

Audit Committee

Review of the Annual Governance Statement

Item no: 05

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Date: 22 June 2016
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Summary

This report:

- Reviews each element of the current Annual Governance Statement (AGS);
- Highlights any continuing and potentially new areas for development (and those from previous years that have been addressed); and
- Makes recommendations for revisions that will be contained in the AGS to be included in the audited accounts for 2015/16.

Recommendations

The Audit Committee is asked:

- To note the summary of the internal audit reviews undertaken during 2015/16 and the opinion of the Head of Audit and Risk Management at the City of London on the overall control environment, as detailed in Appendix B; and
 - To approve the recommended changes to the AGS for 2014/15, as detailed in Appendix A, to produce the AGS for 2015/16 for inclusion in London Councils' accounts for 2015/16, as detailed in Appendix C.
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Introduction

1. At its meeting on 19 March 2015, the Committee agreed that London Councils should continue to prepare its accounts in accordance with the Local Authority Accounting Code of Practice. English local authorities are required to prepare and publish an Annual Governance Statement (AGS) in accordance with the *CIPFA/SOLACE Framework – Delivering Good Governance in Local Government* (the framework) to comply with the Accounts and Audit Regulations. An AGS will be included in London Councils' accounts for 2015/16 in order to be consistent with the approach used by English local authorities. The regulations require authorities to conduct a review at least once a year of the effectiveness of their system of internal control and to approve an AGS, prepared in accordance with proper practices.
2. The framework also requires at least an annual review of the governance framework which should be reported to the Audit Committee. The AGS for 2014/15 was approved at the Audit Committee meeting on 18 June 2015.
3. This report will therefore:
 - Review each element of the current AGS;
 - Highlight any continuing and potentially new areas for development (and those from previous years that have been addressed) and how these will be addressed; and
 - Make recommendations for revisions that will be contained in the AGS to be included in the audited accounts for 2015/16.
4. As well as drawing on evidence from the internal audit work that has been undertaken by the City of London during the course of the year, this review will also draw on the feedback provided by London Councils' external auditors, KPMG following the conclusion of their interim audit in March 2016.
5. Appendix A to this report details the AGS that was contained in the audited Statutory Accounts for 2014/15 with recommended changes shown in red using the tracked changes function on MS word.

Scope of Responsibility (paragraphs 1 to 3)

6. It is recommended that the sentence at the end of paragraph three is changed to reflect the accounts and audit regulations do not apply to London Councils.

The Purpose of the Governance Framework (paragraphs 4 to 6)

7. It is recommended that the wording of this section as contained within the existing AGS should remain the same; with the exception of the date contained in paragraph 6 which should be amended from 31 March 2015 to 31 March 2016.

The Governance Framework (paragraph 7 with 20 bullet points)

8. There are recommended changes to this section to reflect the latest review and approval dates of London Councils' scheme of delegation, standing orders, financial regulations, corporate risk register and policies.

9. There are recommended changes to the wording of the seventh bullet point to reflect the outcome of the internal audit review into risk management and business continuity planning included in the 2015/16 internal audit plan.
10. There are recommended changes to the wording of the 12th bullet point to provide a more accurate description of London Councils alternative arrangements for the monitoring officer function.
11. There are recommended changes to the wording of the 14th bullet point to reflect the revision to the Audit Committee's Terms of Reference to include the responsibility to make a recommendation to Leaders' Committee on the appointment, reappointment and removal of the external auditor.

Review of Effectiveness (paragraph 8 with 3 bullet points)

12. There is a recommended change to the second bullet point to update the reference to the financial year from 2014/15 to 2015/16.

Areas for Development (paragraph 9)

13. There is a recommended change to update the reference to the next financial year from 2015/16 to 2016/17.

Areas for Development – ICT Strategy, Security and Operational Control (paragraph 10)

14. It is recommended that this area for development is updated to reflect that the implementation of some of the internal audit recommendations from the 2014 review will be completed during 2016/17. An additional paragraph has been added to reflect the outcome of the 2015/16 internal audit review into the ICT Strategy.

Areas for Development – Inventory (paragraph 11)

15. It is recommended that this area for development is updated to reflect that the internal audit review of key financial controls carried out in 2015/16 revealed that the information included in the updated inventory list was not fully compliant with the requirements of London Councils' financial regulations. Whilst a significant part of the missing information was included on the listing by 31 March 2016, there still remains information to be incorporated in 2016/17.

Areas for Development – Reviews undertaken during 2015/16

16. The City of London's internal audit team has undertaken three separate pieces of work during 2015/16; namely:
 - Key Financial Controls;
 - Risk Management and Business Continuity Planning; and
 - ICT Strategy.
17. A summary of the results of these reviews are detailed at Appendix B.
18. Following the review of the internal audit work carried out over the past year it is recommended that an additional area for development is included in the AGS for 2015/16

with regard to Risk management and Business Continuity Planning in addition to the revisions to the ICT Strategy, Security and Operational Control (paragraph 10) and Inventory (paragraph 11) mentioned above.

Areas for Development (paragraph 12)

19. It is recommended that the wording of this paragraph as contained within the existing AGS remains the same.

Significant Governance Issues (paragraph 13)

20. It is recommended that the wording of this paragraph as contained within the existing AGS remains the same.
21. KPMG will comment on the robustness of the AGS when they undertake the external audit of the 2015/16 accounts during July/August and reference will be made to this in the annual audit report that will be issued to members by 30 September 2016. A situation could arise whereby KPMG consider some of the issues classed as “Areas for Development” to be significant, and could, therefore, make recommendations in the audit report that these be raised to Significant Governance Issues.

Draft Annual Governance Statement for 2015/16

22. The recommended changes to the AGS for 2014/15, as detailed in this report at Appendix A, have been incorporated into the draft AGS for 2015/16, which, if approved by the Committee, should be incorporated into London Councils’ accounts for 2015/16. The draft AGS for 2015/16 is detailed at Appendix C.
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Financial Implications

None

Legal Implications

None

Equalities Implications

None

Appendices

Appendix A – Recommended Changes to AGS for 2014/15 with tracked changes

Appendix B – Summary of Internal Audit Reviews for 2015/16 and the Head of Audit and Risk Management's Opinion

Appendix C – Draft AGS for 2015/16

Background papers

Final Accounts working files for 2015/16

Internal Audit working files for 2015/16