

## Report for Resolution

<b>Report to</b>	Audit committee 10 July 2012
<b>Report of</b>	Head of internal audit and risk management, LGSS
<b>Subject</b>	Draft annual governance statement 2011-12

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Item  
**13**

### Purpose

To review the effectiveness of the council's governance arrangements and approve the draft annual governance statement for 2011-12.

### Recommendations

To:

- (1) review the effectiveness of the council's governance arrangements;
- (2) approve the draft annual governance statement for 2011-12.

### Financial consequences

The financial consequences of this report are none directly, but the governance statement refers to action plans to improve internal control and financial management throughout the council.

### Corporate and service priorities

The report helps to achieve the corporate priority Value for money services

### Contact officers

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### Background documents

# Report

## Background

1. One of the requirements in the Accounts and Audit Regulations 2011 is for the reporting of an annual governance statement (AGS) for 2011-12. The governance statement provides public assurance that the council's governance framework is adequate and effective.
2. In 2001 CIPFA and SOLACE produced a framework of good governance for use in local government. The framework recommended that local authorities review their existing governance arrangements and report annually on their effectiveness in practice.
3. Using the principles in section 3 of the framework the council adopted a revised code of governance in October 2008.
4. The framework states that "good governance leads to good management, good performance, good stewardship of public money, good public engagement, and, ultimately, good outcomes for citizens and service users. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk."
5. Both the framework and the code of practice on local authority accounting in the United Kingdom 2011-12 state that the governance statement should cover all significant corporate systems, processes and controls, 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 statement and other published performance information are accurate and reliable
  - human, financial environmental and other resources are managed efficiently and effectively.
6. The requirement to publish an annual governance statement also means that the council has to review and report on the extent to which it complies with its own code of governance.
7. The draft statement and supporting evidence has already been considered by the corporate leadership team and the head of law and governance (as monitoring officer).
8. The annual governance statement is part of the statement of accounts which has to be published by 30 June, but may subsequently be amended following review by the Audit Commission.

## **The annual governance statement**

9. The draft annual governance statement for 2011-12 is shown at **annex 1**. Any changes to the draft suggested by the corporate leadership team or head of law and governance will be reported verbally to the meeting.
10. A 'good' governance statement is 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.
11. In some cases significant issues have been previously identified and reported upon, including detailed action plans. Where this is the case, rather than repeat the detail, there are references in the statement to the relevant reports and actions which can be found on the council's website.
12. The format and contents follow the guidance in the CIPFA/SOLACE framework. The statement also complies with the requirements of the code of practice on local authority accounting in the United Kingdom 2011-12.
13. The statement also shows the progress made on the action plan to address the significant issues from the 2010-11 governance statement. It shows the action already taken or proposed, and the updated position as at June 2012. Any areas where sufficient progress has not been made are referred to in the main body of the governance statement.

## **The annual review of the effectiveness of governance arrangements**

14. The framework requires that the council should undertake regular, at least annual, reviews of its governance arrangements to ensure continuing compliance with best practice as set out in the framework. It is important that such reviews are reported on both within the council, in our case to audit committee, and externally with the published accounts, to provide assurance that:
  - Governance arrangements are adequate and operating effectively in practice, or
  - Where reviews of the arrangements have revealed gaps, action is planned that will ensure effective governance in future.
15. The Audit Commission has commented that,

“..authorities need to recognise that this is a corporate issue, affecting everyone in the organisation. It is also important to recognise that the purpose of the annual governance statement is not just to be 'compliant', but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required. This will also demonstrate to stakeholders what those arrangements are.”

## **Reference**

CIPFA and SOLACE framework document and guidance note for 'Delivering Good Governance in Local Government'

## Draft Annual Governance Statement 2011-12

### 1. Scope of responsibility

Norwich 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. Norwich City 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, Norwich City 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.

In October 2008 Norwich City Council approved and adopted an updated code of governance which is consistent with the principles of the CIPFA/ SOLACE Framework *Delivering Good Governance in Local Government*. The code forms appendix 19 of the council's constitution which is on the council's website at [www.norwich.gov.uk](http://www.norwich.gov.uk).

This statement explains how Norwich City Council has complied with the principles of the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2011 in relation to the council's review of the effectiveness of its system of internal control and the preparation of an annual governance statement to accompany the statement of accounts.

In January 2012 the council agreed to terminate its ICT contract and transfer the ICT and finance functions to LGSS (local government shared services), a public sector partnership between Northamptonshire and Cambridgeshire county councils. The arrangement is covered by a service level agreement.

Under the arrangement, some of the roles which the annual governance statement refers to were transferred for 2012-13, as follows:

The role of s151 officer was with the head of finance in 2011-12; from April 2012 the LGSS chief finance officer became the council's s151 officer.

The internal audit manager reported to audit committee on the work of internal audit in 2011-12. The LGSS head of internal audit became responsible for the audit function in April 2012 and will report to audit committee in future.

### 2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables 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.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Norwich City Council's policies, 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 governance framework has been in place at Norwich City Council for the year ended 31 March 2012 and up to the date of the approval of the statement of accounts.

### **3. The governance framework**

The council's code of governance recognises that effective governance is achieved through the following core principles:

- Focusing on the purpose of the council and on outcomes for the community and creating and implementing a vision for the local area.
- Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- Developing the capacity and capability of members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability.

The following is a brief description of the key elements of the systems and processes that comprise the council's governance arrangements:

- Identifying and communicating the council's vision of its purpose and intended outcomes for citizens and service users:

The council has a clear vision of what it is trying to achieve, as set out in the corporate plan 2012-15, which replaces the corporate plan 2010-12. The plan is available on the council's website at [www.norwich.gov.uk](http://www.norwich.gov.uk).

The City of Norwich Partnership was dissolved in 2011 and the Norwich Locality Board was established - its key objectives are to promote collaborative and new ways of working, identifying opportunities for cost savings and efficiencies through joint service redesign, shared provision and better co-ordination of public service delivery. Membership of the board includes representatives from the county council, police, probation, and representatives of the voluntary and business sectors.

- Reviewing the council's vision and its implications for the authority's governance arrangements:

The corporate plan sets out the city council's strategic aims and priorities. The new corporate plan 2012-15 was approved by council on 21 February 2012.

The new corporate plan has been drawn up in line with the medium term financial strategy and in parallel to the development of the budget for the 2012-13 to ensure the necessary resources are in place for its delivery.

The delivery of the corporate priorities within the corporate plan is managed through service plans for each service area and monitored through the council's performance management and reporting system. The service plans set out specific service based priorities and actions for each area within the council.

Service plans have been reviewed for 2012-13 in line with the changes to the corporate plan priorities and in accordance with the development of the budget for 2012-13 to ensure the necessary resources are in place for their delivery.

- Measuring the quality of services for users, ensuring they are delivered in accordance with the authority's objectives and ensuring that they represent the best use of resources:

Performance management in the council is based on corporate plan priorities supported by a strategic management framework. The plan has a number of promises and commitments and the service and team planning process is designed to more explicitly reflect these priorities. The corporate plan is underpinned by service plans which set out how the top priorities will be delivered, and by operational delivery plans which set out practical steps and performance measures for all teams. Portfolio holders have been brought into the service planning process, and are required to sign off service plans with the relevant service managers.

The council uses an electronic performance management system which supports the performance management regime by holding high level indicators, risks and actions used to deliver the corporate plan and supporting plans for 2012-15. Each service has a high level dashboard charting progress against their service plan priorities. This is used to strengthen performance reporting processes to the cabinet, scrutiny, corporate leadership team and all managers. Performance is reported quarterly to cabinet.

The council is a member of HouseMark, which is the main benchmarking organisation for social housing. Norwich is a major subscriber and also a member of the HouseMark major housing organisations forum which meets quarterly to discuss housing issues and shape good practice.

The performance of the council in 2011-12 against each of the strategic aims of the corporate plan are summarised in the explanatory forward to the statement of accounts for the year ending 31 March 2012.

- Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication:

The council's constitution sets out how the council operates, and contains separate articles and appendices covering executive, non-executive, scrutiny and officer functions. In addition, there are separate appendices covering the scheme of delegations to officers, the protocol for member/officer working arrangements, and protocols for the chief finance officer and monitoring officer. There is also an agreed protocol between the leader and chief executive officer covering their working arrangements following the appointment of a new leader.

- Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff:

In 2007 the council adopted the new model code of conduct for local authority members, which includes the ten general principles of standards in public life. In line with the new standards regime under the Localism Act 2011 it is intended to repeal the current code on 1 July 2012. The new standards regime, including the members' code of conduct, was adopted by council on 19 June 2012.

There is a separate code of conduct for staff (updated in October 2009) which is supported by HR policies and procedures. New staff are given a copy of the code of conduct and other key policies, and there are regular reminders to staff regarding compliance with the policies. Staff are required to confirm that they have read the code of conduct and other key policies; if they do not their access to IT systems can be revoked.

- Reviewing and updating standing orders, financial regulations, the scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks:

The head of law and governance (as the council's monitoring officer) is responsible for regularly reviewing and keeping up to date the council's constitution in conjunction with the corporate governance group. Proposals for changes are discussed by members at the constitution working party, before being approved by council.

The scheme of delegations was reviewed by constitution working party and corporate leadership team during 2011-12 and the new scheme of delegations and operational arrangements will be reported to cabinet in 2012-13.

Financial and contract procedure rules were reviewed during 2011-12 and are currently awaiting sign off by the chief finance officer.

- Ensuring the council's financial management arrangements conform to the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government (2010)*.

CIPFA recommends the inclusion of a specific statement on whether the authority's financial management arrangements conform to the governance

requirements of the CIPFA '*Statement on the Role of the Chief Financial Officer in Local Government (2010)*).

A review of our arrangements against the CIPFA statement found that in most respects the council's arrangements comply with the five principles in the statement. The service level agreement with LGSS states that the governance requirements will be met in full.

- Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities:

The council has had an audit committee since 2007, with terms of reference covering internal and external audit, risk management, accounts, corporate governance and internal control arrangements, and anti-fraud and corruption arrangements. The terms of reference are in line with the guidance and can be found in article 17 of the council's constitution.

- Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful:

The head of law and governance (as monitoring officer) is responsible for advising whether decisions of the cabinet are in accordance with the budget and policy framework.

In relation to an executive function, the head of law and governance and head of finance (as s151 officer) had responsibility in 2011-12 for ensuring that all proposals, decisions and actions incurring expenditure were lawful. In April 2012 the chief finance officer at LGSS became the council's section 151 officer.

Corporate policies and strategies, which are subject to regular review, are available on the council intranet. Staff are required to confirm that they have read key policies relating to conduct, security and certain personnel matters.

Managers within the council are responsible for putting in place systems of control to ensure compliance with policies, procedures, laws and regulations. Officer responsibilities and actions are controlled through individual departmental authorisations under the scheme of delegations.

- Whistleblowing and for receiving and investigating complaints from the public.

The council has a whistleblowing policy which is accessible via the intranet and council website. It is one of the key policies which staff are required to read and confirm via the workforce system. A summary report on allegations and findings is presented to audit committee annually. For the public there is also a complaints procedure which can be accessed via the council website, plus an online form for reporting all types of suspected fraud, e.g. housing benefit fraud, insurance fraud.

- Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training:

Members - the council has been awarded the EERA Members Development Charter which recognises the council's good practice in its approach to members' development/training. It adopts the nationally agreed six core skills of a councillor as the benchmark for the role of the councillor and against which to assess learning and development needs.

The councillors development group sets the strategic and policy direction for all aspects of councillor development which includes:

- promoting the development of members
- developing, monitoring and evaluating the councillors training and development programme
- supporting and encouraging councillors in maintaining the charter for member development, including personal development planning.

Managers have a portfolio of learning and development available to them which is designed to develop their skills and to support achievement of the organisation's priorities. The Changing PACE values provide the overarching framework for development and include behaviours expected from all employees. Additional leadership behaviours are detailed in the leadership strategy which outlines what leadership is within the organisation and how new talent is spotted and developed. There is an employee performance review which states individual and team objectives and through which learning and development needs for all employees are identified. Individual leadership and management development needs are identified as an integral to this process.

- Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation:

Tenants have a range of ways to be involved. There is a clear framework with formal group structures for tenants and leaseholders, including seven active tenant and resident associations. In addition, a range of other options allows tenants to be involved at a level that suits them. These consist of the 1,200 tenant and leaseholder talkback panel used for surveys and focus groups, tenant inspectors, involvement in estate walkabouts and mystery shoppers. Proactive work by the tenant involvement team means that events and road shows are regularly held to encourage more tenants to be involved or simply give their views on services they receive.

Strengthening of the formal involvement structure by allowing co-opted members to join the Citywide Board has led to more tenants joining.

In addition to the Talk Back panel there is a database of about 400 tenants and leaseholders who have expressed an interest in some sort of involvement, and are available to be called on for various activities.

Any public consultations that are planned for the year have to be included in service priority plans. All consultations are co-ordinated by the council's consultation group, which meets quarterly and is chaired by the head of communications and culture.

Information on current and closed consultations, including reports and minutes, is available on the council's website.

- Incorporating good governance arrangements in respect of partnerships and reflecting these in the council's overall governance arrangements:

The council demonstrates a strong commitment to working in partnership with other agencies to deliver priority outcomes and ensure that this partnership activity provides value for money and added value.

All key partnerships have been identified and are included in the partnership register. A corporate governance framework and toolkit has been developed for use by all key partnerships, to ensure that effective governance and risk management arrangements are in place.

The governance arrangements for key partnerships are kept under review and the results are reported to cabinet annually, together with an assessment of the effectiveness of the council's involvement in partnerships.

- Risk management and business continuity:

The council works extensively with its insurer Zurich Municipal (ZM) to improve its risk management processes, including training for members and managers.

The council's risk management strategy was updated in 2011-12 and is available to all staff via the intranet.

Key corporate risks that may impact on the council's priorities have been identified and included in the corporate risk register, which is kept under review and updated as necessary by the corporate leadership team and reported to audit committee and cabinet.

Service risks are included in service plans and are reviewed by departmental management teams. Any risks that are considered to be of a corporate nature are escalated to the corporate leadership team for possible inclusion in the corporate risk register.

The council has implemented a performance management system which includes risk management, which enables corporate and service risks to be recorded and monitored by management.

The council has a corporate business continuity plan for the effective management of business continuity issues, in order to ensure the continued delivery of services. Both business continuity and the management of major contracts are included in the corporate risk register.

#### **4. Review of effectiveness**

Norwich 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 senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the work of internal audit and the LGSS head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The council has undertaken a review of its governance framework in accordance with best practice advice as published by CIFPA/SOLACE in meeting the requirements of the Accounts and Audit Regulations 2011.

The following is a brief description of the roles and processes that have been applied in maintaining and reviewing the effectiveness of the governance framework:

##### **The council and cabinet**

The cabinet approves the medium term financial strategy which provides the financial structure for the budget and policy framework, corporate planning, annual service planning and budget setting.

During 2011-12 the cabinet agreed an approach to developing the future priorities and shape of the organisation to meet the council's savings requirements.

Quarterly performance monitoring reports are presented to scrutiny committee and cabinet – cabinet also receives budget monitoring reports.

Performance monitoring reports during 2011-12 covered achievement against the council's detailed priority actions and performance measures detailed in the previous corporate plan 2010-12.

The council's constitution working party recommends to cabinet and council any changes to the constitution. A fundamental review of the constitution commenced in 2011-12 and there is a work programme to continue this in 2012-13. In September 2011 council approved revised financial regulations as part of this review.

##### **The scrutiny committee**

The overview and scrutiny function is exercised by the scrutiny committee. Procedure rules and terms of reference include the general remit to maintain an overview of the discharge of the council's executive functions, the right to review council policies, and to consider service plans. The statutory annual report on the work of scrutiny committee in 2011-12 was presented to scrutiny committee on 31 May 2012 which recommended that it should be adopted by full council at a later date.

## **The audit committee**

The council has an audit committee with terms of reference which cover internal and external audit matters, risk management arrangements, internal control arrangements including the annual governance statement, anti-fraud and corruption arrangements, corporate governance, and accounts.

The committee receives reports on corporate risks, the work of internal audit, including the audit manager's annual report, and external audit reports and letters. It also reviews and approves the annual governance statement.

## **The standards committee and monitoring officer**

The council has a standards committee with terms of reference to promote and maintain high standards of conduct by members and co-opted members of the council and to assist members and co-opted members to observe the council's code of conduct. Members receive regular reports, including an annual report on the governance areas that are the responsibility of the council's monitoring officer.

The chair of the standards committee presents an annual report to standards committee and full council. The annual report for 2011-12 was presented to standards committee on 15 June 2012 and will be reported to full council at a later date.

The standards committee is supported by the monitoring officer, whose duties include the promotion of ethics and standards across the council, maintaining the constitution, and ensuring compliance with relevant laws, regulations and policies. The monitoring officer is a statutory appointment, and the current responsibilities of this role rest with the head of law and governance.

The monitoring officer's annual report supports the assurance statements included in the annual governance statement. It provides a review of the monitoring officer's work as part of the council's governance arrangements and system of internal control. It is intended to present the annual report of the monitoring officer for 2011-12 to council in July 2012.

## **Chief finance officer**

The chief finance officer is a statutory appointment, and during 2011-12 the responsibilities of this role were with the head of finance. Duties include the proper administration of the financial affairs of the council, contributing to the effective leadership of the council as member of the corporate leadership team, ensuring that expenditure is lawful and within resources, advising on systems of internal control, and supporting the audit committee.

The role of the chief finance officer is the subject of the CIPFA statement on the role of the chief financial officer in local government. The head of finance has assessed his role against the principles in the statement and in most respects the detailed requirements are met. Any areas requiring further action are detailed in section 5 of this statement.

During 2011-12 arrangements were made to transfer the council's IT and finance services to LGSS, a public sector partnership between Cambridgeshire and Northamptonshire county councils. As a result of the transfer an appropriately qualified and experienced officer at LGSS became the s151 officer (and member of the corporate leadership team) with effect from April 2012.

### **Internal audit**

In 2011-12 internal audit was an in-house assurance function that provided an independent and objective opinion to the council on the control environment. The objectives of internal audit have been set out in terms of reference which have been approved by the audit committee. If additional resources or technical expertise were required the internal audit function could be supplemented by external suppliers.

From 2012-13 the internal audit function is being provided by LGSS.

It has previously been reported that internal audit is not meeting the requirements of the Code of Practice for Internal Audit in Local Government in the UK 2006. This is referred to under section 5 – significant governance issues (see below).

The LGSS head of internal audit's annual report to the audit committee includes an opinion on the overall adequacy and effectiveness of the council's control environment.

The LGSS head of internal audit's annual report will be presented to audit committee in July 2012; the audit opinion will conclude that there was only limited assurance on the internal control environment for 2011-12, which is referred to in section 5. In addition, the audit plan was not completed and this is also referred to in section 5.

### **Corporate governance group**

This is an internal officer group chaired by the deputy chief executive which is responsible for reviewing all aspects of the council's governance arrangements. Membership of the group includes the council's monitoring officer, head of finance, and head of procurement and service improvement. The group meets quarterly.

### **Other explicit review/assurance mechanisms**

The Audit Commission is the appointed external auditor, which provides a further source of assurance by reviewing and reporting upon the council's financial statements, internal control processes, and any other matters relevant to their statutory functions and codes of practice. The draft annual governance report 2010-11 was presented to audit committee on 14 December 2011. The annual report on the certification of claims and returns 2010-11 was presented to audit committee on 20 March 2012. The Audit Commission's annual audit letter will be presented to audit committee on 10 July 2012.

For 2010-11 the Audit Commission's work resulted in unqualified audit opinion and value for money conclusion, although significant extra work was required by the auditors due to errors in the financial statements. However, there were significant

weaknesses in internal control and issues with the quality of the financial statements. An action plan to address the recommendations has been drafted and progress against the plan is regularly reported to audit committee. Further details can be found in section 5.

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We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the audit committee, and plans to address weaknesses and ensure continuous improvement of the system are set out in the following section:

## **5. Significant governance issues**

The following is an outline of the significant issues arising from the review of effectiveness and the actions taken or proposed to deal with them (committee reports where mentioned, and minutes, can be found at [www.norwich.gov.uk](http://www.norwich.gov.uk)):

### **HRA self financing**

The Housing Revenue Account (HRA) Subsidy System was the system for managing the financing of council housing nationally. Under this system, major financial decisions about council housing management were made by central government and there was comparatively little control in the hands of councils. This made it difficult for councils to plan for the long term to ensure that decisions about what and how services were delivered were linked directly to local needs.

The system was complex and did not deliver sufficient funding for councils to manage and maintain their homes to a good standard; it did not support tenant involvement in decisions about their homes and locality, and councils could not undertake proper business planning due to the annual nature of the system.

The government wanted a solution that would work for all and was fair to both tenant and taxpayer, and in 2011-12 under the Localism Act proposed shifting power from the centre to councils through a new self-financing system.

The council responded to the challenge of preparing for self financing through the establishment of a project team to develop the necessary workstreams and to identify, report upon, and implement the changes to investment, financing, and other activities.

This work included arranging a loan of £149m at low interest rates because of the requirement to pay to the government an amount equal to the council's share of the national housing debt.

The preparation undertaken by the council, validated where appropriate by independent expert advisors, was reported to cabinet on 15 February 2012 and council on 21 February.

## Transfer of ICT and support services to LGSS

In April 2011 the council commenced a review of its outsourced ICT service with the objective of reducing costs. Subsequently the scope of the review was broadened to include support services, where potential benefits could be realised.

In January 2012 the council agreed to terminate its ICT contract and transfer the ICT and finance functions to LGSS (local government shared services), a public sector partnership between Northamptonshire and Cambridgeshire county councils.

Some of the key long-term benefits to joining LGSS for the council include significant future savings, improved resilience and greater efficiency in IT and finance support services.

The transfer should also help to address the previously reported governance issues in relation to financial reporting and internal audit, which are further detailed below.

## Audit Commission annual governance report 2010-11

The Audit Commission's annual audit letter will be presented to audit committee on 10 July 2012. Their annual governance report was presented to audit committee on 14 December 2011.

In summary, the district auditor proposed to give an unqualified opinion on the council's 2010-11 financial statements and proposed to issue an unqualified value for money conclusion. However, the financial statements presented for audit contained a number of material errors, detailed in an appendix to the report.

Significant weaknesses in internal control were identified together with issues with the quality of the financial statements.

An outline of the Audit Commission's findings and the council's response are summarised below, for which a detailed action plan has been completed. Progress on the action plan was reported to audit committee in January and March 2012.

Significant Issue	Proposed Action	Date
<p>Significant weaknesses in internal control in the following areas (figures in brackets refer to the number of recommendations):</p> <ul style="list-style-type: none"> <li>information on leases (3)</li> <li>valuation processes for property, plant, equipment and investment property (2)</li> <li>fixed asset register (3)</li> <li>control account and other reconciliations (2)</li> <li>IT environment (2)</li> <li>internal audit (2)</li> <li>financial reporting to members (1)</li> </ul>	<p>Many of the recommendations are complete, while others are ongoing.</p> <p>In the case of the fixed asset register and internal audit, it is the intention that the transfer to LGSS will supplement the resources and expertise available to address the current issues.</p> <p>With regard to the IT environment, the risks are either already being controlled or the risk is accepted by the council.</p>	<p>June 2012 and ongoing</p>

Significant Issue	Proposed Action	Date
Accounting practices, policies, estimates and financial closures: <ul style="list-style-type: none"> <li>quality of the financial statements (4)</li> <li>related party disclosures (2)</li> <li>leases assessment (2)</li> <li>private finance initiative (4)</li> <li>component accounting (1)</li> <li>accounting for grant income (1)</li> <li>capital financing requirement (1)</li> <li>group financial statements assessment (1)</li> </ul>	<p>Many of the recommendations are complete, while others are ongoing.</p> <p>Training for members on related parties delayed until after local elections.</p> <p>One recommendation on leases not accepted, as the impact was not felt to be significant, therefore risk accepted.</p>	June 2012 and ongoing

### Internal audit

Internal audit is expected to work to the Code of Practice for Internal Audit in Local Government in the UK 2006. A triennial review of internal audit by the Audit Commission (reported in their Annual Governance report issued in September 2009) found weaknesses in compliance with the code. Following the transfer to LGSS internal audit will be fully reviewed and brought up to best practice standards.

The audit plan for 2011-12 was not completed due to the continuing diversion of resources to assist with finalising the New Deal for Communities project and addressing issues raised by CLG. This has carried forward into 2012-13, but LGSS has put a limit on the internal audit resources initially available for this work in 2012-13. However, the LGSS head of internal audit has built in a contingency within the 2012-13 internal audit plan should additional input be required.

### Internal audit assurance reviews

Internal audit reviews of the following systems resulted in unsatisfactory or limited assurance opinions, as reported in the LGSS head of internal audit's annual report. An outline of the issues and responses follows:

Significant issues	Response	Implementation Date
<b>Investment property portfolio:</b>		
Significant weaknesses in control processes relating to procedures, lettings and IT systems, resulting in an unsatisfactory assurance opinion	Recommendations accepted. However, following the transfer to NPS, timescales for completion of the actions will depend on the outcome of the new management structure.	Action plan to be updated by end July 2012
<b>Accounts payable:</b>		
Access to make changes to vendor data not sufficiently restricted and no independent	Recommendations accepted. Access to be reduced and sample checking to be considered.	June 2012

Significant issues	Response	Implementation Date
authorisation or review of changes made. Inadequate segregation of duties between ordering, receipting and inputting invoices onto Oracle	Access levels to Oracle will be reviewed.	
<b>Council tax:</b>		
Recovery section not required to provide reporting on council tax arrears to senior management and no structured methodology on dealing with arrears reports and debt management.	Recommendations accepted. The draft debt management policy will be approved and communicated to all relevant members of staff. We will also formulate a policy for the prioritisation of debt recovery procedures and will take action to address the backlog in the review of arrears.	September 2012
<b>Procurement:</b>		
Key council policies/strategies relating to counter-fraud are not regularly reviewed. In particular, the anti-fraud and corruption strategy does not reflect the Bribery Act 2010. The council's standing orders relating to contracts have not been updated since March 2008. The procurement team do not actively or consistently address the potential risks of supplier failure.	Recommendations accepted. We will update the council's strategies at least every two years to ensure that they remain current and up to date. In particular, the anti-fraud and corruption strategy will be updated to reflect the Bribery Act. We will introduce detailed procurement procedures for quotations and tenders to support contract standing orders and circulate them to all relevant officers. The procurement team will identify and address the potential risks of supplier failure and the subsequent exposure of the council.	September 2012
<b>Highways agency:</b>		
48 members of staff have access to the council's penalty charge notice (PCN) database, including 33 staff who also have access to the council's cash receipting system	The cash receipting system needs to be available for all staff who can take payments, the council has set up a multi-tasking environment and this will need a corporate decision to change this and limit cash receipting to a selected few. In future, we will review access to the PCN database on at least an annual basis to ensure access granted remains appropriate	April 2012
<b>Provision market:</b>		
Weaknesses in control processes relating to lack of strategic policy, lack of detailed procedures, public liability insurance, content of leases, rental basis.	Recommendations accepted. An action plan to address the issues will be taken to CLT with a view to full implementation by March 2013	March 2013
<b>Northgate revenues and benefits IT system:</b>		

Significant issues	Response	Implementation Date
There has not been a review of Northgate user access rights since 2008.	Recommendations accepted. We will ensure at least annual review of user access rights, in conjunction with the users' departmental managers, to ensure access rights are current and appropriate	April 2012
<b>Civica customer contact IT system:</b>		
The council does not obtain any assurance that controls performed by 'Civica' over information security and other IT activities are designed and operate effectively. There has not been a review of Civica user access rights since 2008. Staff outside of the customer contact team that use the Civica system are not routinely trained on how to use the system.	Recommendations accepted. Management will seek to validate that critical third parties supplying IT services have a robust internal control framework. We will ensure at least annual review of user access rights, in conjunction with the users' departmental managers, to ensure access rights are current and appropriate. Access to Civica will only be granted once appropriate training has been received.	August 2012

In view of the number reviews with unsatisfactory or limited assurance, the LGSS head of internal audit reported in his annual report that he was only able to give limited assurance on the council's internal control environment.

### **Progress on the action plan from the previous governance statement**

Actions taken to address the significant issues from the 2010-11 governance statement are substantially complete or are in the process of being addressed by the transfer of functions to LGSS. In a few cases the council has assessed the risks and accepted them.

Some of the issues reported by the Audit Commission in their 2009-10 annual governance report were also found in 2010-11, and these are included in the latest action plan, progress against which is regularly reported to audit committee.

Financial regulations were updated in 2011-12 and approved by council in September 2011. Supporting financial and contract procedures have also been reviewed and are awaiting formal sign-off by the chief finance officer.

## **6. Statement by Leader of the Council and Chief Executive**

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. 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:

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Brenda Arthur  
Leader of the Council

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Laura McGillivray  
Chief Executive

Date:

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