

Report for Resolution

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Report to Audit Committee
26 October 2010
Report of Head of Finance
Subject Update to Annual Governance Statement 2009-10

Purpose

To update members on the revised annual governance statement 2009-10 following the review by the Audit Commission.

Recommendations

That members:

- Approve the changes to the annual governance statement 2009-10.

Financial Consequences

The financial consequences of this report are none directly.

Risk Management

The report deals with the councils risk management processes.

Strategic Objective/Service Priorities

The report helps to achieve the strategic priority “One council:

- customer focus – putting customers at the heart of everything we do;
- continuous improvement of our services; and
- cost conscious – efficient and effective service delivery ”

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Background Documents

Audit Committee 29 June 2010 – “Annual Statement of Accounts 2009-10”

Report

Background

1. As part of its audit of the statement of accounts for 2009-10, the Audit Commission reviewed the council's annual governance statement which accompanies the accounts.
2. The Audit Commission has recommended a number of changes to the layout and content of the statement, and the revised version is attached at **annex 1** for members' review.

Main Changes to the Annual Governance Statement

3. The main changes are to section 5, significant governance issues, where detail previously shown in appendices 2 and 3 have been summarised or referred to in the main body of the statement. The result is that these appendices are no longer necessary and have been removed.
4. Appendix 1 to the original statement, which related to the action plan from the Audit Commission's annual governance report for 2008-09, has been retained as an appendix, but is substantially reduced to reflect those areas where the significant control issues have yet to be fully addressed.
5. The references to internal audit in the statement have been expanded to include reference to the non-compliance with the code of practice, the ongoing resourcing issues, and the fact that the annual audit report for 2009-10 was not available when the annual governance statement was considered by audit committee in June 2010.
6. Section 5 also now includes significant findings from internal audit reviews, together with responses.
7. The other main change relates to the role of the chief finance officer in section 4. This explains how the council's financial management arrangements deliver the same impact as the requirements in the CIPFA statement on the role of the chief financial officer.
8. The Audit Commission has also suggested some improvements to the layout of the statement, which will be considered for the 2010-11 statement.

Summary

9. The tracked version of the revised annual governance statement is attached as annex 1, showing deletions and additions to the version included in the statement of accounts which was presented to members in June 2010.

Annual Governance Statement 2009-10

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 20a of the council's constitution which is on the council's website at 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(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2. The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority 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 2010 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 2010-12, which replaces the previous Corporate Plan 2008-10. The plan is available on the council's website at www.norwich.gov.uk.

The City of Norwich Partnership brings together a range of key public, private and voluntary organisations to decide on an overall vision and priorities for the city.

The Sustainable Community Strategy, which sets out long-term plans to improve the quality of life for local people, will be delivered and monitored by the City of Norwich Partnership. The strategy sets out the vision, themes and strategic objectives that meet the priorities of the people in Norwich.

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

The previous Corporate Plan was agreed in June 2008, with an expiry date of June 2010. Since the plan was drawn up there have been significant changes in the economic climate, and the funding prospects for the public sector have grown tighter.

This meant that it was appropriate to review and refresh the Corporate Plan, and to develop a new one for the 2010-12 period. The new plan was drawn up within the context of a likely reduction in resources, and the need for the council to

provide support to local people who are experiencing difficulty as a consequence of the recession.

The new Corporate Plan has been drawn up in parallel to the development of the budget proposals for the 2010-11 financial year. This has been a deliberate step to ensure that there is a direct correlation between the resources the council has available, and the priorities that the resources will be targeted into. This focus on strong prioritisation will become increasingly important as resources are expected to become even tighter in the future.

The draft Corporate Plan went through a number of member discussions, eg in December 2009 the Executive considered and agreed a range of initial proposals for aims and priorities for the 2010-12 period.

- ~~In September 2009 the Executive considered a range of initial draft proposals for possible savings and efficiencies for the 2010/11 financial year~~
- ~~In December 2009 the Executive considered and agreed a range of initial proposals for aims and priorities for the 2010-12 period~~
- ~~These were then debated and agreed at full council on 26 January 2010. At this meeting, the Leader of the Council also announced some initial proposals for possible priorities for the 2010-12 period.~~
- ~~A first draft of the Corporate Plan, including the draft priorities, was considered at Scrutiny Committee on 8 February 2010, and at Executive on 10 February 2010~~
- ~~Following these discussions the priorities were built into the final budget proposals, and considered as part of the budget debate at full council on 24 February 2010~~
- ~~The Scrutiny Committee has also given further consideration to the draft plan at its meeting on 11 March 2010.~~

The final version of the Corporate Plan was approved by Executive on 24 March and Council 30 March.

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

Performance management in the council continues to be improved with a more focussed corporate plan setting out priorities and supported by a strategic management framework. The new plan has sharpened the number of promises and commitments and the service and team planning process designed to more explicitly reflect these priorities. The corporate plan will be underpinned by a range of Strategic Priority Plans (SPP's) which will set out how the top priorities will be delivered, and by a range of Operational Delivery Plans (ODP's) which will set out practical steps and performance measures for all teams. Portfolio Holders have been brought much more into the service planning process, and are now required to "sign off" SPP's with the relevant service managers.

The council has recently purchased an electronic performance management system which will support the performance management regime by holding high level indicators, risks and actions used to deliver the revised corporate plan and supporting plans for 2010-12. Each service will have a high level dashboard charting progress against their service plan priorities. This will be used to strengthen our performance reporting processes to the Executive, Scrutiny, Corporate Management team and all managers.

The council's budget policy and processes are designed to identify efficiencies and savings. During 2009/10 the council carried out a major transformation programme, under the auspices of the Corporate Improvement and Efficiency Board (CIEB) which included independent advisers **observers** from the Audit Commission and the Government Office, which has resulted in savings of nearly £6m without adverse service impact. Consequently performance against National Indicator 179, **which measures the value of ongoing cash-releasing value for money gains each year**, is continuing to achieve target.

A specific improvement board, also including independent advisers **observers**, was also created to manage the housing improvement plan. As part of this plan a value for money strategy for neighbourhood housing has been devised, and was presented to executive on 24 March 2010. An independent peer review was also carried out in February 2010 to gauge progress on the housing improvement programme, which concluded that *"the council has made significant progress in the first year of its improvement programme for housing, and this was recognised by tenants, staff and other stakeholders"*.

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.

- 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.

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.

- 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 legal and democratic services (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 executive and council if necessary.

Standing orders and financial regulations and were last updated by full Council in March 2008, and the scheme of delegations by full Council in March 2010.

- Ensuring the council's financial management arrangements conform with 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 with the governance requirements of the CIPFA 'Statement on The Role of the Chief Financial Officer in Local Government (2010)' and, where they do not, explain why and how they deliver the same impact. A review of the role of Chief Financial Officer (CFO) has been undertaken; this has identified gaps with the CIPFA statement, the main one being that the head of finance, as CFO, is not a member of the corporate management team.

The council's constitution contains a chief finance officer protocol. The protocol refers to the following arrangements and understandings between the Chief Finance Officer, members and the Corporate Management Team which are designed to ensure the effective discharge of the Council's business and functions. Under the protocol, the Chief Finance Officer will:

- Be alerted by members and officers to any issue(s) that may become of concern to the Council, including, in particular issues around legal powers to do something or not, ethical standards, probity, propriety, procedural or other constitutional issues that are likely to (or do) arise.
- Have advance notice (including receiving agendas, minutes, reports and related papers) of all relevant meetings of the Council at which a binding decision of the Council may be made (including a failure to take a decision where one should have been taken) at or before the Council, Executive, committee meetings and/or Strategic Directorate (or equivalent arrangements).
- Have the right to attend any meeting of the Council (including the right to be heard) before any binding decision is taken by the Council (including a failure to take a decision where one should have been taken) at or before the Council, Executive, committee meetings and/or Strategic Directorate (or equivalent arrangements).

- Ensure the other statutory officers (Head of Paid Service and the Monitoring Officer) are kept up to date with relevant information regarding any financial management issues, accounts and audit regulations, proposed expenditure or actions which might lead to a loss or deficit, or other constitutional issues that are likely to (or do) arise.
- Meet with the Head of Paid Service and the Monitoring Officer to consider and recommend action in connection with Corporate Governance issues and other matters of concern regarding any financial management issues, accounts and audit regulations, or proposed expenditure or actions which might lead to a loss or deficit, or other constitutional issues that are likely to (or do) arise (discharged through the Corporate Governance Working Group).

~~At present the CFO can have access to all decision-making reports prior to them being taken to council, executive and corporate management team and if required request that appropriate amendments are made or attend the relevant meeting to inform the decision-making process.~~

The head of finance has confirmed that the above arrangements are in place and are considered to deliver the same impact as the CIPFA requirements.

As part of the transformation programme a review will be made of the council's management structure and the requirements of the CIPFA statement will be taken into account when designing any new structure.

- 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 monitoring officer is responsible for advising whether decisions of the executive are in accordance with the budget and policy framework.

In relation to an executive function, the monitoring officer and head of finance (as chief finance officer) have responsibility for ensuring that all proposals, decisions and actions incurring expenditure are lawful.

Policies, which should be subject to regular review, are available on the council intranet.

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. 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.

The Members Development Focus Group which has previously agreed members' training and development plans has, as a result of the Charter work, been replaced by the Councillors Development Group. This has more councillors and the role has been strengthened to set the strategic and policy direction for all aspects of councillor development which will include:-

- 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 had the opportunity to participate in modular 'manager development' programmes which have been designed to build on existing skills and abilities. These have now been reviewed and future management training will be aligned to the management competencies which the council has developed. There is an annual staff appraisal system through which learning and development needs for all staff are identified. Individual management development needs are assessed as part of the process.

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

A programme of consultation and engagement has been developed with staff, tenants and stakeholders to support the objectives of the housing improvement plan. This has included a broader consultation panel of 1000 tenants and 200 leaseholders which has been recruited to form a tenants' panel – 'TalkBack'.

The Tenants' CityWide Board works with the council, tenants and leaseholders to develop tenant participation in the council's housing services.

The amended Tenant Involvement Framework was agreed by CityWide Board in December 2009.

Work is currently progressing with developing the leaseholders compact. An updated leaseholder compact has been drafted and considered by a leaseholder

focus group. Following the election of a new Norwich Leaseholders Association committee on 27 May 2010 the compact will be discussed and agreed with the new committee.

All consultations are co-ordinated by the council's consultation group, which is chaired by a head of service. Information on current and closed consultations, including reports and minutes, is available on the council's website.

In 2007 executive approved a customer contact strategy to manage, improve and develop customer services. It includes details of how we will involve our customers in our service delivery.

The council has also developed a community engagement strategy and a communications strategy 2007-10, which will be refreshed in 2010.

- 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 executive, together with an assessment of the effectiveness of the council's involvement in partnerships.

- Risk management:

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 corporate management team and the audit committee. During 2009-10 the council improved its risk management arrangements in relation to strategic, service, partnership and project risks, and provided further training to members and managers.

Corporate and service risk registers assign risks to owners, and include mitigation actions and responsibility for these.

Service risks are included in service plans and are reviewed annually as part of the service and financial planning process.

The council is currently implementing a performance management system which includes risk management, which will enable corporate and service risks to be recorded and monitored by management. All corporate risks have been loaded into the system.

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 audit manager'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 2006.

The following have roles in maintaining and reviewing the effectiveness of the governance framework:

The authority and the executive

The executive approves the medium term financial strategy which provides the financial structure for annual service planning and budget setting.

Quarterly performance monitoring reports are presented to scrutiny committee and executive – executive also receive budget monitoring reports.

Performance monitoring reports are comprehensive, covering achievement against the council's short-term priority actions and projects detailed in the corporate plan 2008-10; performance measures; performance of CityCare and Steria contracts; and Audit Commission inspection recommendations.

In April 2009 executive agreed to refresh the aiming for excellence programme, establish a corporate improvement and efficiency board to oversee and drive the corporate transformation programme, and set up a housing improvement board in response to the Audit Commission inspection of landlord services.

The council's constitution working party recommends any changes to the constitution to executive and council. During 2009-10 the following were revised and can be found on the council's website: officer's code of conduct; scheme of delegations; and new protocols for the chief finance officer and monitoring officer.

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. An **The statutory** annual report on the work of scrutiny committee in 2009-10 will be presented to scrutiny in **July November** 2010 and then to full council at a later date (the 2008-09 report ~~went~~ **was presented** to council in July 2009).

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 the evidence which supports the preparation of the annual governance statement and approves the 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 council – the report for 2009-10 ~~went~~ **was presented** to council in March 2010.

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 legal, regulatory and democratic services. **The annual report of the monitoring officer 2009/10 will be presented to standards committee in autumn 2010 (the report for 2008/09 was presented to standards committee in September 2009).**

Chief finance officer

The chief finance officer is a statutory appointment, and the current responsibilities of this role rest 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, 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. An assessment of how the council's financial management arrangements meet the requirements of the CIPFA statement is shown in section 3, governance framework.

Internal audit

Internal audit is an in-house assurance function that provides 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 is required the internal audit function can be supplemented by external suppliers.

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 audit manager's annual report to the audit committee includes an opinion on the overall adequacy and effectiveness of the council's control environment. However, the audit manager's annual report and opinion was not available when the annual governance statement was considered and approved by audit committee in June 2010. This is also referred to in section 5.

The audit manager's annual report was presented to audit committee in October 2010, but the audit opinion was that there was only limited assurance on the internal control environment for 2009/10.

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 met three times in 2009-10.

Other explicit review/assurance mechanisms

External audit provides a further source of assurance by reviewing and reporting upon the council's internal control processes and any other matters relevant to their statutory functions and codes of practice. Examples are the Audit Commission's findings and recommendations relating to audit, inspections and use of resources assessment. For 2008/09 the Audit Commission's work resulted in unqualified accounts, but the value for money conclusion was qualified because the council did not meet the criteria for financial reporting, risk management and internal control, and workforce planning – see section 5.

Additionally, the Housing Quality Network and IDeA have assisted the council with its review of landlord services.

~~We~~ The Leader of the Council and Chief Executive have been advised on the implications of the result of the review of the effectiveness of the governance framework by the audit committee, and a plans to address weaknesses and ensure continuous improvement of the system is in place 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):

Audit Commission annual audit and inspection letter 2008/09

Each year the Audit Commission publishes an annual audit letter which provides an overall summary of their assessment of the council and areas where the council needs to improve its performance.

The letter, which was reported to audit committee on 21 January 2010, shows that the council has made progress in a number of areas, notably achieving unqualified accounts, but improvement is still needed in the financial statements preparation process. On the use of resources assessment the Commission assessed the 'managing its people resources' theme as inadequate.

The Audit Commission recommended that the City Council should:

- address the recommendations made in the action plan of the November 2009 Annual Governance Report;
- address the issues necessary to improve the council's use of resources assessment and the value for money conclusion; and
- take the necessary corporate action to secure the required savings and/or cut spending.

The Audit Commission's findings and recommendations are summarised below:

Issue	Action	Date
Inadequate internal control environment relating to internal audit, fixed assets, debtors and payments	The annual governance report action plan was approved by audit committee on 21 January 2010. A summary of outstanding actions is shown as appendix 1 to this statement	December 2010
Weaknesses in three of the eight value for money criteria: Financial reporting Risk management and internal control Workforce planning	Monthly budget monitoring reports are now submitted to the Executive.	August 2009
	Work is in progress to produce the financial accounts and supporting schedules directly from Oracle.	November 2009
	There will be reconciliation embedded between in-year management accounts and the year end financial accounts.	May 2010
	Corporate and service risks will be developed via corporate and departmental management teams in order to align risks with the Council's priority themes.	January 2010
	The fraud and verification team is being developed with the intention of becoming a corporate fraud resource.	January 2010
	An action plan will be implemented to address internal audit's non-compliance with auditing standards.	December 2010

	The council will provide equality and diversity training to all staff.	January 2010
	The Council's proposals to implement the single status agreement and a new pay system have been submitted to Unison HQ	Ongoing
The council needs to save nearly £8m between 2009 and 2014 in order to prevent a general fund deficit	A timetable is in place to achieve the required savings and a comprehensive programme of savings was agreed at Executive on 16 December 2009	Ongoing

~~The council's response to the recommendations was included in an action plan as an appendix to the Audit Commission's Annual Audit Letter and was approved by audit committee at its meeting on 21 January 2010.~~

Audit Commission annual governance report 2008/09

The report was considered at audit committee on 24 September 2009. The report acknowledged that there had been improvements, leading to an unqualified opinion on the financial statements. However, a number of material and non-material misstatements were found during the audit, requiring adjustment by management.

Weaknesses were identified in the design or operation of internal controls that might have resulted in material error in the financial statements.

With regard to value for money, the report concluded that the council had made some progress in its use of resources, but that weaknesses remained in three areas. Therefore the value for money opinion was qualified because the council did not meet the minimum value for money criteria for the following: financial reporting; risk management and internal control; and workforce planning.

A detailed action plan to address the recommendations in the report has been agreed. An extract from the action plan, showing the actions for those significant control issues which are either incomplete or have yet to be reviewed, is attached to this statement as appendix 1.

Audit Commission certification of claims and returns – annual report 2008/09

The council receives significant amounts of funding from various grant-paying departments. The council needs to demonstrate that it has met the conditions attached to these grants. The Audit Commission's certification work found the following control weaknesses: a lack of robust review process for some claims to ensure that they are prepared in accordance with terms and condition; no internal audit review of claims; and weaknesses in supporting working papers. The report and agreed action plan was reported to audit committee on 8 June 2010. The report is available at www.norwich.gov.uk.

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 in 2008/09 (reported in their Annual Governance report issued in September 2009) found weaknesses in compliance with the code. An action plan to address the weaknesses has been drafted and is currently with the head of finance for consideration reported to audit committee in June 2010. The original timescale was for the improvements to be implemented by the second quarter of 2010, but this has now slipped to December 2010 (included in the annual governance report action plan – see appendix 1). It is attached to this statement as appendix 2.

The audit plan for 2009/10 was not completed, and it was not possible to review fundamental systems relating to payroll, asset management and business rates. Action and date: internal audit reviews of payroll, asset management and business rates will be carried out in 2010/11. Options to address the longer-term resourcing issues with internal audit are currently being considered and a decision will be made by the head of finance during 2010/11.

The annual governance statement was considered and approved by audit committee in June 2010 in the absence of the audit manager's annual report and opinion, which was not available in time for the meeting. Action and date: the audit manager will present the annual report for 2010/11 to the audit committee in June 2011.

Internal audit reports

Internal audit review of the following key systems resulted in limited assurance opinions – accounts receivable, housing benefits and housing voids. Summary action plans for each are as follows:

Issue	Response	Date
Accounts receivable:		
Non-compliance with Payment Card Industry (PCI) legislation	Waiting for amended software from supplier to meet some of the requirements. Need to buy additional hardware/software for mobile working	December 2010
Inadequate segregation of duties	Strict segregation of duties across a small team is difficult. Propose to spot check different transaction types which have been posted, as part of monthly reconciliation	October 2010
Inadequate control of the debt collection process	Debt chasing is now more planned and timely. Monthly discussions with service areas and legal services have paid dividends but the process will be improved. Working more closely with service accountants will bring more involvement in the recovery decisions we take. Management reporting will be addressed in Qtr 2	September 2010
Housing benefits:		
Quarterly reconciliation between the benefits system	Agreed. We will endeavour to undertake the tasks within the next 3 months; however we are reliant on the systems team and Steria to produce the required reports on the dates requested as per the job schedule	June 2010

and the subsidy claim needed		
Housing voids:		
Void performance figures cannot be substantiated	Update void process to include reconciliation of void spreadsheet with Academy voids and ensure monthly reconciliation verifies data.	June 2010
Inadequate segregation of duties	Restrict access accordingly and keep under review.	June 2010
No reconciliation of voids on Academy to those on the void spreadsheet	Update void process to include reconciliation of void spreadsheet with Academy voids and carry out process on a monthly basis	July 2010
Action to deal with long term voids needs to be more effective	Property appraisal matrix already provides timely decision making process	-
Risks identified in the service plan should accord with those recorded in the strategic risk register	New performance management system will assist with risk control. Risk awareness included in team briefings. Ensure risks in the service plan are evaluated corporately	June 2010

Financial regulations and standing orders

The council's financial regulations and standing orders were updated in 2008. Although still fit for purpose they are overdue for a review. The review process started in 2009-10, but will not be completed until 2010-11.

Action and date: the head of finance will update financial regulations and standing orders by the fourth quarter 2010/11.

Progress on the action plan from the previous governance statement

Actions taken to address the significant issues from the 2008/09 governance statement are either complete or ongoing. Further detail is attached to this statement as appendix 3. However, the following significant issues require further progress:

- Some elements of business continuity planning are not embedded across the council. Significant progress has been made, and the temporary emergency planning officer continues to work on developing the council's resilience. However, there is only limited testing of the plan.

Action and date: an independent review of our business continuity arrangements will be carried out in the third quarter of 2010/11. A plan exists for relocating core systems, including customer contact, and this is regularly tested in conjunction with Steria. Business continuity is a standing item on the agenda of the data security forum. The council has an up to date flu pandemic plan which was invoked during the recent global outbreak.

- Resourcing of internal audit and the impact on completion of the audit plan continues to be an issue, and has necessitated the use of some external support.

Action and date: options to address these issues in the longer term are being considered by the head of finance and a decision will be made during 2010/11.

- An audit of asset management found significant weaknesses, and measures to address these have recently been implemented. However, it is too early at this stage to assess their effectiveness.

Action and date: an internal audit review of progress to address the weaknesses will be carried out in 2010/11.

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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Stephen Morphew
Leader of the Council

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Laura McGillivray
Chief Executive

Date:

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Audit Commission Annual Governance Report 2008/09 – Action Plan

Control weakness	Recommendation	Responsibility	Comments	Date
Internal Audit is not compliant with local government internal audit standards.	R5 Address the areas of non compliance with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.	Internal Audit Manager	The Council are in the process of compiling a detailed response and action plan to address the issues around non compliance	Dec-10
Internal controls within the fixed asset system are inadequate	R6 Review the fixed asset register against the requirements of the SORP to ensure it remains fit for purpose. Implement specialist fixed asset software as and when budgets permit.	Senior Project Accountant	Review of available specialist software to take place. Budget constraints have not allowed purchase of specialist software, so spreadsheet still in use	Jan-10
The asset register is not kept up to date during the year	R7 Update the fixed asset register on a monthly basis. Reconcile the register to the general ledger and other property records such as Academy and Codeman.	Capital Accountant	1. Monthly update of FAR to commence Dec-09	Dec-09
			2. FAR in process of being reconciled to Property Terrier (software used by Asset & City Management team)	Dec-09
			3. Housing stock information held on FAR is obtained from Academy so should agree - however formal reconciliation on quarterly basis will commence	Dec-09
			4. Quarterly Codeman reconciliation to FAR will commence	Dec-09
Controls surrounding the raising of invoices are weak	R10 Strengthen controls over invoice request forms by introducing: <ul style="list-style-type: none"> a list of approved signatories who are authorised to raise invoice requests sequential numbering and checking for completeness of processing. 	Team leader exchequer services	1. Approved signatory list will be prepared & regularly checked & updated	Oct-10
			2. Sequential numbering will be considered as part of controlled stationery	Dec-10
Invoices not checked for sequence gaps to ensure completeness	R11 Conduct regular checks for gaps in the sequence of sundry sales invoices.	Team leader exchequer services	A weekly report of invoices raised will be run & sequence checked. Gaps will be investigated and recorded.	Oct-10
Internal controls do not provide full assurance that all purchase invoices have been accounted for	R12 Reconcile supplier statements from major suppliers on a monthly basis	Team leader exchequer services	Top suppliers by value to be assessed and reconciled - where no statement these will be requested - as a minimum to be requested for year end	Oct-10

Control weakness	Recommendation	Responsibility	Comments	Date
Internal controls do not provide sufficient assurance regarding the existence of employees.	R15 Design and implement an internal control which provides assurance that only genuine employees are on the Council's payroll.	Service Accountants/ HR Manager	<p>Controls are in place as follows:</p> <ol style="list-style-type: none"> 1. As part of the monthly budget monitoring the service accountants provide the budget holders with list of employees charged to their cost centre - any necessary departmental changes are then emailed to Arvato. There have not been any instances where a Budget holder has identified a person who has left still being on payroll - formal documentation of this control will be considered 2. Each month Payroll Manager checks the payroll against starter, leaver and changes forms making sure that if someone has left, the council do not continue to pay them - this is formally documented 3. In 2009/10 a reconciliation was done between Workforce and the payroll schedule by Finance Systems Officer <p>Consideration of supplementary controls will also take place</p>	Dec-09
The internal control environment does not provide assurance that all rental income is collected due to insufficient monitoring of voids in the Academy system	R19 Agree the validity of voids by agreeing houses with void status in Academy to supporting documentation.	Void Property Co-ordinator	<p>The rents disclosed in the SOA are driven by Academy, therefore incorrectly disclosed voids will impact the disclosed rents. However this is mitigated by:</p> <ol style="list-style-type: none"> 1. The daily contact that the Void Property Coordinator has with Academy & their detailed knowledge of the void situation. 2. Should a void be corrected, the system strips out the void entries and replaces them with rental income entries back to the date of new tenancy, thus the rent disclosure would be corrected. <p>Currently the void debit is netted off from the rent credit, consideration will be given to separating this out in the GL to highlight the financial impact of voids including month on month variation.</p>	July-10

Control weakness	Recommendation	Responsibility	Comments	Date
The control environment does not provide sufficient assurance that all liable properties have been billed for council tax and NNDR	R20 Reconcile the number of bills to be printed to the number on the system, once all bill reports have been run and before information is sent to the printing contractor.	Revenues & Benefits Manager	An extract is taken from Northgate detailing the bills to be raised & sent to systems team, the bills are raised and the Revenues team check that extract agrees to bills. The extract is signed & kept by systems for one year Review will be done of control being carried out	Dec-09
The control environment does not provide assurance that all discounts and reliefs granted for council tax and NNDR are valid	R21 Design and implement controls to confirm the validity of discounts and reliefs in respect of council tax and NNDR.	Revenues & Benefits Manager	Whilst it is agreed that an overall review of the entirety of rebates & discounts was not carried out during 2008/09, checks & reviews for individual ones were carried out e.g: 1. Charities business rates deduction - organisation is checked to Charities Commission website 2. Single occupancy discount - letter sent each year to confirm no change 3. Empty property - flag on property for 6 months hence so deduction removed For 2009/10 resource has been allocated to review all discounts & rebates	June-10
Reconciliations between the general ledger and the supporting records of investments were not performed regularly	R24 Reconcile general ledger investment accounts to supporting records on a monthly basis.	Chief Accountant	Reconciliation of investments to general ledger to commence	Apr-10