviewing the Council's own governance arrangements against a best practice framework endorsed by CIPFA/SOLACE to identify areas for improvement. A sub-group chaired by the Monitoring Officer reviewed this self–assessment and produced a Governance action plan which was approved by Audit and Accounts on 25 March 2010. This met one of the objectives for the Chief Executive which was "to ensure that an action plan is in place by 31/3/10 to refresh and improve the robustness of the corporate governance framework that meets the principles of good governance and statutory requirements".

- reviewing other external inspection reports received by the Council during the year

- validating assurances obtained by reference to documentation held and by comparing the assurances provided to an evaluation of the effectiveness of the control environment.

- the opinion of the Head of Audit and Risk Management in his annual report to Audit and Accounts Committee and an evaluation of management information in key areas to identify any indications that the control environment may not be sound.

- a report from the Strategic Director of Resources on the effectiveness of the system of internal audit.

- consulting the Audit and Accounts Committee regarding any potential issues it felt could indicate a problem with the control environment.

10. Significant Governance Issues 2009/10

Planning Issues

The Council failed to properly advertise 60 major planning applications in the press prior to them being granted planning permission. This meant that members of the public may be less likely to be aware of them and raise any objections before approval was given. Where there are four or more letters received that differ from the Planning Officers recommendation, then the application is considered by councillors at a meeting of the Planning Control Committee.

When this administrative error came to light, it was immediately referred to Ombudsman. The Ombudsman asked the Council to investigate the Citygate planning application, which was the application that had triggered the discovery of the error. The investigation found that advertising in the press would not have had any bearing on outcome. The Planning Committee was asked to reconsider the application and all residents were notified. The application was voted through. All the other 59 cases were reviewed and went to Planning Committee where it was decided that members would not have made a different decision to the original outcomes. The Ombudsman agreed with the manner of the Council's investigation and that the public had not been prejudiced by the Council's error.

Partnerships

An internal audit review of "Partnership – Governance" assessed the internal control environment around this area as unsatisfactory. The audit focused on the governance arrangements in place for three existing partnerships within the Council, assessing them against best practice as identified by the Audit Commission and CIPFA.

The audit made recommendations around the following key control weaknesses:
- The Council has not adopted a consistent approach to the governance of partnerships which accords with best practice guidelines.
- The Council has not developed a policy on partnership working.
- The Council had not entered into formal Partnership agreements with 2 of the 3 partnerships sampled.

- A number of areas were missing from the Accountable Body agreement (Partnership Agreement) for one of the partnerships sampled, which best practice dictates should be documented and agreed upon.
- Exit strategies for partnerships were not being considered and documented when partnership agreements were being drawn up. Exit strategies were not being considered until partnerships were drawing to a close.
- Business continuity arrangements had not been fully developed for the sample partnerships examined.
- Staff working at the partnerships sampled, were not required to declare their pecuniary and non-pecuniary interests to identify any conflicts that may exist.
- There was not a risk register in place for one of the partnerships sampled nor were the risk management arrangements documented within the Accountable Body agreement.
- A formal risk assessment was not conducted before entering into one of the 3 partnerships.

The Council is producing a partnership toolkit which will provide guidance and address the issues raised above. This toolkit will be available from July 2010. Training will also take place for relevant officers in July. The Council's Governance Action Plan also addresses the issues raised in the audit report.

Governance Issues raised in Audit and Accounts Committee

All significant governance issues are reported to the Audit and Accounts Committee. Below are the issues reported during 2009/10:

Waste Management Contract:

The Audit and Accounts Committee held a special meeting to discuss the governance issues following the Council's Planning Committee's decision to refuse a planning application by Resource Recovery Solutions to build an incinerator in Sinfin. The meeting was called because Members were concerned following publicity that Derby City Council would have to pay thousands of pounds to fight its own planning committee's refusal of permission for the site.

At the meeting the Committee considered the project agreement for the contract and procurement with RRS Waste Management. The Committee expressed concerns about the isolation of clause 9 of the project agreement and its component parts to allow the expenditure of £180k as part costs of an appeal against the refusal of planning permission. It was resolved to "ask Council Cabinet to review its decision to support the continuation of the project in light of the refusal of planning permission by the Council's own Planning Committee".

The matter was referred to the Cabinet meeting on 20 April 2010, at which Cabinet requested a detailed report reviewing the decision to be taken to its next meeting. This took place on 8 June 2010 and the Cabinet decided to "reaffirm the original decision."

Debt Management /Bad debt provision:

In its Audit Strategy document, External Audit recommended that:

- The Council should review the percentage rates applied each year to calculate bad debt provisions, against current collection patterns, to ensure the

percentages remain appropriate. The results of this review will then form a working paper that will support the Council's approach for audit purposes.

- The Council should consider undertaking a review of old debt and writing these, and the associated bad debt provision, out of the ledgers.

Work is moving forward on a revised debtors' policy and issues are also being addressed through the Control Review Group.

Fixed Assets:

Both Internal and External Audit have highlighted issues during 2009/10.

In its Audit Strategy document presented to Audit and Accounts Committee in June 2009, the External Auditor recommended that "the current practice of maintaining separate registers will continue to increase the risk of material misstatement and ultimately the Council should strongly consider the introduction of an integrated asset management system."

The Statement of Accounts - Post Audit Re-approval report to Audit and Accounts Committee in September highlighted that the External Auditor had found "A number of fundamental misstatements were raised during the audit in relation to fixed assets resulting in a £117m (9.7%) reduction in the closing value of tangible fixed assets at 31 March 2009".

The issue over the misstatement resulted in a Use of Resources score of 2 for KLoE 1.3 (financial reporting).

An Internal Audit review of fixed assets gave a control rating of "marginal". The following issues were considered to be the key control weaknesses:

- The fixed asset records did not clearly identify the nature of all assets listed and furniture had not been recorded on the fixed asset records as specified in SORP B28.
- There were no documented procedures relating to the compilation of the fixed asset records and evidence of write-offs had not been retained by the Capital Team.
- Art gallery and museums exhibits (heritage assets) had not been valued recently to enable them to be recorded in the Council's fixed asset records.
- The Capital Team's fixed asset records were not being comprehensively reconciled to the Property Asset Register.
- Fixed asset records were being maintained by the Capital Team on an Excel spreadsheet. Access to this spreadsheet was not appropriately restricted and no checks were being undertaken to ensure that the spreadsheet's logic and formulae had not been modified. Spreadsheets do not provide an audit trail of any entries or changes made and are prone to error.

Given the concerns of both Internal and External Audit to elements of the system for recording the Council's fixed assets, the Audit and Accounts Committee has made the decision to "call in" the relevant managers to seek explanations and assurances that the system will be improved.

The Council has implemented a new fixed asset register and reviewed the robustness of the underlying source data and accounting treatments in 2009/10.

Markets – Income (Probity Audit)

The audit focused on the processes in operation surrounding Markets income, including the collection, receipting, recording, banking, security and reconciliation controls in place. The report contained 15 recommendations of which 13 were significant, from which Internal Audit determined the control environment to be "unsound". Following the audit, Management has made significant progress in implementing the recommendations made by Internal Audit. The audit report stated that should all the control weaknesses be addressed as agreed, the overall control environment would then be considered satisfactory.

Governance Issues raised in Standards Committee

The Standards Committee has considered governance issues as part of its work programme. During 2009/10, the Independent Members of the Committee met each of the Council's political groups to seek their views on the operation of the ethical framework. As a result of these meetings, the committee has decided that, during 2010/11, it will review the effectiveness of the codes and protocols that support the Members' Code of Conduct and consult with partners on a code or protocol to govern the conduct of partnerships. The committee will also produce an annual report to the Council in July each year.

Data Protection Issues

The Information Commissioner's Office (ICO) received a complaint from a City Council employee about the way the council had processed her personal data. It involved an incident where confidential information was accidentally published on Environmental Services' portion of MOSS. The employee had notified the council at the time, and the issue was rectified.

From the information provided, the ICO assessed that there was strong evidence that Derby City Council had failed to comply with Principle 7. The ICO has proposed no further action as the Council has proposed to carry out refresher training for staff on the Data protection principles.

11. Update on Governance Issues reported in previous Annual Governance Statements

Progress continues to be made on significant governance issues raised in the 2008/9 annual governance statement.

Governance Issues	Progress made/Comments
Political Control At the local elections in May 2008 no one political party achieved an outright majority. The party with the most seats, the Liberal Democrats, chose to form the Council Cabinet. This situation of no overall control has impacted on the decision-making process of the Council, in particular the	This situation of no overall control continued in 2009/10, because 2009 was a fallow year in the City Council's local election process. The local elections in May 2010 saw no change to the situation of no one party achieving an outright majority although there was a change in administration where the

Governance Issues	Progress made/Comments
setting of the 2009/10 budget.	Liberal Democrat administration has been replaced by a Conservative administration.
Highways Maintenance The performance of the Derbyroads Partnership	Further reports were made to the Audit and Accounts Committee in 2009/10 to keep members up to date with developments.
Fraud/ Cash payments The Council's cash advance payments system in payroll was the subject of fraudulent activity.	In response to recent frauds in the Resources Directorate, a Controls Review Group was set up to review and make improvements to financial control within the authority. All payroll cash payments have now ceased. A full review is also being carried out by the control review group to minimise the number of cash transactions.
Non-adherence with Contract Procedure Rules Following a presentation on the development of the Procurement Connection website to the Audit and Accounts Committee, its members raised concerns over the levels of compliance with the Council's Contract Procedure Rules.	Audit and Accounts Committee receives half yearly reports on all non-compliant contracts, together with an explanation as to the reason for it occurring. All contract waivers requested are reported to the Committee for information.

There is one governance issue from the 2007/8 Annual Governance statement that is still on-going.

Governance Issues	Progress made/Comments
Derwent New Deal for Communities (NDC) The Corporate Director – Resources commissioned Internal Audit to review the project appraisal process for NDC following a number of high profile Derwent Community Team project failures. The Director of Derwent Community Team is addressing the governance and control issues raised and also has regular meetings with the	The funding has been on hold since June 2009. A recovery plan was submitted to DCLG. Local Improvement Advisers reviewed Derwent NDC in December 2009 and produced a report. The council submitted a revised recovery plan in April 2010. An internal audit review of the controls and governance

Governance Issues	Progress made/Comments
Chief Executive and the Corporate Director – Resources	arrangements in place at Derwent Community Team has been requested by the Strategic Director – Resources for inclusion in the 2010/11 Internal Audit Plan.

12. Certification

To the best of our knowledge, the governance arrangements, as defined above, have been effectively operating during the year with the exception of those areas identified in section 10. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangement. We are satisfied that these steps will address the need for improvements that were identified during the review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Harvey Jennings   Adam Wilkinson
Leader of the Council   Chief Executive