

Agenda item: **Decision maker:** Governance and Audit Committee 28<sup>th</sup> June 2012**Subject:** Annual Governance Statement 2011/12**Report by:** Head of Audit and Performance Improvement**Wards affected:** N/A**Key decision (over £250k):** No

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## 1. Purpose of report

- 1.1 This report seeks approval from the Governance & Audit Committee (G&A) for the council's finalised Annual Governance Statement (AGS) for 2011/12 and the proposed framework that will be put in place to monitor progress.

## 2. Recommendations

It is recommended that the Governance & Audit Committee:

- 2.1 Approves the Annual Governance Statement for 2011/12, which is included as appendix one to this report.
- 2.2 Notes the significant governance issues highlighted in the statement and the actions in place to address these (section 5 of this report).
- 2.3 Approves the process for monitoring progress against the issues (paragraph 6.1), including the suggested template, attached as appendix two.

## 3. Background

- 3.1. The Annual Governance Statement sets out how Portsmouth City Council has complied with the Local Code for Governance, and how the authority meets the requirements of Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement.
- 3.2. The statement supports the Local Code of Corporate Governance, adopted by the council in March 2010, which sets out how the council adheres to six core principles of governance.
- 3.3. Every year, a number of sources are analysed - the Annual Audit letter, reports from Ofsted and the CQC, and collated governance questionnaire returns from heads of service – and any potential governance issues arising from these are highlighted as part of this process.
- 3.4. With the demise of the national assessment regime, local authorities are being encouraged to undertake peer reviews of each other – acting as a “critical friend” to their peers, to review the council's practices in a challenging but supportive way. In

the future, peer reviews will be an additional means of highlighting any governance issues that the authority is at risk from.

- 3.5. The AGS sets out what these governance issues are and how they will be monitored. The Governance and Audit Committee receive regular updates on the development of the Annual Governance Statement, and the committee last received an update in March 2012. It has also been reviewed by the Corporate Governance Group.

#### **4. Reasons for recommendations**

- 4.1. The Authority has a duty to produce and publish an annual governance statement in accordance with the Accounts and Audit (England) Regulations 2011.
- 4.2. It is a key role of the G&A committee to monitor governance issues across the authority and ensure they are performance managed. The annual governance statement sets out those key governance issues.

#### **5. Key governance issues**

- 5.1. Following analysis of the key sources of information, as noted in 3.3, and including governance issues that have been rolled forward from last year's statement, the following have been highlighted in the Annual Governance Statement 2011/12 as governance issues that are being monitored:
- Possible weaknesses in people management, including the collection of workforce management information, and an inconsistency in assessing staff performance
  - Keeping abreast of any issues related to the council's duty on equalities
  - Not all CRB checks are being completed or reviewed when they should be
  - The need to strengthen procedures for dealing with failure in service delivery
  - Being aware of any potential governance issues arising from the transition of the PCT to PCC
  - The completion of all immediate actions related to the OFSTED inspection of safeguarding and looked after children services. It is important that progress against the action plan is monitored. This was also highlighted in the Access to Resources audit in January 2012
  - Non-completion of core training by all staff. In some cases this has resulted in a non-compliance with Financial Rules
  - Lack of Financial Services resource with regard to the closedown programme
  - Not all services are undertaking comprehensive succession planning
  - Need to ensure the revised framework for performance management is embedded. A poor return on this year's business plans suggests that it is not yet embedded

5.2 These issues are being addressed through the following actions:

<b>Governance issue</b>	<b>Action to address</b>
Weaknesses in people management	A Leadership & Management Programme for all managers
	PDR process has been reviewed and revised
Adhering to equality duties, including completion of Equality Impact Assessments (EIAs)	Monitoring programme of EIAs that need reviewing; new policies that need EIAs
	Each service as an EIA representative
	Equalities strategy in place and monitoring through the Single Equality Scheme
CRB checks – not all checks being reviewed when they should and some temporary staff working with vulnerable groups without CRB checks	Children's services putting logs in place to monitor
	HR to reemphasise message with managers
	Basic check on jobs that should have CRBs done and whether they are done
	Assess how old CRB checks are and whether there are risks associated with that
Weaknesses in dealing with failure in service delivery incl. business continuity (BC)	Template to assist services in completing their plans
	A working group is assessing resilience across council
	A corporate business continuity strategy to be produced
Transition of PCT	Plans in place & reported to Corporate Project Board
OFSTED inspection	Action plan in place to address issues
Non-completion core training, resulting in non-compliance with Financial Rules	A new programme – Policyhub – will ensure all staff read and agree to policies when they should
	A review of the Financial Rules
Lack of Financial Services resource with regard to the closedown programme	Weekly monitoring by project team chaired by s151 officer
	Increased resources for quality assuring the Financial Statements
Not all services undertaking comprehensive succession planning	All services are encouraged to support aspiring managers and leaders to take part in managing/leadership courses e.g. ILM training
	Working with managers during a review to undertake a skills audit and career pathway process
	Encouraging managers to promote their top performers

## 6. Monitoring progress

- 6.1 In previous years, governance issues have been monitored as part of the quarterly performance report and the corporate improvement plan. The way we manage performance is changing, and so it no longer seemed appropriate to monitor governance issues in this way. Previous mechanisms also meant that it was more difficult to bring together in one place, all the governance issues that G&A needed to monitor. Progress against the issues was only highlighted with G&A at the end of one AGS year, and at the start of the next.
- 6.2 To make the performance management of governance issues more effective and meaningful, it is proposed that a highlight report is brought to G&A every quarter, giving an overview of all governance issues and how they are being tackled (with specific measures in place), along with any additional comments or issues that have occurred within a given quarter. Some of the issues are already picked up via other

mechanisms and reported to G&A in their own right; however it is important that G&A are able to consider the comprehensive list of governance issues, and keep abreast of any areas that might require further monitoring. This is a key improvement from previous years, and will allow better forward monitoring of governance issues.

6.3 Appendix two provides a suggested template that could be used to highlight to G&A, progress being made against governance issues.

**7. Internal audit opinion**

7.1 Due to the number of critical and high risk exceptions the internal audit opinion for 2011/12 is that only limited assurance on the effectiveness of the control framework can be given with the areas of most concern.

**8. Equality impact assessment (EIA)**

8.1. This report does not require an Equalities Impact Assessment, as there are no proposed changes to the council’s services, policies, or procedures included within the recommendations.

**9. Head of legal services’ comments**

9.1 The covering report and the attached annual governance statement set out the statutory framework under which the council has a duty to produce and publish an annual governance statement.

9.2 Whilst the potential governance issues as set out in section 5 of the covering report do not currently give rise to legal implications, it may be in the future that there are legal implications, which will be addressed at that time if appropriate.

**10. Head of finance’s comments**

10.1 There are no direct financial implications arising from the recommendations in the report. Any outcomes with financial implications arising from the issues highlighted in the report will be drawn to members’ attention at the appropriate time.

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Signed by: Jon Bell, Head of Audit and Performance Improvement

**Appendices:**

- Appendix one – Annual Governance Statement 2011/12
- Appendix two – Template for monitoring governance issues at G&A

**Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Internal Control Questionnaires 2010/11	Strategy Unit

Internal Control Questionnaires 2011/12	Strategy Unit
Annual Audit and Inspection Letter 2011	Strategy Unit
Quarterly Performance Reports	Strategy Unit
Self-assessment checklist 2011/12	Strategy Unit
Annual Governance Statement 2010/11	Strategy Unit

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by ..... on .....

.....  
Signed by:

# Annual Governance Statement 2011-2012

[www.portsmouth.gov.uk](http://www.portsmouth.gov.uk)

# Annual Governance Statement 2011-2012

## Scope of responsibility

Portsmouth 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, Portsmouth City Council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

Portsmouth City Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government".

This Statement explains how Portsmouth City Council has complied with the Local Code and sets out how the authority meets the requirements of Regulation 4(3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement.

## The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values used by the Council to direct and control its activities, enabling it to engage, lead and be accountable to the community. It allows the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate cost effective services.

A significant part of the framework is the Council's system of internal control, which is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure in achieving 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 on-going process designed to identify and prioritise the risks to the achievement of Portsmouth City Council's policies, aims and objectives; to evaluate the likelihood of those risks and the impact they could have should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Portsmouth City Council for the year ended 31<sup>st</sup> March 2012 and up to the date of approval of the annual report.

## The governance framework

In 2009, Portsmouth City Council adopted a Local Code of Governance, which holds the organisation to six core principles, and these are:

1. We focus on the purpose of the authority and on outcomes for the community
2. Members and officers work together to achieve a common purpose with clearly defined functions and roles
3. Values for the authority on good governance are promoted and upheld through high standards of conduct and behaviour
4. We take informed and transparent decisions, which are subject to effective scrutiny and managing risk
5. We develop the capability and capacity of members to be effective
6. We engage with local people and other stakeholders to ensure robust accountability

The following sections look at how we are held to account for these six principles.

### **We focus on the purpose of the authority and on outcomes for the community**

The overall vision for the city was agreed in 2008, following a range of consultative exercises with residents, council officers and other partners. The Vision for Portsmouth is a ten year vision from 2008-2018, with a vision for Portsmouth to be “the premier waterfront city with an unrivalled maritime heritage – a great place to live, work and visit”.

Portsmouth City Council has taken this vision for the city, to create a single organisational goal, which tells employees what we are here to achieve - “Working together to shape the great waterfront city”.

Underneath this overall goal, we are working on a programme of transformation, which will help us to work in the right ways to achieve our shared goal. Our guiding principles, as set out below, support this:

- Put our customers at the heart of what we do
- Make sure our services are always value for money
- Be ambitious and continue to improve
- Use “Portsmouth City Council: Working together to shape the great waterfront city”
- Information and evidence to shape our services our customers really need
- Simplify and strengthen our processes and share them with each other
- Make sure every enquiry that can be resolved first time is resolved first time
- Support councillors as the strategic leaders of our organisation
- Recognise the importance of our staff and support them as we change
- Listen to our customers and staff and learn from what we hear

To ensure that all services fit within what we are trying to achieve as an organisation, all services complete business plans. The service business plans are the bedrock on which the performance management arrangements for the organisation are built, as they set out what it is that services are seeking to achieve, and how success should be judged. The plans are designed to be medium term documents which are updated each year. For 2012-15, guidance has been issued asking services to think of their business plans in line with moves to be a commissioning organisation. Services are also asked to think



about how they need to address key corporate transformation and governance issues. Plans are to be formally agreed by the relevant portfolio holders.

Portsmouth City Council uses a variety of mechanisms within its overall approach to performance management and service improvement to measure quality of service and the value for money provided by services. Our performance management arrangements have needed to change to keep pace with national developments, but also to reflect our own changed ways of working and organisational objectives. We are now working to arrangements with a stronger focus on accountability at Head of Service level for service performance, and concentration on cross-cutting issues at the level of corporate management, with quarterly reporting to relevant member bodies.

### **Members and officers work together to achieve a common purpose with clearly defined functions and roles**

The roles and responsibilities of the Executive, non-Executive, Scrutiny and officer functions are defined and documented in the City Constitution<sup>1</sup>, with clear delegations and protocols for effective communication. Portsmouth City Council has Codes of Conduct for members and officers, and officers are required to declare any interests, gifts and hospitality on a public register. Members are required to declare any interests at the start of every meeting that they attend in accordance with our Standing Orders. The recording of interests is kept under review and there are no current issues with the declaration or recording of such interests.

Now and in the future, it will be important that members and officers work with other organisations locally and sub-nationally to achieve a common purpose of improved efficiency and effectiveness. As the council transforms the way it works and prioritises its use of limited resources, it will remain vital that the council's priorities and budgetary decisions are appropriately linked with the governance frameworks agreed with partners.

### **Values for the authority on good governance are promoted and upheld through high standards of conduct and behaviour**

The council has agreed "our ways of working" which tell staff what the council expects from their everyday behaviour to represent the organisation's values. Our ways of working are:

- we focus on what's important
- we take pride in our work
- we value others
- we make a positive difference

Employees will be monitored on their standards of conduct and behaviour through annual Personal Development Reviews.

The council's Governance and Audit Committee undertakes the core functions of an audit committee as identified in CIPFA's "Audit Committees - Practical Guidance for

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<sup>1</sup> More information available at: <http://www.portsmouth.gov.uk/yourcouncil/8955.html>

Local Authorities”. The group has an agreed set of terms of reference<sup>2</sup>, which sets out their role and responsibilities.

The Monitoring Officer (MO) ensures that the Council has in place appropriate arrangements via his deputy MO (Head of Legal, Licensing and Registrars), to ensure that every report to the Committee is compliant with laws and regulations, as well as internal policies and procedures. The s151 Officer together with finance staff ensure that new policies or service proposals are accompanied by a full financial appraisal which is properly costed, fully financed and identifies the key assumptions and financial risks that face the Council.

The Council has a Whistleblowing policy, and procedures are in place for receiving and investigating internal complaints, as well as investigating complaints from the public. This policy is kept under review by the Monitoring Officer, and performance reports (which include concerns raised and their outcomes) are submitted to the Standards Committee.

The authority’s financial management arrangements conform to the government requirements of the CIPFA Statement on “The role of the chief financial officer in local government” (2010). The Chief Finance Officer is a key member of the Strategic Director’s Board, helping to develop and implement strategy and resource and deliver the strategic objectives. The Chief Finance Officer is actively involved in ensuring all immediate and longer term risks and opportunities are considered, and ensure the strategic objectives are aligned to the longer-term finance strategy. The Chief Finance Officer has an input into all major decisions, and advises on financial matters to the Cabinet. He is responsible for ensuring that budgets are agreed in advance and that the agreed budget is robust, to ensure value for money is provided by our services, and is responsible for ensuring the finance function is fit for purpose. A protocol<sup>3</sup> for the Chief Financial Officer at Portsmouth was approved in November 2011.

## **We develop the capability and capacity of members to be effective**

The development needs of members and senior officers in relation to their strategic roles are identified by democratic services and learning and development, and supported by appropriate training. A specific programme for member development is organised and facilitated by the council’s learning and development team. The programme aims to help elected members effectively carry out their roles and responsibilities to a high standard by building on existing skills, competencies and knowledge.

All new members receive an induction (complete with a detailed pack) which includes information on: roles and responsibilities; political management and decision-making (including the constitution); financial management and our processes; health and safety; information governance, and safeguarding.

Additionally, compulsory training is provided for those members who sit on the following committees: planning; licensing; standards committee; employment committee, and governance and audit.

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<sup>2</sup> The Governance and Audit Committee Terms of Reference can be found at: [www.portsmouth.gov.uk/media/Constitution\\_P2.pdf](http://www.portsmouth.gov.uk/media/Constitution_P2.pdf)

<sup>3</sup> [Protocol for the Chief Financial Officer](#)

Management training is also provided on request through the Local Government Leadership academy course.

Officer support is available to members, and the council's learning and development team can advise members on any specific personal training needs.

### **We take informed and transparent decisions, which are subject to effective scrutiny and managing risk**

Following a formal process, Standing Orders and Financial Rules were revised and updated in 2009, and it is an accepted principle of PCC that they are constantly under review to meet the requirements of the organisation. Together they clearly define how decisions are taken, as well as the processes and controls required to manage risks. Training on financial rules is embedded as part of the induction process, and all staff are expected to undertake financial rules training.

### **We engage with local people and other stakeholders to ensure robust accountability**

Clear channels of communication have been established with most sections of the community and other stakeholders, ensuring accountability and encouraging open consultation. There are improvements that could be made to ensure those channels of communication are used to full advantage.

There are a range of publications delivered free to different parts of our community and all residents receive our Flagship magazine which has been widely applauded in recent MORI panels for keeping our customers well informed. These are further supported by our website, which provides information, advice and opportunities to 'have your say'. In addition to this, there are a wide range of access channels and opportunities for all parts of our community and other key stakeholders to engage in dialogue and consultation. This ranges from tenant and youth participation groups and neighbourhood forums, to consultation events and surveys, web forums and social media, and a wide range of resident and partner panels.

The governance arrangements in respect of partnerships and other groups working as identified by the Audit Commission's report "Governing Partnerships: Bridging the Accountability Gap" (2005), are defined in our financial rules. The council has agreed appropriate partnership agreements and terms of reference with significant partnerships, where they contribute to the council's objectives.

## **Review of Effectiveness**

Portsmouth City Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of:

- ◆ The Corporate Governance Group, made up of the Chief Executive, s151 and Monitoring Officers, the Chief Internal Auditor and the Head of Audit & Performance Improvement, with input from others as relevant. This group meets regularly to discuss governance arrangements and issues, and to reflect on recurring themes and spheres of activity relating to council improvement

- ◆ The Strategic Directors and Heads of Services within the Authority who have responsibility for the development and maintenance of the governance environment
- ◆ The Chief Internal Auditor's annual report
- ◆ Any comments made by the external auditors and other review agencies and inspectorates

To support the governance framework, there is an agreed formal process to review the effectiveness of internal control:

- ◆ Services that are required to complete an annual self-assessment checklist on internal controls (linked to the Local Code) are sample tested by Internal Audit. Any breaches to rules and procedures are also reported, with remedying actions identified
- ◆ The annual self-assessment review of the Governance and Audit Committee
- ◆ The annual effectiveness review of the system of internal audit, including a peer review of internal audit itself
- ◆ Business risks as part of the business planning process

The Standards Committee review any complaints regarding Members. These can be reported by Members themselves or any member of the public. These are reviewed by the Standards Committee on a regular basis along with any recommendations made to the Council on any learning points arising and any recommendations to improve compliance with the Code.

The role of the Chief Financial Officer is performed by the Head of Finance at Portsmouth City Council, who is also our Section 151 Officer. He is a key member of the Strategic Director's Board and is responsible for ensuring the proper management of all Portsmouth's financial affairs.

Internal and External Audit as well as the Risk Manager report to the Governance and Audit Committee who review their effectiveness and are empowered to escalate any matters to the full Council. The Committee also receives the external auditor's annual letter, relevant reports, and the reports to those charged with governance.

The Governance and Audit Committee have given advice on the results of the governance framework effectiveness review, and a plan to address weakness and ensure continuous improvement of the system has been put in place.

## **Key governance issues for 2011/12**

The following sources have been reviewed for any significant issues that need to be captured:

- The Annual Audit letter
- Annual children's services assessment (Ofsted)
- Inspection of safeguarding and looked after children services (Ofsted and CQC)
- Governance issues from 2010/11
- Internal control questionnaire returns from Heads of Service
- The self-assessment questionnaire of the Governance and Audit Committee

The key governance issues for 2011/12 are:

- Possible weaknesses in people management, including the collection of workforce management information, and an inconsistency in assessing staff performance
- Keeping abreast of any issues related to the Council's duty on equalities
- Not all CRB checks are being completed or reviewed when they should be
- The need to strengthen procedures for dealing with failure in service delivery
- Being aware of any potential governance issues arising from the transition of the PCT to PCC
- The completion of all immediate actions related to the OFSTED inspection of safeguarding and looked after children services. It is important that progress against the action plan is monitored. This was also highlighted in the Access to Resources audit in January 2012.
- Non-completion of core training by all staff. In some cases this has resulted in a non-compliance with Financial Rules
- Lack of Financial Services resource with regard to the closedown programme
- Not all services are undertaking comprehensive succession planning
- Need to ensure the revised framework for performance management is embedded

These issues will be tackled through the actions highlighted in the table below, and reported and monitored through the council's Governance and Audit Committee.

<b>Governance issue</b>	<b>Action to address</b>
Weaknesses in people management	A Leadership & Management Programme for all managers PDR process has been reviewed and revised
Adhering to equality duties	Monitoring programme of EIAs that need reviewing; new policies that need EIAs Each service as an EIA representative Equalities strategy in place and monitoring through the Single Equality Scheme
CRB checks – not all checks being reviewed when they should and some temporary staff working with vulnerable groups without CRB checks	Children's services putting logs in place to monitor HR to reemphasise message with managers Basic check on jobs that should have CRBs done and whether they are done Assess how old CRB checks are and whether there are risks associated with that
Weaknesses in dealing with failure in service delivery incl. business continuity (BC)	Template to assist services in completing their plans A working group is assessing resilience across council A corporate business continuity strategy to be produced
Transition of PCT	Plans in place & reported to Corporate Project Board
OFSTED inspection	Action plan in place to address issues
Non-completion core training, resulting in non-compliance with Financial Rules	A new programme – Policyhub – will ensure all staff read and agree to policies when they should A review of the Financial Rules
Lack of Financial Services resource with regard to the closedown programme	Weekly monitoring by project team chaired by s151 officer Increased resources for quality assuring the Financial Statements
Not all services undertaking comprehensive succession planning	To be confirmed

## **Effectiveness of the System of Internal Audit**

As part of the Council's Internal Audit Protocol, the Head of Service responsible for Internal Audit must continually review the service's effectiveness. This is done using CIPFA's "Characteristics of Effectiveness", which cover aspects of the service such as, whether Internal Audit:

- understands its position in respect of other sources of assurance
- understands the needs and objectives of the organisation and adds value in helping achieve them
- is a catalyst for change, and is involved in improvements and projects as they develop
- is forward looking and proactive
- is innovative and challenging
- has the right resources and skills

The Head of Audit and Performance Improvement has confirmed that he is satisfied that the Internal Audit service does currently fulfil the "Characteristics of Effectiveness".

## **Internal Audit opinion and issues**

Due to the number of critical and high risk exceptions the Audit opinion for 2011/12 is that only limited assurance on the effectiveness of the control framework can be given with the areas of most concern.

We propose over the coming years to take steps to address the above matters to further enhance our governance arrangements. Where appropriate, these issues will be addressed via the themes in the improvement plan, or otherwise through individual services business and operational plans. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness, and will monitor their implementation and operation as part of our next annual review.

Signed on behalf of Portsmouth City Council

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David Williams, Chief Executive

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Date

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Gerald Vernon Jackson, Leader of the Council

.....  
Date

**Governance and Audit Committee - key governance issues  
Highlight report template**

<b>Period:</b>		<b>Issue owners:</b>	
<b>Areas reported separately to G&amp;A</b>			
<b>Governance issue</b>	<b>Actions to address</b>	<b>Measures of success</b>	<b>Progress/issues to highlight</b>

<b>Areas reported as part of Annual Governance Statement</b>			
<b>Issue</b>	<b>Actions to address</b>	<b>Measures of success</b>	<b>Progress/issues to highlight</b>