

## **Audit, Governance and Standards Committee**

24 July 2019

### **ANNUAL GOVERNANCE STATEMENT 2018/19**

Interim Monitoring Officer and Assistant Director of Governance and Law

#### **Purpose**

To consider for approval and subsequent sign off by the Leader of the Council and the Chief Executive, the Council's Annual Governance Statement for the year 2018/19.

#### **Recommendation**

To **RESOLVE** that

1. In response to the requirement for a local authority to have in place proper arrangements for the governance of its affairs and to undertake an annual open and honest assessment of its governance framework, it be noted that the Council has undertaken and agreed an assessment of the Council's corporate governance arrangements;
2. The Annual Governance Statement 2018/19 (**Annex 1**) be approved for formal sign off by the Leader of the Council and the Chief Executive; and
3. It be noted that an Action Plan to address the improvement areas identified through the Annual Governance Statement process will be submitted to the Committee's October meeting for approval.

#### **Key Points**

- A. Local authorities are required to prepare and publish an Annual Governance Statement, in accordance with Solace/CIPFA guidance published in July 2007, updated in 2012 and, most recently, in 2016. This is necessary to meet the statutory requirement set out in regulation 6(1) of the Accounts and Audit Regulations 2015.
- B. The Annual Governance Statement (AGS) is an honest self-assessment of the organisation's performance across all of its activities with a statement of actions being taken or to be taken to address areas of concern or for improvement. The draft AGS was published with the Council's financial statements on the 31<sup>st</sup> May 2019 in line with statutory requirements.
- C. An assessment of the Council's activities was conducted throughout April and May 2019 to confirm that the Council has effective corporate governance arrangements in place and to identify any areas of relative weakness where improvements can be made. This included a review of the Council's Code of Corporate Governance.
- D. The assessment showed that services generally have robust governance arrangements in place. There are some areas where improvement is

required which will be addressed in the 2019/20 AGS Action Plan which will be submitted to the Committee for approval in October 2019.

- E. The Committee is now asked to consider, for formal sign off by the Leader of the Council and the Chief Executive, the Annual Governance Statement 2018/19.

## **Context**

1. The Council is responsible for ensuring its business is conducted in accordance with the law and proper standards, that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. RBK has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging its responsibility, RBK is required to put in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which include arrangements for the management of risk. RBK has approved and adopted a Code of Corporate Governance, which was subject to a review in 2017/18. In accordance with the requirement to review the Code every two years, a revised Code has been presented to this Committee for approval (see Agenda for this meeting). The AGS confirms the Council has arrangements in place which support the Councils compliance with the framework and the requirements of regulation 6(1) of the Accounts and Audit [England] Regulations 2015 in relation to the publication of a statement on internal control.
3. The Audit, Governance and Standards Committee's role is to ensure from its work and enquiries that it addresses any key governance weaknesses and areas for improvement. The attached AGS was provided to the external auditors, as a draft by the 31<sup>st</sup> May 2019, so that it was available alongside the Council's Accounts, subject to its subsequent consideration by this Committee at this meeting.
4. The Chief Executive, Ian Thomas has responsibility for signing off the AGS alongside the Leader of the Council.

## **Preparation of the Annual Governance Statement**

5. In preparing the Annual Governance Statement, the Council is required to undertake an open and honest self-assessment of the organisation's performance across all of its activities, with a clear statement of the actions being taken or required to address areas of concern. The governance statement covers all significant corporate systems, processes and controls spanning the whole range of the authority's activities, including in particular those designed to ensure that:
  - the authority's policies are implemented in practice
  - high-quality services are delivered efficiently and effectively
  - the authority's values and ethical standards are met

- laws and regulations are complied with
  - required processes are adhered to
  - financial statements and other published performance information are accurate and reliable
  - human, financial, environmental and other resources are managed efficiently and effectively.
6. This year, the AGS process has been revised to ensure more robust engagement with senior officers across the Council. This included the following key tasks:
- Review and update of the Code of Corporate Governance
  - Follow up of AGS Action Plan items
  - Review of compliance against CIPFA Solace guidance
  - Self-assessments by Departmental Management Teams (DMTs) covering key areas of control and more detailed discussions at DMT meetings to identify both corporate and service issues
  - Meetings with key officers (including statutory officers) to discuss significant issues raised by DMTs.
  - Discussion and agreement of the draft AGS with SLT.

### **Results of the 2018/19 AGS Assessment Process**

7. As with previous years' assessments, areas where improvements can be made have been identified. These are in two parts:
- Issues identified in respect of the 2017/18 AGS process and monitored by the Audit, Governance and Standards Committee in the 2018/19 AGS Action Plan. This includes actions which remain outstanding (Table 1);
  - New issues identified as part of the 2018/19 AGS review (Table 2).

Table 1: 2018/19 Annual Governance Statement Action Plan – Follow Up

Issue/Risk	Action Taken
<p><b>Financial Management</b> – Budget process needs to ensure that savings are achievable and service managers have signed them off</p>	<p><b>Completed March 2019</b></p> <p>The final outturn for 2018/19 was £459k. The Strategic Leadership Team reviewed the budget position monthly. The Council has set a balanced budget for 2019/20 including ensuring it has adequate reserves and balances to manage the significant financial pressures.</p> <p>The Council introduced a budget readiness process from March 2019 to support officers in</p>

	preparation for implementing the 2019/20 savings plans.
<b>Staff Declaration of Interests</b> – process needs to provide for sufficient oversight by senior officers to ensure that interest do not impact on decision making	<b>Ongoing</b> The Council is introducing a mandatory process where all staff will be required to complete a declaration of interest return including confirming if the return is nil.
<b>Human Resources</b> – adequate capacity needed to support changes in business needs and the transformation programme	<b>Complete</b> The implementation of DOT 4 and 5 is progressing and the service has over 50 reviews to manage across our clients. This will be an intensive period of activity for HR in addition to a reorganisation of the service starting in April 2019. However the Council has ensured it has the required resources to complete this programme of work.
<b>Mandatory training for staff</b> – improvement still needed in terms of completion by staff of mandatory training (e.g. data protection and security).	<b>Ongoing</b> A more robust, centrally driven reporting process has been implemented, with monthly reports being generated and requirements on HR Business Partners to push completion as far as they can with their DMTs.  Refresher training has now been set for every 2 years.
<b>Business Impact Assessments</b> – Business Impact Assessments are needed in relation to key services (e.g. accommodation) to facilitate the completion of the ICT Disaster Recovery Plan.	<b>Ongoing</b> Currently undertaking a review of the core infrastructure and looking at the requirements for the future. Initial options appraisal for moving the on premise data centre to the Cloud has been completed.  Preparing business case and more detailed costs for the migration to the cloud.  ICT Disaster Recovery Plan has been finalised and subsequently reviewed and links into the overall Business Continuity Plans.  Digital & IT have completed table top exercises for cyber security.  As part of Brexit preparations the Council is undertaking a complete refresh of Business Continuity arrangements starting with Critical Service assessments, Business impact analysis, individual service business continuity plans, departmental plans and a corporate plan and will feed into the ICT Disaster recovery plan to

	confirm critical applications and accommodation needs.
<b>Internal Audit Recommendations</b> – to ensure that all Priority 1 recommendations are dealt with expeditiously.	<b>Ongoing</b> There were 10 Priority 1 recommendations outstanding and reported to the March Audit, Governance and Standards Committee. Priority 1 recommendations will continue to be subject to robust follow up and monitoring arrangements.
<b>Scheme of Delegation</b> – this is to be updated to reflect the new governance arrangements.	<b>Complete</b> A new scheme of delegation was agreed by Council on 11th December to be implemented from 1st March 2019
<b>Dedicated Schools Grant (DSG)</b> - A major issue going forward is the financial pressures on the Dedicated Schools Grant (DSG) and other demand led budgets. This is not uncommon to AfC but is a national issue although particularly acute in Kingston. This is against a national context of significant pressure on services for children. Whilst this does not directly affect AfC's internal control framework, it does demand a very high standard of budgetary control and AfC are having to develop new strategies in relation to managing demand. In support of the Kingston schools budget for 2018/19 the Department for Education provided an additional £3m of Dedicated Schools Grant (DSG) in support of Special Education Needs (SEN). This is an advance of money provided on the basis that the Council will address the issues associated with the overspend on SEN which is outlined above. This is an advance on money but the Government have not stated when it will need to be returned. However, it is unlikely that this will be in the near future. This means that the High Needs block for Kingston will be £23.4m next year and increase of 23.7% and the DSG as a whole will be £137.7m, an increase of 7.7%	The Council has developed a SEND transformation plan which sets out how to meet the outcomes of the SEND Inspection and meet the financial challenges in terms of funding and resources. There is a governance framework supporting the delivery of the plan which includes a system wide SEND Partnership Board and a Council delivery group. The plan sets out a programme to bring expenditure in line with funding whilst ensuring effective outcomes for children and young people.  The structural overspend on the DSG remains a significant issue for the Council and is reflected in the issues identified for 2019/20.
<b>Risk Management</b> - Whilst processes are in place to record and manage key risks, there is a need to review wider corporate risks and to better align these with the manifesto commitments of the	<b>Ongoing</b> Quarter 3 risk reporting was undertaken, with each directorate DMT reviewing its risk register. Escalated risks to the corporate risk register were reviewed by SLT in February ahead of

<p>new administration as well as key corporate objectives.</p>	<p>going to Audit, Governance &amp; Standards Committee on 12 March, together with more detailed reports covering ICT cyber-security and legacy systems, Brexit and Emergency Planning preparations.</p>
<p><b>GDPR</b> - The challenges of delivering effective data security management require constant review especially at a time when the key data protection legislation is changing with the need to ensure that systems and processes are compliant with GDPR. Whilst the Council has undertaken a major review of information governance, data protection and records management over the last 12 months in advance of GDPR requirements, further work is required to ensure full compliance.</p>	<p><b>Majority completed but Ongoing</b></p> <p>The AD Digital &amp; IT has coordinated the work across the Council in these areas through the work in the Information Security Governance Board attended by all areas of the Council. The Council was compliant with the core areas of GDPR for the May 2018 deadline</p> <p>A significant amount of work has been undertaken to strengthen controls and processes and a recent Internal Audit has recognised this progress.</p> <p>An area requiring further work is around the corporate ownership of data. Whilst Google allows for the management of some data records, there is a disparate line of business products used in different teams which increases risk due to the number of different records being held. These systems need to be rationalised and Heads of Service given responsibility for reviewing data within their service areas to ensure compliance with GDPR. Further training and awareness will be completed for managers together with application reviews to ensure that Heads of Service are able to comply.</p>

Table 2: Improvement Plan 2019/20

The improvement actions below have been identified as a result of the review carried out. Progress will be followed up during 2019/20 and reported to the Audit, Governance and Standards Committee.

Issue/Risk	Action
<p><b>Performance Management</b> A corporate service planning process has not been embedded across the Council with service areas establishing their own templates and processes. A corporate process has not been established to ensure that there is a</p>	<p>A corporate performance framework should be established with guidance in place to support managers. This should include establishing Service plans which provide a clear link between Corporate and individual objectives. Recommendations from the recent Peer review should be fed into Service Plans and</p>

<p>clear link between the Corporate Plan, Service Plans and Appraisals. An appropriate level of infrastructure is not bedded into services at a detailed level and there is no corporate performance framework or policy with guidance in place to support managers.</p>	<p>these should be closely monitored to ensure that they are delivered within agreed timeframes.</p>
<p><b>Workforce planning</b>  There are gaps on organisational development including how we attract and retain staff. A competency framework needs to be developed and consideration given as to how HR policy supports and enables staff to do their jobs. It is acknowledged that work is already underway to develop an Organisational Development Strategy. Learning and development is being independently reviewed as part of the wider HR model. This will include how learning needs are identified. Performance management, including the appraisal project will be a priority project in 2019/20</p>	<p>Workforce planning is a priority project in the OD strategy and a deliverable for year one. This will include the development of competencies and will link to the other year one deliverables of performance management and development.</p>
<p><b>Project and Programme Management</b>  The Council needs to establish a more corporate approach to project and programme management. The lack of PMO resource and expertise has been a significant gap in the organisation. This requires improvement with more corporate rigor and infrastructure on project management for major site development projects.</p>	<p>The new Corporate Transformation structure, designed as part of DOT 4/5 includes dedicated PMO resource. The new structure should be fully staffed and operational by September 19. In the interim specialist PMO resource has been brought in on a temporary basis to develop the framework and infrastructure required to ensure effective management and delivery of corporate projects and programmes (including the proposed Cambridge Road Estate regeneration). An improvement plan is now in place which will deliver significant improvements and assurances in advance of the permanent team being in place.</p> <p>Once the infrastructure is in place there will be a focus on supporting the development of the requisite skills and knowledge to effectively manage major projects/programmes across the organisation.</p>
<p><b>Roles and Responsibilities and ensuring Procedures are fit for purpose</b></p>	<p>Roles and responsibilities should be reviewed in the key areas identified by Internal Audit and through the AGS process. This should</p>

<p>Work undertaken by internal audit during the year and discussions with DMT's as part of the AGS process has identified some concerns around a lack of clarity in how roles and responsibilities are defined in a number of key areas. These include:</p> <ol style="list-style-type: none"> <li>1. Contracts and Procurement</li> <li>2. Health and Safety</li> <li>3. Information Governance (corporate ownership of data)</li> <li>4. Areas of Adult Social Care e.g. financial assessments and deprivation of assets</li> <li>5. Finance and HR where tasks are delegated through self service arrangements</li> </ol> <p>With significant organisational change including new staffing structures, recruitment to new posts and changes to culture and operational procedures, there are risks of inconsistencies in practice and key tasks may fall between the gaps until the changes are properly embedded and understood</p>	<p>include a review of policies and procedures to ensure that they are fit for purpose and are properly communicated and understood through the delivery of appropriate training to staff.</p>
<p><b>SEND -Dedicated Schools Grant (DSG)</b></p> <p>The most critical financial pressure is the structural overspend in the Dedicated Schools Grant (DSG) high needs block with an estimated cumulative DSG deficit of £14.071m that continues to be single biggest financial risk facing the Council. In addition the Council SEND inspection required a written statement of action and the Council, with the CCG, are working to implement this improvement plan</p> <p>The multi agency SEND Partnership Board is focused on the services which specifically relate to the SEND Transformation Plan. This leaves a gap in the overall multi agency leadership of children's services which in the past was covered by the Children's Trust.</p>	<p>The SEND transformation plan sets out of three years the improvements required to the service and actions to bring the DSG spending within the resources available. This is a challenging and aspirational plan which seeks to engage the whole system, everyone who delivers or receives SEND services, in resolving these issues.</p> <p>A multi agency Children's Partnership is being considered for establishment by March 2020 which will address wider children's services issues and ensure the strategic coordination of work across Partnerships for children and young people aged 0-25</p>

8. The issues identified in Table 1 and Table 2 will be incorporated into an Action Plan which will be submitted to the Committee's next meeting in October 2018 for formal approval.

### **Achieving for Children**

9. Achieving for Children (AfC), the Community Interest Company established by Kingston and Richmond Councils which, since April 2014, has delivered children's services in Kingston and Richmond (and, from 1 August 2017, in the Royal Borough of Windsor and Maidenhead) have robust arrangements in place to ensure that Risk Management and Internal Control systems are effective and appropriate. These are overseen by AfC's Senior Leadership Team and the Audit and Risk Committee.
10. AfC's Audit and Risk Committee considered a report on the annual review of governance and internal control arrangements at its meeting on 25th June 2019 and approved the Statement on Internal Control advising the Board that the company's governance, risk management, internal control, treasury management and value for money systems and frameworks are adequate and effective. Following the Boards approval, the statement has been included in the company's annual report and accounts for 2018/19. Issues identified in this report include: DSG High Needs Block funding pressures, staff turnover and the use of agency staff to back-fill. The report also highlights the potentially material impact of the contract between AfC and LBR/RBK ending on 31 March 2021 with the Councils considering their options for future delivery of children's services.
11. In 2018/19, Limited assurance was provided on Priority 1 recommendations raised in respect of 9 audits undertaken during the year across AfC with a number of issues identified across some or all of the schools.
12. The Annual Governance Statement makes reference to external sources of assurance including:
  - the External Audit report and opinion on AfC's accounts for 2018/19 and
  - the Annual Audit Report from Internal Audit for 2018/19 which provides assurance that 'AfC does have an adequate and effective control process to manage the achievement of it's objectives'.

### **Other Assurance Work**

13. A number of other pieces of assurance work have fed into the overall assessment of our governance arrangements this year. Some of these are described below.

### **Internal Audit Outcomes**

14. The Head of the South West London Audit Partnership is required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. In her Annual Report on the work of

Internal Audit during 2018/19 the Head of the South West London Audit Partnership has confirmed that she is satisfied that sufficient internal audit work has been undertaken to allow her to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control environment. This year she provided reasonable assurance that the Council has an adequate and effective control process to manage the achievement of its objectives. However, she does caveat this opinion in respect of the limited assurance reports issued during the year where Priority 1 recommendations were raised. One of the key themes identified from the audit work completed in 2018/19 was that whilst a significant amount of work has been undertaken to improve systems and processes across the Council, these are not yet fully embedded. Many of the audits found a lack of clarity around the allocation of roles and responsibilities and inconsistencies in practice. Given the level of change across the organisation, it is essential that policies and procedures are fit for purpose, properly communicated and understood.

15. The Annual Internal Audit Report for 2018/19 summarises the assurance opinions provided across the audits undertaken during the year. For the 2018/19 Audit Plan, 9 limited assurance reports were issued This compares to one no assurance and 9 limited assurance reports in 2017/18 and eleven in 2016/17. The remainder were found to have either substantial or full assurance. The areas where limited assurance was given are set out below.
  - GDPR
  - Contracts (thematic)
  - Staff Training and Development
  - Health and Safety
  - Financial Assessments
  - Deprivation of Assets
  - Adult Social Care Income
  - Adult Education follow up
  - Parking Contract
16. A Priority 1 recommendation was also raised in respect of the Pension Fund Investment audit which was given substantial assurance.
17. A number of Priority 1 recommendations have been made to address the areas where there is concern and the implementation of these will be monitored by the Strategic Leadership Team over the year. Generally, the implementation of Priority 1 recommendations has improved over the last few years with 10 outstanding at the end of the year. None of the areas of limited assurance identified by Internal Audit are judged to be of enough significance to impact adversely on the submission of the Annual Governance Statement.

## **Role of the Chief Financial Officer**

18. In 2011/12 a requirement to report on Compliance with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government was introduced. A self- assessment has been carried out against the 5 principles within this Code (which was amended in 2016) and all required standards have been assessed as being met.

### **CIPFA Public Sector Internal Audit Standards**

19. Since April 2013 the Annual Governance Statements has been required to confirm compliance with the CIPFA PSIAS. Following the peer review in June 2018, a self-assessment has been carried out against these standards which has demonstrated substantial compliance.

### **Audit Opinion**

20. The Head of the SW London Audit Partnership, who is the Head of Internal Audit for RBK, is required to provide the Council with an opinion on the adequacy and effectiveness of the internal control environment. This opinion is included within the Annual Internal Audit and Fraud Report 2018/19. She has stated that, 'In giving this opinion, it should be noted that assurance can never be absolute and, therefore, only reasonable assurance can be provided that there are no major weaknesses in these processes. In assessing the level of assurance to be given, I based my opinion upon:
  - All internal audit assignments undertaken during the year;
  - Any follow-up action taken in respect of previous audit work;
  - Any significant recommendations not accepted by management and the consequent risks;
  - Matters arising from previous reports to the Audit Committees;
  - Any limitations which may have been placed on the scope of the internal audit.
21. The Head of the SW London Audit Partnership's Opinion for 2018/19 is as follows

"I am satisfied that sufficient internal audit work has been undertaken to allow me to draw a reasonable conclusion as to the adequacy and effectiveness of the Council's control environment. In my opinion, the Council does have an adequate and effective control process to manage the achievement of its objectives."
22. The opinion is caveated in respect of the key issues reported by Internal Audit during the year. This refers to the 9 audits given limited assurance during the year. These areas will be monitored closely throughout the year and assessed again as part of the submission process of next year's Annual Governance Statement.
23. Whilst the last few years have seen an increase in the number of limited or assurance audits, this is largely explained by the audit planning and

monitoring processes which facilitate robust input from departmental management teams to ensure that audits focus on areas of concern and most significant risk. This demonstrates a positive culture of openness and transparency, recognising that Internal Audit is important in underpinning and driving improvement across the Council.

### **2018/19 Annual Governance Statement Action Plan**

24. As usual, an Action Plan to address areas of relative weakness was prepared following the approval of the 2017/18 Annual Governance Statement in July 2018. This has been monitored throughout the year by SLT and this Committee. As referred to earlier, progress against outstanding actions has been picked up though this year's AGS process and where, for a variety of reasons, actions identified have not been completed they will be rolled forward into the 2019/20 Action Plan process (see Table 1 above).

### **2018/19 Annual Governance Statement**

25. The draft Annual Governance Statement for 2018/19 is attached at Annex 1 for consideration by the Committee and, if approved, for sign off by the Leader of the Council and the Chief Executive. It has been drawn up in the usual format and has been endorsed by the Strategic Leadership Team.

### **2019/20 Action Plan and Assurance Activity**

26. Following approval of the AGS by this Committee a programme of work will be drawn up to address the areas of relative improvement identified through the AGS process. This will be reflected in the draft 2019/20 Annual Governance Statement Action Plan which will be submitted to the Committee for approval at its next meeting.
27. It is intended that, so far as possible, the Action Plan does not initiate new streams of activity but builds upon those important and extensive actions which are already planned and underway within RBK. The actions clearly have a significant strategic importance not only to the future performance of RBK and its role as a commissioning body but also to the wider agenda.
28. SLT and Committee will be provided with the necessary assurance with progress reports against the actions on a regular basis. This assurance will be provided through critical challenge of owners and managers, with observation and review of relevant governance processes.

### **Environmental Implications**

29. There are no specific environmental implications arising from this report.

**Background Papers**, held by **the author the report** Alix Wilson, email  
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1. Accounts and Audit Regulations 2015
2. Solace/CIPFA Delivering Good Governance in Local Government 2007 (amended 2016)
3. Guidance Note for Local Authorities updated 2016
4. AGS report to November 2018 meeting of Audit, Governance and Standards Committee
5. Review of Effectiveness of the Shared Internal Audit Investigations Service 2018/19 (peer review and self assessment)
6. CIPFA statement on the role of the Chief Financial Officer in Local Government (and self-assessment)