**Report for Resolution**

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| **Report to** | Audit committee | |
| | 21 June 2011 | **12** |
| **Report of** | Head of finance | |
| **Subject** | Draft annual governance statement 2010-11 | |

## Purpose

Members are asked to review the effectiveness of the council's governance arrangements and approve the draft annual governance statement for 2010-11.

## Recommendations

To:
       (1) review the effectiveness of the council's governance arrangements;
       (2) approve the draft annual governance statement for 2010-11.

## 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.

## 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 "


## Contact Officers

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## Background Documents

# Report

## Background

1.  One of the requirements in the Accounts and Audit (Amendment) (England) Regulations 2006 is for the reporting of an annual governance statement (AGS) for 2010-11. 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 2010-11 say that the governance statement covers 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, which allows time for any proposed changes to this draft version to be incorporated.

**The Annual Governance Statement**

9.  The draft annual governance statement for 2010-11 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 2010-11.

13. The statement also shows the progress made on the action plan to address the significant issues from the 2009-10 governance statement. It shows the action already taken or proposed, and the updated position as at June 2011. Any areas where sufficient progress has not been made are referred to in the main body of the governance statement.

**The Annual Review of Effectiveness of Governance**

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 2010-11

## 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.

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 2011 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. 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 corporate plan sets out the city council's strategic aims and priorities. The current corporate plan 2010-12 was approved by Council on the 30 March 2010.

  On the 22 February 2011 the policy and budget framework 2011-12 was approved by Council. This included a review of the corporate plan in parallel with the development of the city council budget for 2011-12 to ensure that there would be adequate resources to continue the effective delivery of the key corporate priorities. The plan was also reviewed in light of the changing national policy and regulatory context for the city council.

  The corporate plan was always intended to last until 2012 and despite the fact some of the wider context had changed the strategic aims and priorities remain

current and appropriate for the council. Therefore no significant changes to the plan were made, although four corporate policies were slightly amended.

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

Strategic priority plans have been reviewed for 2011-12 in line with the proposed changes to the corporate plan priorities and in accordance with the development of the draft budget for 2011-12 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 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 is underpinned by strategic priority plans (SPP's) 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 much more into the service planning process, and are now required to sign off SPPs 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 revised corporate plan and supporting plans for 2010-12. Each service has a high level dashboard charting progress against their service plan priorities. This is used to strengthen our performance reporting processes to the cabinet, scrutiny, corporate leadership team and all managers. Performance is reported quarterly to cabinet.

The council's budget policy and processes are designed to identify efficiencies and savings. During 2009-10 and 2010-11 the council carried out a major transformation programme overseen by the corporate improvement and efficiency board (CIEB), which included members from Local Government Improvement and Development (formerly the IDeA) and Improvement East. Since its creation, the board has examined detailed council plans for how to reduce costs and become more efficient, without affecting service delivery. This included a comprehensive approach to reviewing contract and purchasing costs and a downsizing of senior management, which has helped contribute to saving £10 million and building up prudent levels of reserves.

In view of its recognised success in achieving its objectives, the board agreed in January 2011 that it no longer needed to meet.

To improve landlord services Norwich set up a housing improvement board in 2009, independently chaired and attended by staff, residents and representatives of other agencies (including GO East and the Audit Commission). The board sought to identify barriers to improvement and to work with the council to deliver improvements to services.

In order to gauge its progress, the council invited the Audit Commission's Advisory Services to carry out a piece of work to identify strengths and weaknesses in its rate and extent of service improvement, and to identify any areas for further improvement.

In April 2011 the Audit Commission reported that the council has made significant progress to improve the landlord service over the last two years. Good progress has been made in delivering the improvement plans and implementing the recommendations from the housing inspection in 2009. Although there is some way to go, in general, services for tenants have improved.

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 council is currently preparing its annual performance report 2010-11, which is intended to be published alongside the statement of accounts.

- 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; 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 last updated by full council in March 2010. Work began on reviewing financial regulations and contract procedure rules in 2010 and new versions will be in place during 2011.

- 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 council's constitution contains a chief finance officer protocol. The protocol refers to the arrangements and understandings between the head of finance (as chief financial officer), members and the corporate leadership team which are designed to ensure the effective discharge of the council's business and functions. The head of finance is a member of the corporate leadership team.

- 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 have responsibility for ensuring that all proposals, decisions and actions incurring expenditure are lawful.

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. 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 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 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:

  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:

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

  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 the audit committee.

  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. During 2010-11 ZM carried out an exercise to review and challenge all service risk registers.

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.

## 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 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 2010-11 the cabinet received regular reports on the wider economic situation and approved the 'lean' blueprint for transforming the council and moving forward with a programme of savings and efficiencies.

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

Performance monitoring reports are comprehensive, covering achievement against the council's detailed priority actions and performance measures detailed in the corporate plan 2010-12.

The council's constitution working party recommends to cabinet and council any changes to the constitution. On 22 March 2011 full council approved changes to the constitution, including monitoring officer arrangements and the scheme of delegations. It also asked the constitution working party to carry out a fundamental review of the constitution during 2011-12.

### 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 2010-11 was presented to scrutiny committee on 17 March 2011 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 2010-11 was presented to standards committee on 17 June 2011 and will be presented to 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. The annual report of the monitoring officer covering the period September 2009 to September 2010 was presented to standards committee on 17 December 2010.

The monitoring officer's overall opinion was that the systems of internal control administered by the monitoring officer including the code of corporate governance and the council's constitution were adequate and effective during 2009/2010 (to 30 September 2010) for the purposes of the latest regulations.

**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 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.

**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.

The audit manager's annual report was presented to audit committee in June 2011; the audit opinion was that there was adequate assurance on the internal control environment for 2010-11.

**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.

**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. Their annual governance report 2009-10 was presented to audit committee on the 18 October 2010, and the annual audit letter 2009-10 was issued in November 2010. The annual report on the certification of claims and returns 2009-10 will be issued once certification work is complete.

For 2009-10 the Audit Commission's work resulted in unqualified accounts, although significant extra work was required by the auditors due to errors in the financial statements. The value for money conclusion was qualified because the council did not meet the minimum standard for two of the nine criteria - financial reporting and internal control. Further details can be found in section 5.

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 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):

### Audit Commission annual audit and inspection letter 2009-10

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 issued in November 2010, also refers to the findings in the Audit Commission's annual governance report, which was presented to audit committee on 26 October 2010.

In summary, the district auditor gave an unqualified opinion on the council's 2009-10 financial statements. However, the financial statements presented for audit contained a number of material errors.

With regard to the value for money conclusion, the district auditor issued a qualified 'except for' conclusion because the council did not have adequate arrangements for:

- timely and reliable financial reporting that meets the need of internal users, stakeholders and local people; and
- managing its risks and maintaining a sound system of internal control.

The district auditor also commented on the significant risks to the council's future financial resilience and recommended that the council should "continue to develop and deliver the savings programme and medium term financial strategy to ensure the necessary savings are achieved."

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.

| Significant Issue | Proposed Action | Date |
|---|---|---|
| Issues with financial reporting and financial statements, including:<br>- material errors in accounts presented for audit<br>- basis for some asset valuations<br>- cash flow statement<br>- certification and adoption arrangements for accounts | The Audit Commission made 11 recommendations. These are either substantially complete or will be addressed as part of the 2010-11 closedown process. | June 2011 |

| Significant Issue | Proposed Action | Date |
|---|---|---|
| Internal audit - issues around compliance with the code of practice and timeliness of audits and reporting. | Three recommendations. Options to address the longer-term resourcing issues with internal audit are currently being considered and a report will be presented to cabinet. | September 2011 |
| | Timely annual report to be presented to audit committee | June 2011 |
| Improvements needed to the system for accounting for fixed assets | Five recommendations made. These are either being reviewed or will be addressed as part of the 2010-11 closedown process | June 2011 |
| Inadequate internal controls relating to:<br>• accounts receivable<br>• reconciliations<br>• payroll<br>• property repairs<br>• cash suspense accounts | Eleven recommendations made. These are mostly complete. A small number will be addressed as part of the 2010-11 closedown process | June 2011 |
| In 2009-10 the council successfully managed an £8m budget gap. However, the tighter fiscal environment will continue to put pressure on the council to manage its financial position to prevent a general fund deficit | A savings programme has been implemented to deliver the savings needed in 2011-12. The council is also implementing its 'lean' blueprint for a leaner council around the core elements of customer focus, cost consciousness and continuous improvement. | 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 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 not yet been implemented

The audit plan for 2010-11 was not completed, and fundamental systems relating to housing rents and treasury management were not reviewed. In addition, payroll, asset management and business rates were commenced but not completed. Action and date: outstanding reviews of fundamental systems will be completed in the first half of 2011-12.

Options to address the longer-term resourcing issues with internal audit are currently being considered and a report will be presented to cabinet in September 2011.

**Internal audit reports**

Internal audit review of the following systems resulted in limited assurance opinions – accounts receivable (issue still outstanding from previous audit); purchase cards; and cemetery. Summary action plans for each are as follows:

| Issue | Response | Date |
|---|---|---|
| **Accounts receivable:** | | |
| Non-compliance with Payment Card Industry (PCI) standards | Waiting for amended software from supplier to meet some of the requirements.<br>Need to buy additional hardware/software for mobile working and intrusion detection | September 2011 |
| **Purchase cards** | | |
| Discrepancies between bank and council records | A cross check between bank and council records will be initiated | August 2011 |
| Category code blocking not being applied | This risk is currently being accepted pending the relet of the contract in December 2011 | - |
| Monitoring of contract failures not being undertaken | Responsibility for this is currently unclear. This will be addressed as part of the contract relet in December 2011 | - |
| **Cemetery** | | |
| Operational proposals reported to members had not been implemented | Agreed to implement report proposals. | June 2010 |
| No overall reconciliation of income and expenditure | Reconciliation to be implemented.<br>(Subsequent follow up by audit found that both recommendations have been implemented) | June 2010 |

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

Actions taken to address the significant issues from the 2009-10 governance statement are substantially complete. However, the following significant issues require further progress:

- Resourcing of internal audit and the diversion of staff to NELM work has impacted on completion of the audit plan and continues to be an issue, which has necessitated the use of some external support. Work on the action plan to meet the code of practice has not progressed.

  Action and date: options to address these issues in the longer term are being considered by the head of finance and a report on the options will be taken to cabinet in September 2011.

- The council's financial regulations and contract standing orders were updated in 2008 and are overdue for a review. The review process started in 2010-11 but was not completed.

  Action and date: the head of finance will present updated financial regulations and contract procedure rules to the constitution working party in July 2011.

## 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                                         Laura McGillivray
Leader of the Council                              Chief Executive

Date:

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