

## Report for Resolution

**Report to** Audit Committee  
26 June 2008  
**Report of** Head of Finance  
**Subject** Draft Annual Governance Statement 2007/08

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### Purpose

To ask members to consider the annual governance statement for 2007/08.

### Recommendations

That audit committee considers and approves the annual governance statement for 2007/08 and the action plans to improve various aspects of internal and financial control within the council.

### Financial Consequences

The financial consequences of this report are none directly, but the governance statement sets out action plans in order to support proper internal control and financial management throughout the council.

### Strategic Objective/Service Priorities

The report helps to achieve the corporate objective to provide strong and ambitious leadership to make the city proud of its council.

### Contact Officers

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### Background Documents

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

The CIPFA Finance Advisory Network has also published a practitioners' rough guide to the annual governance statement

Audit Committee 19 March 2008 – Annual Governance Statement 2007/08 and Code of Governance

# 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 2007/08. The governance statement provides public assurance that the council's governance framework is adequate and effective.
2. Each local authority operates through a governance framework. It is an integrated system that brings together an underlying set of legislative requirements, governance principles and management processes.
3. 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.
4. From 2007/08 the requirement is to review the council's existing code of corporate governance and to report an annual governance statement. This statement will need to be signed by the leader and chief executive.
5. Guidance for the review of the council's existing code and for the preparation, review and reporting of the new statement has been issued by CIPFA and SOLACE and has been discussed at CMT.

## The New Framework

6. CIPFA and SOLACE have published a new framework document (circulated with the agenda) and a guidance note for 'Delivering Good Governance in Local Government'. The CIPFA Finance Advisory Network has also published a 'rough guide' for practitioners to support the above documents. The framework draws on six core principles, shown below, which were set out in 'The Good Governance Standard for Public Services (2004)':
  - 1) Focusing on the purpose of the council and on outcomes for the community and creating and implementing a vision for the local area
  - 2) Members and officers working together to achieve a common purpose with clearly defined functions and roles
  - 3) Promoting the values for the council and demonstrating the values of good governance through upholding high standards of conduct and behaviour
  - 4) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
  - 5) Developing the capacity and capability of members and officers to be effective
  - 6) Engaging with local people and other stakeholders to ensure robust public accountability
7. The principle of leadership from the original framework has been expanded to emphasise the role of the council in 'leading' the community and therefore this concept 'overarches' the above principles.

8. The guidance accompanying the framework aims to assist the council in testing its governance structures against the principles in the new framework by:
- Reviewing existing governance arrangements against the framework
  - Developing and maintaining an up to date local code of governance, including arrangements for ensuring its ongoing application and effectiveness
  - Preparing a governance statement on an annual basis in order to report publicly on the extent to which we comply with our code, including how we have monitored the effectiveness of the governance arrangements in the year, and on any planned actions in the coming period.

### **The Code of Governance**

9. The CIPFA and SOLACE guidance note sets out a schedule to assist in putting the good governance principles into practice. It describes what the council's code of governance should now contain and gives examples of source documents, good practice and other means that may be used to demonstrate compliance.
10. The corporate management team (CMT) has reviewed the framework and guidance and has proposed that section 3 of the framework should form the basis of a new code of governance for the council. Once approved this will replace the current code which forms appendix 20A of the constitution.
11. The proposed code of governance was presented to audit committee in March 2008, when members were asked to submit any comments to the head of finance.
12. One of the purposes of the new annual governance statement is to report publicly on the extent to which the council complies with the code.
13. Although the new code was not in place for 2007/08, the effectiveness of the council's governance arrangements has been assessed using the principles in the new code.

### **The Annual Governance Statement**

14. The evidence to support the annual governance statement is gathered, reviewed and reported by the head of finance.
15. The annual governance statement is shown at appendix 1.

### **The Annual Review of Effectiveness of Governance**

16. 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.

17. 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.”

They go on to comment that, “As part of their use of resources assessments auditors will consider the arrangements in place to enable the preparation of the annual governance statement, including the degree to which the authority recognises the corporate ownership of its governance arrangements.”

18. CIPFA’s guide to the annual governance statement recommends that at the centre of the review process will be a corporate group who are given ultimate responsibility for drafting the AGS, evaluating assurances and the supporting evidence. This group should review whether or not there is consistency with existing policies and the authority’s governance framework.

19. The reporting of the annual review of effectiveness is prepared and reported by the head of finance based on a review by the audit manager.

### Annual Governance Statement 2007-08

#### 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.

Norwich City Council already has a code of corporate governance, but it is in the process of approving and adopting a new code which is consistent with the principles of the CIPFA/ SOLACE Framework *Delivering Good Governance in Local Government*. A draft copy of the code was presented to audit committee in March 2008 and once approved it will be included in the council's constitution.

This statement explains how Norwich City Council has complied with the principles of the draft 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.

#### 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 2008 and up to the date of approval of the annual report and statement of accounts.

### **The governance framework**

The key elements of the systems and processes that comprise Norwich City Council's governance arrangements include arrangements for:

- *Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users.*

Norwich City Council has a very clear vision of what it is trying to achieve, this is set out in the Corporate Plan 2007-08. But the city council cannot achieve its priorities by working alone; therefore the council works with a range of partner organisations within national and regional frameworks. Specifically, 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 council and City of Norwich Partnership have adopted the following six shared themes for a sustainable community strategy to ensure that all sectors of the community benefit:

- City of Economic Growth and Enterprise
- City of Environmental Excellence
- City of Culture and Creativity
- City of Safe and Strong Communities
- City of Health and Well-being
- City of Learning and Personal Development

The sustainable community strategy 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.

These priorities then inform the city council vision and priorities. There are links on the council website to the City of Norwich Partnership, the sustainable community strategy and the corporate plan: [www.norwich.gov.uk](http://www.norwich.gov.uk)

In May 2007 the executive approved a risk management strategy which aims to improve our ability to deliver our strategic objectives by managing our threats, enhancing our opportunities and creating an environment that adds value to ongoing operational activities.

- *Reviewing the authority's vision and its implications for the authority's governance arrangements.*

The publication of a new corporate plan provides an opportunity to learn from experiences during 2007-08 and use these to review and refocus future priorities and activity. A report was presented to executive in March 2008 which reviewed progress in 2007-08 and agreed the process for corporate planning for 2008-09 and 2009-10.

- *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 Norwich City Council and the reporting of performance management continues to be improved with a more focussed corporate plan setting out priorities and supported by a strategic management framework. The council has performance management arrangements in place to monitor progress, and take remedial action where necessary.

The corporate plan shows how the council's priorities are delivered through service plans, financial plans and agreed staff actions. These are all set out in annual service plans which are available on the council website. Each service plan contains specific targets, and progress against these targets is reviewed formally once a year.

In addition, quarterly performance reports are prepared for the corporate management team (CMT), plus formal reports to the council's executive and scrutiny committee. Information on performance across the remaining best value performance indicators is also included in the corporate plan and reported upon.

The performance management improvement board has taken the leading role in monitoring progress and initiating corrective action where performance has slipped.

- *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, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by law, while others are a matter for the council to choose. There are separate articles and appendices in the constitution covering executive, non-executive, scrutiny and officer functions. In addition, there are separate appendices covering the scheme of delegations to officers and the protocol for member/officer working arrangements. The constitution can be found on the council's website.

## Appendix 1

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

In September 2007 the council replaced the previous code of conduct for members with the new model code of conduct for local authority members, which includes the ten general principles of public life.

There is a separate code of conduct for staff which is supported by HR policies and procedures. All staff are required to confirm that they have read the code, together with other policies covering anti-fraud and corruption, whistleblowing, use of electronic data, and health and safety, all of which are on the intranet and HR Workforce system.

The codes of conduct for both members and staff are included in the constitution.

- *Reviewing and updating standing orders, standing financial instructions, a 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. Proposals for changes are discussed by members at the constitution working party, before being approved by executive and council if necessary. In March 2008 the council approved revisions to the scheme of delegation to officers, financial regulations and contract standing orders.

- *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 June 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 committee meets approximately quarterly and reports and minutes are available on the council website.

- *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.

Protocols covering the roles of the monitoring officer and chief finance officer are contained in the council's constitution.



## Appendix 1

Managers within the council are responsible for putting in place systems of control to ensure compliance with policies, procedures, laws and regulations and provide annual assurance of the effectiveness of these controls. Policies are subject to regular review and include implementation plans to monitor effectiveness. Compliance with operational procedures is overseen by team leaders on a day-by-day basis; compliance with corporate policies is reviewed by the relevant section within the council, e.g. internal audit, human resources, legal services, etc.

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

The council has a whistle-blowing policy for staff which is accessible via the staff intranet and HR Workforce system. For the public there is a complaints procedure and form 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:

A focus group of members, one from each political group, meets to agree members' training and development plan at the beginning of each civic year. It also reviews progress periodically. The programme is considered by CMT and delivered by the head of legal and democratic services and the democratic services manager.

The council has also signed up to work towards the EERA Members Development Charter and through this process will prepare personal development plans for each member.

### Senior officers:

The council has implemented a leadership for managers programme for all managers and team leaders. The programme is being delivered in two ways. Firstly, there is a series of monthly seminars covering relevant subjects to which all managers and team leaders are invited. Secondly, certain managers have attended an externally-sourced 'developing manager' programme which is designed to build on existing skills and abilities.

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

The tenant participation compact is an agreement between the council (as the landlord) and tenants, which includes council leaseholders. The compact sets out how the council involves tenants and leaseholders, to encourage participation in local decision-making affecting homes and communities.

The Tenants' CityWide Board is a council tenant consultation board in Norwich. The board meets every two months and aims to work with the council, tenants and leaseholders, and other stakeholders, to develop tenant participation and involvement in the council's housing services.

All council tenants and leaseholders also receive Tenant Talk magazine three times a year.

Citizen magazine is a publication produced by the council every month (except January and May), delivered free to homes and businesses in Norwich. It includes information about the services we provide, developments of interest to local communities, events and activities.

Both Citizen and Tenant Talk are available on the council website, which also contains the latest council news, and allows users to sign up for email updates. The home page of the website also contains links to current and closed consultations.

In November 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.

- *Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships (Governing Partnerships: Bridging the Accountability Gap, Audit Commission, 2005), and reflecting these in the authority'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.

It currently operates within a range of partnerships – the key ones are the City of Norwich Partnership (the local strategic partnership), and the Norfolk County Strategic Partnership which is administered by Norfolk County Council. The City of Norwich Partnership (CoNP) has been developed with strong leadership by the council and its role, structure and effectiveness was reviewed during 2006/07 using the Aspire 2 Perform toolkit. New arrangements have now been introduced: it has a governance framework and terms of reference, and an improvement plan for partnership arrangements has been developed.

In line with this review of CoNP, the council has introduced a partnership governance policy to identify all partnerships it is involved in and ensure effective governance arrangements are in place, relating to processes, procedures and policies which address accountability, probity and audit. Responsibility for advising and implementing this policy at officer level lies with the council's partnership manager and the portfolio holder for finance & policy is the member champion for partnership working.

### 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 audit manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is as follows:

#### 1. The authority and the executive

- *The council's monitoring officer and section 151 officer have statutory responsibilities to ensure that internal control procedures are efficient and effective and are being routinely complied with to ensure legality and sound financial standing.*

The council has received professional officer advice to enable it to carry out its functions effectively and in compliance with statutory requirements. Both the monitoring officer and section 151 officer have confirmed that there were no significant issues to report.

In addition, all heads of service have provided assurance that they have effective systems of internal control which help to manage the risks in their respective services, together with improvement plans if necessary.

During 2007/08 reviews of the council's whistleblowing policy and code of governance were started. Revised versions are currently out for consultation and should be adopted in 2008/09. In 2008/09 it is also intended to review the detailed financial procedures which underpin the financial regulations.

To date there has been no action where staff have not confirmed that they have read the various HR policies on Workforce. This will be addressed in 2008/09.

- *Provision of effective and efficient systems of financial management.*

The Council has implemented a finance improvement plan, and progress against the plan was reported to the audit committee in January 2008. The council has made significant investment into improving its financial systems and standing over the last two years. During this time we have:

- Overhauled our financial systems
- Appointed a new head of finance
- Successfully implemented a new financial coding system
- Introduced a financial closedown programme that meant we were able to submit our accounts for 2006/7 within the statutory deadline
- Developed a medium term financial strategy

## Appendix 1

- Developed a risk management strategy
- Restructured the finance team and recruited new staff
- Produced a robust and balanced budget for 2007/8 which includes £1.4 million of efficiency savings investment in frontline services, and a significantly strengthened reserves position.

Insurance policies and funds are in place and are regularly reviewed at least annually to ensure the Council is adequately safeguarded.

- *Risk management policies and procedures are in place to ensure that the risks facing the council in achieving its objectives are evaluated, regularly reviewed and mitigation strategies developed.*

The council's risk management strategy was approved by executive in May 2007. The council has taken a number of steps to improve its risk management and now has well embedded processes at strategic, service and project levels.

The council has a strategic risk register which has been reviewed and updated by corporate management team and reviewed by audit committee. This will be an annual process.

Operational risks are reviewed annually as part of the service and financial planning process and are included in service plans which are reviewed by executive and scrutiny committee. In 2008/09 it is planned to review all the operational risks to identify any common themes that may need to be addressed corporately within the strategic risk register.

All significant projects have risk registers which are regularly reviewed by the project management team as the project progresses.

- *Delivery of services by trained, skilled and experienced staff.*

The council has a staff appraisal scheme, the purpose of which is to provide a clear link between the aims and objectives of the council and the contribution that is expected from every member of staff.

It also supports personal development by identifying training, development and resources required, and ensures that all employees receive constructive feedback to help them improve.

All posts have job descriptions and person specifications which are being reviewed and updated as necessary.

- *Performance and financial monitoring processes are in place to measure progress against objectives and provide for remedial action where necessary.*

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

The performance monitoring reports are very comprehensive, covering council priorities, performance indicators, service plan priorities, the aiming for excellence programme, CityCare and Steria contracts, and audit inspection recommendations.

One of the results of the delivery of the Norwich improvement plan has been the launch of the aiming for excellence programme. A performance management and improvement board has been set up and is monitoring nearly 50 areas of activity, with improvement plans being delivered for some services.

In order to monitor improvements in financial management, the council had its current progress on its use of resources independently reviewed and this is showing improvement in the direction of travel.

### **2. The scrutiny committee and audit committee**

- *Develop and maintain an effective overview and scrutiny function which encourages constructive challenge and enhances the council's performance overall.*

The council has agreed that the overview and scrutiny function should be 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.

Although scrutiny committee sets and regularly reports on its work programme, it does not report annually to the council on its activity. The appointment of a new scrutiny officer provides an opportunity to consider this as an action for 2008/09.

- *Develop and maintain an effective audit committee which is independent of the executive and scrutiny function.*

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

### **3. The standards committee**

- *Develop and maintain an effective standards committee.*

The council has appointed 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.

The committee met twice during 2007-08 and its work included recommending to council that it adopt the new model code of conduct.

### 4. Internal audit

- *Maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper practices in relation to internal control.*

Internal audit is an 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.

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.

Some of the audits undertaken during 2007/08 provide adequate assurance on the overall adequacy and effectiveness of the internal control environment

However, audit work on two IT systems could only provide limited assurance. Recommendations were made to address the issues, but not all were fully implemented in 2007/08.

In addition, internal and external audit work in relation to NELM grant claims going back to the beginning of the project has shown that it is not yet possible to verify that all grant conditions have been complied with. Two members of the audit team have spent considerable time working with NELM staff and Audit Commission staff to ensure that all the issues raised are fully addressed in order to minimise the risk of loss of funding.

For the above reasons, the audit manager can only provide limited assurance on the overall adequacy and effectiveness of the internal control environment.

During 2007/08 internal audit resources were used to help address the above issues with NELM grant claims, with the result that the annual audit plan was not completed, in particular reviews of key financial systems.

The Audit Commission has also made recommendations about the format and timing of internal audit reports, which will be addressed as part of the action plan.

### 5. Other explicit review/assurance mechanisms

- *Relevant codes of practice issued by external bodies with which the council is expected to comply.*

CIPFA code of practice for treasury management in public services

CIPFA prudential code for capital finance in local authorities

CIPFA code of practice for internal audit in local government in the UK

- **Peer review**

In February 2008 the council commissioned a 'peer review', facilitated by the Improvement and Development Agency, to help improve our current comprehensive performance assessment. The review was not an inspection – it offered a supportive approach, undertaken by 'critical friends', with the clear intention of helping the council to identify its current strengths and recognise key areas that require development in order to drive future improvement.

The key messages from the review team are as follows:

**Overall key strengths.**

During the course of the peer review it became evident that the council demonstrates a range of key strengths:

- The leader of the council and chief executive are recognised as having been instrumental in driving forward the improvement agenda together
- There is evidence of focussed outcomes based on community needs
- Relationships and perceptions of the council as a partner have improved greatly and the council is a valued partner
- There is a clear stated ambition to secure unitary status, which is understood by partners and stakeholders across the city
- Evidence that there is a growing willingness amongst staff at all levels and they are approachable, able, and enthusiastic to 'do their bit'.

**Overall key areas for consideration.**

However, the council does have areas that it needs to consider for improvement:

- There is an urgent need to address the council's financial management challenges and it should continue to maintain its focus on financial and performance management
- The unitary agenda will place major demands on the capacity of the council and these demands need to continue to be managed and fully risk assessed
- Although there is growing confidence amongst partners this needs to be nurtured and maintained through what could be a challenging period for the council
- There is also a need to agree what the councils core business is and establish greater clarity about what are priorities and what are not priorities
- There is a need to continue to develop and improve a council wide commitment and approach to customer care.

When the council receives the final IDeA written report, officers will review this against our existing improvement plan, and develop an action plan to make any adjustments that are necessary in order to continue our progress.

- **Audit Commission audits and inspections**

**a) Extract from Annual Audit and Inspection Letter 2006-07 (reported to Executive 26 March 2008)**

The audit and inspection letter provides a summary of the Audit Commission's assessment of the council.

**Key Messages**

The main messages for the council included in the letter are as follows:

- Over the past year, the Council has continued to face a number of significant challenges. This has included tackling on-going problems with its financial management arrangements, introducing fit for purpose corporate systems and processes, and continuing to pursue its bid for unitary status. The Council has responded, by introducing a range of initiatives, strategies and policies designed to secure sustained improvement. A performance management and improvement board was established in July 2007 and this has given a greater focus on performance. Capacity in key corporate areas is strengthening, but much still needs doing to narrow the gap with top performing councils.
- The Council has made limited progress in improving services and is not keeping pace with improvement in other councils. Forty five per cent of the Council's performance indicators for 2006/07 showed improvement over the previous year, which is one of the lowest rates of improvement in England. Both recycling and development control have improved, but performance remains low when compared with others.
- The Council's positive approach to partnership working continues, particularly through the local strategic partnership, the City of Norwich Partnership. Early initiatives in neighbourhood working have proved positive and are improving the quality of life for some local residents.
- For the purposes of the comprehensive performance assessment we have assessed the Council's arrangements for use of resources in the five areas as follows:

<b>Element</b>	<b>Assessment</b>
Financial reporting	1
Financial management	1
Financial standing	1
Internal control	1
Value for money	2
<b>Overall assessment of the Audit Commission</b>	<b>1</b>

(Note: 1 = lowest, 4 = highest)



## Appendix 1

- The overall score of one indicates that the Council was one of just nine district councils in England not achieving the minimum requirements for the use of resources for the period to 31 March 2007. There remained significant room for improvement in respect of financial reporting, financial management, financial standing and internal control arrangements.
- The financial statements presented for audit for the year ended 31 March 2007 were of a poor standard. A qualified (disclaimer) audit opinion on the 2006/07 audit was issued on 5 March 2008. We have made recommendations to the Council in this letter under Section 11 of the Audit Commission Act 1998. The Council must formally respond to these recommendations.
- Our Annual Governance Report, which was issued to the Audit Committee in January 2008, sets out the most significant issues leading to the disclaimer of opinion. It includes a comprehensive action plan that must be delivered if the Council is to make the necessary improvements to its financial reporting. (N.B. The action plan, together with the council's response, was reported to executive on 26 March 2008. A copy is set out in Appendix 2.)
- We concluded that the Council failed to meet a number of criteria in respect of its arrangements to provide value for money by 31 March 2007. An adverse (qualified) value for money opinion was issued in March 2008. This opinion draws on a number of elements of the use of resources judgements.
- The Council's arrangements for managing and quality assuring grant claims submitted for certification is variable, and this has a financial impact for the Council. This is reflected by the fact that a number of claims have been subject to amendment and/or qualification. Particular issues have been encountered in the audit of the New Deal for Communities claims in respect of 2003/04 to 2005/06, for which certification work is still ongoing.
- Overall data quality arrangements are satisfactory, and have shown some improvement, particularly with the development of a corporate data quality policy, but further work is necessary to develop and embed these arrangements across the Council.

Our recommendations under Section 11 of the Audit Commission Act 1998 are as follows:

- R1** Monitor closely the implementation of the action plan put in place to address the key weaknesses in financial reporting and internal control systems set out in our Annual Governance Report for 2006/07.
- R2** Review the arrangements for the production of the 2007/08 financial statements, and ensure that sufficient resources of the appropriate quality are made available to prepare good quality financial statements that are fully supported by comprehensive working papers.

### Direction of Travel

- Norwich City Council has made some progress against its identified corporate priorities although improved outcomes are not consistently evident. Progress was slow during 2006-07 but has improved during the latter part of 2007-08. Overall indications are of a trend of slow improvement in some areas, but performance generally is mixed.
- Forty five per cent of the council's performance indicators for 2006-07 improved over the previous year, which is one of the lowest rates of improvement for district councils in England. Services in priority areas are making some progress towards achieving the council's ambitions and meeting community aspirations, but continued action is required to speed up and sustain improvement if the council is to meet the standards set by the best performing councils.
- The council's approach to partnership working in developing wider community outcomes remains positive, with a clear focus on priority areas. Overall, the council is working to strengthen its engagement with partners, to the benefit of the local community.
- The council has a clear corporate priority relating to customer access and is pursuing a number of initiatives for improving access and quality of service to local people. Many of the initiatives are in the early stages and there is still a lot of work to do. The council has adopted a customer contact strategy with the intention of embedding a customer service ethos across the council and sets out to raise the profile of customer contact throughout the organisation.
- The council failed to improve its rating on the equality standard for local government. It remains at level 1, below the level of most councils, having set itself a target of reaching level 2 in 2006-07.
- Overall, the council is not meeting minimum requirements for its use of resources, although progress has been made in some areas of financial management. A financial improvement plan has been put in place accompanied by a recent restructuring of the service. Total expenditure on services remains high, when compared to nearest neighbour family. Additionally, having had its accounts qualified again in 2006-07, the council cannot be certain that it has an accurate picture of its level of reserves. Against this background, it is not possible to confirm that value for money is improving.

### b) Service Inspection – Cultural Services

An inspection of cultural services was carried out in June 2007. Inspectors judged Norwich City cultural services to be 'good', but with 'uncertain prospects for improvement'.

Three recommendations were made to further improve the service. An action plan in response was reported to scrutiny committee on 5 June 2008.

### c) Review of Norwich Connect Programme

The private finance initiative (PFI) Norwich Connect contract was reviewed in October 2007. The review considered the performance management of the Norwich Connect PFI and how learning is being applied to enhance the working of the contract.

The results of the review were positive with regard to areas such as meeting the objectives, governance arrangements around finance, risk and partnership working, and capacity to secure future improvements.

However, there were issues including call response performance, customer experience and satisfaction, and customer engagement in the redesign process.

Five recommendations were made to further improve the service. The report and an action plan in response were reported to executive on 28 May 2008.

### Governance issues previously identified

The statement of internal control for 2006/07 identified a number of significant internal control issues and plans for improvement. Progress against these plans was reported to audit committee in March 2008. For information, an updated position is shown at Appendix 3.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by audit committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

### Significant governance issues

The following is an outline of the actions taken, or proposed, to deal with significant governance issues arising from the review of effectiveness:

Issue	Action taken to date	Proposed actions 2008/09 and beyond
Statement of accounts for 2006/07 disclaimed	The council's response to the Section 11 notice and action plan from the Audit Commission's annual governance report were approved by executive in March 2008. An action plan in response to the recommendations in the Audit Commission's regularity report is substantially complete.	Fully implement the action plan in response to the annual governance report (see Appendix A) and the recommendations from the regularity report

## Appendix 1

	Progress on the finance improvement programme was reported to audit committee in January 08.	
The council did not achieve the minimum standards for the use of resources in 2006/07	To independently assess the progress the council has made during this last financial year and to give an up to date picture of the council's financial standing, PricewaterhouseCoopers were commissioned to assess the direction of travel and improvements made from 1 April 2007 – 31 December 07. The executive summary of the report was reported to audit committee in January 08.	The actions set out in the PricewaterhouseCoopers report will be used to set out the financial improvement programme for 2008/9 (year 3), and progress with this will be reported to audit committee quarterly.
Grant claims for NELM going back to 2003/04 are still being audited	A considerable amount of staff time has been spent liaising with Audit Commission and Go East and compiling the necessary evidence to resolve the outstanding issues.	Continue working with Audit Commission and Go East to fully resolve all outstanding issues and minimise any future risks.
Protocols and governance arrangements for all partnerships not fully implemented	<p>The City of Norwich Partnership (CoNP) role, structure and effectiveness were reviewed during 2006/07 using the Aspire 2 Perform toolkit.</p> <p>The delivery board has compared the CoNP priorities with the LAA indicators/targets and other indicator sets identified as important to Norwich. The partnerships team, with partners, is now working up delivery plans and negotiating targets where they do not currently exist. The plans themselves will progress the required improvements to performance management.</p>	As part of the CoNP improvement plan, we will be seeking to strengthen the governance arrangements in 2008/09. Annual reviews will continue to assess performance & effectiveness and robust performance management arrangements will be developed with a performance management system to support this.

## Appendix 1

	<p>In June 08 the strategic board endorsed the partnership improvement plan, and endorsed a CoNP communications strategy.</p> <p>The partnerships team is working on the development of the council's partnership governance policy which was reported to CMT in March 08, together with a partnership governance assessment for our most significant partnerships.</p>	<p>This process will develop as part of the formal guidance which will be created under the council's partnership governance policy. This guidance will form a practical toolkit to be used by the council &amp; its partners. It will also create templates for review of effectiveness and risk logs where necessary.</p>
<p>Business continuity planning is not embedded across the council. There is a draft business continuity plan, but it needs to be reviewed on a regular basis, with regular exercises.</p>	<p>The gold plan is complete and useable as an overarching plan, but is not yet fully supported by detailed continuity plans from service plans.</p> <p>City Hall evacuation plan is complete and able to be activated.</p> <p>Detailed plans have been drafted for a "table top" exercise based on closure of City Hall and customer contact centre - awaiting approval to proceed.</p>	<p>Ensure that corporate and service business continuity plans are fully integrated, regularly reviewed and a timetable for exercises is developed.</p> <p>Work continues to move forward on the implementation of a backup customer contact centre.</p>
<p>Review internal audit resources to ensure that the audit plan for 2008/09 is met and that internal audit is effective</p>	<p>We have already outsourced audits of IT systems.</p>	<p>Consider resource options to ensure the audit plan for 2008/09 is met.</p>
<p>The code of governance and whistleblowing policy are not yet approved and adopted</p>	<p>The proposed code of governance was presented to audit committee in March 08.</p> <p>The proposed whistleblowing policy has been agreed with HR and the monitoring officer. Consultation with UNISON is in progress.</p>	<p>Approve, adopt and publicise the new code of governance and whistleblowing policy.</p>

**Appendix 1**

Not all staff have confirmed that they have read the code of conduct and other policies on Workforce	Staff have been regularly reminded about the code of conduct in the Inner City newsletter	HR to ensure that all staff sign up to the code of conduct and other policies on Workforce
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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: .....

Leading Member

Signed: .....

Chief Executive

on behalf of Norwich City Council.

## Appendix – Action plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
5	R1 Urgently consider how the Council can acquire the necessary skills and capacity to address the significant number of issues noted in this report in a timeframe that will enable it to achieve an unqualified audit opinion for 2007/08.	3	Head of Finance	Yes	<p>During the latter part of 2007, the Financial Services Team was restructured to reflect the financial management needs of the council. As a consequence of this, three senior accountants and a senior finance officer have left the finance team.</p> <p>These posts are being replaced by two senior officers at a management level and a strengthening of systems accountancy officers within the team. To date a financial control manager has been appointed, who has considerable experience in housing (an area where technical financial and control issues have been identified). Also, a financial systems officer, who is responsible for the maintenance of integrity of data held the main financial system has been appointed, who will be supported by two other officers who will deal with financial systems controls and a full range of financial reconciliation (e.g. bank, rents, payroll and CityCare contracts). The final outstanding post to be appointed to is the Corporate Finance Manager which is currently being re-advertised.</p>	March 2008

## Appendix 2

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
8	R2 Determine the lease portfolio where the Council acts as lessor, and ensure that this is reconciled to the investment properties held on the balance sheet. Review all leases to confirm the appropriate accounting treatment both with regard to the current SORP and the potential changes that may occur when International Financial Reporting Standards (IFRS) are adopted. Ensure that appropriate disclosures are included in the financial statements.	3	Principal Accountant (capital)	Yes	External specialist has been contacted regarding a review of the Council's lease database - we are currently awaiting a reply.	March 2008
8	R3 Put arrangements in place to ensure the capital accountant is kept up to date in terms of changes to leases that the Council operates so that the impact on the financial statements can be considered.	2	Principal Accountant (capital)	Yes	Agreed in principle - this will be dependent on whether the leases are determined as operational or finance.	March 2008
9	R4 Complete the additional work on the year end bank reconciliation to clarify the cash position.	3	Corporate Finance Manager (Interim)	Yes	Work on this is currently ongoing. When the final balance is calculated, this will be adjusted for as a prior-year adjustment in the 2007/08 Statement of Accounts (SOA).	Immediate
9	R5 Review the financial management and accounting of the CitiCare contracts. Ensure that an appropriate audit trail is made for amounts capitalised and expensed through the income and expenditure account that demonstrates the proper application of FRS15.	3	Financial Control Manager	Yes	The appointee to the Financial Control Manager post within Financial Services, who will manage the HRA and service accounts, commenced with the Council on the 14 January 2008. This task will be undertaken by this officer upon his commencement with the council. All adjustments will be made as prior-year adjustments to the 2007/08 SOA.	March 2008



## Appendix 2

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R6 Provide a full reconciliation of the dwelling and non-dwelling rents figures and the rents arrears figure to ensure that the general ledger is not significantly misstated.	3	Financial Control Manager	Yes	The appointee to the Financial Control Manager post within Financial Services, who will manage the HRA and service accounts, commenced with the Council on the 14 January 2008. This task will be undertaken by this officer upon his commencement with the council. All adjustments will be made as prior-year adjustments to the 2007/08 SOA.	March 2008
11	R7 Develop an action plan to ensure that improvements are made in the production of the Statement of Movement in the General Fund and HRA balances in the 2007/08 financial statements. Ensure that working papers support the disclosures made in the financial statements.	3	Financial Control Manager  Corporate Finance Manager (Interim)	Yes	A model is being developed that will produce the 2007/08 SOA, ensuring data integrity. This will ensure that all statements will be appropriately balanced and reconciled.	March 2008
12	R8 Fully reconcile the opening and closing Capital Financing Requirement to the Council's balance sheet.	3	Head of Finance  Corporate Finance Manager (Interim)	Yes	For R.8, R.9 and R.10, these recommendations will be subject to new guidance from CLG and the application of this is to be discussed with the Audit Commission.	March 2008
12	R9 Recalculate the Minimum Revenue Provision based on the correct Capital Financing Requirement and ensure it is appropriately evidenced.	3	Head of Finance  Corporate Finance Manager (Interim)	Yes		March 2008

## Appendix 2

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
12	R10 Revisit the Adjustment A calculation produced when the Capital Financing Requirements came into force in 2004, and ensure that a clear picture is determined as to whether the Adjustment A masks earlier capital financing errors in the financial statements. We understand that the Council has made some initial progress with this, but, given that there is some indication by the Department for communities and local Government (CLG) that it is reviewing the issues connected with non-reconciled Adjustment A figures, the Council may determine to only carry out this work once CLG's view becomes clear.	2	Head of Finance  Corporate Finance Manager (Interim)	Yes		March 2008
12	R11 Seek actuarial advice regarding the likely liability of the Council in respect of CitiCare employee pension liabilities and determine the appropriate accounting entries in consultation with the actuaries. Until this is determined a contingent liability note should be included in the 2006/07 financial statements.	3	Head of Finance	Yes	Actuarial advice will be available towards the end of January 2008, and this will be taken into account when the 2007/08 SOA's is prepared.	January 2008
13	R12 Develop an action plan to ensure that improvements are made in the production of the Cash Flow Statement in the 2007/08 financial statements. Ensure that working papers adequately support the disclosures made in the financial statements.	3	Head of Finance  Corporate Finance Manager (Interim)	Yes	A model is being developed that will produce the 2007/08 SOA, ensuring data integrity. This will ensure that all statements will be appropriately balanced and reconciled.	March 2008

## Appendix 2

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
13	R13 Review the credit balances associated with SureStart and ensure that they are appropriate and supported.	2	Corporate Finance Manager (Interim)	Yes	A comprehensive review of SureStart will be undertaken to ensure that all balances are appropriately reconciled and that there will be relevant working papers for 2007/08.	March 2008
13	R14 Provide sufficient supporting evidence for the disclosures in the Explanatory Foreword.	3		Yes	This will be reviewed as part of the preparation of the 2007/08 SOA.	
14	R15 Revise the accounting treatment for the Norwich Highways Committee to ensure that it is compliant with FRS 9. Ensure that the Council's treatment of the transactions is reconcilable to the Committee's own financial statements. Obtain an up to date agreement in respect of how the assets and liabilities of the joint committee should be apportioned between partners.	3	Interim support within Financial Services	Yes	This will be reviewed and amendments required will be actioned for the 2007/08 revised SOA as prior year adjustments.	Completed
15	R16 Ensure that appropriate valuation adjustments are made based on year end valuation reports.	3	Principal Accountant (capital)	Yes	Will be actioned as part of the 2007/08 closedown process.	March 2008
15	R17 Fully reconcile the sources of information on housing stock and ensure that the information is used consistently throughout the Council. Ensure that the instructions given to the District Valuer are accurate.	3	Business Planning Manager (HRA)	Yes	Housing to review and provide a full reconciliation of the correct housing stock.	March 2008

## Appendix 2

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
15	R18 Prudently provide for any possible claw-back of New Deal grant funding.	3	Financial Control Manager	Yes	Agreed in principle - action can be only undertaken on a 'reactionary' basis when the Audit Commission raise issues on the claims work.	March 2008, but dependent on queries raised through the Audit Commission review of grant claims
21	R19 Address the actions arising from our consideration of accounting practices issues as summarised in Appendix 6.		Interim support within Financial Services	Yes	This will be reviewed and amendments required will be actioned for the 2007/08 revised SOA as prior year adjustments.	Completed
26	R20 Address the actions arising from our consideration of internal control issues as summarised in Appendix 7.		Interim support within Financial Services	Yes	An action plan has been developed to address the points raised.	Completed
29	R21 Address the issues necessary to further improve the Council's use of resources assessment and achieve an unqualified value for money conclusion.		Head of Finance	Yes	During 2007/08, the Council has made significant progress in improving its UoR score, as evidenced by the initial results of a review that has been undertaken by an external advisor.  Once the final report has been submitted, then progress can be made on developing a comprehensive improvement plan.	March 2008

### Significant Internal Control Issues from 2006/07

The council is required to report upon any significant internal control issues and during 2006/07 identified a number of areas for improvement through its reviews of internal control, corporate governance and risk management and from external reports:

Issue	Proposed Actions 2007/08 and beyond	Status as at June 08
Statement of accounts for 2005/06 disclaimed	Medium term financial strategy approved. Revised service and financial planning process. New purchase ordering system implemented. Revised structure for financial services.	All complete
Further embedding risk management into the organisation	Strategy approved by executive 30/5/07.  Externally-sourced assistance and training on production of risk registers will commence in June 07 for directors and heads of service.  Using the above training and assistance, compile risk registers and consider how to include in service plans. By February 08.  Develop the monitoring and reporting of risks and their control. By December 07.	Complete. Report to audit committee March 08 on strategic risk management review. Service plans contain risk registers.
Need to ensure corporate and departmental business continuity if a major incident or interruption to business occurs	Emergency planning officer (EPO) appointed April 07.  EPO is currently identifying priority operational areas needing assistance with continuity plans.  Prepare a corporate business continuity plan linked to operational plans and those of Steria, CityCare and other major partners. By March 08.	Substantially complete. Outstanding issues are how to test the plan, which is currently being considered, and integrating service continuity plans into the corporate plan.

## Appendix 3

<p>The council has reviewed and revised its control procedures and control environment. Most regulations, policies and procedures have now been adopted and implemented but there are some elements still to be completed</p>	<p>Procurement strategy and procurement plan approved by executive 30/5/07.</p> <p>Complete the review and approval of financial regulations, financial procedures and contract standing orders by end September 07.</p> <p>Implement Oracle purchasing by 1 August 07.</p>	<p>Complete</p> <p>Substantially complete. financial regulations and contract standing orders reviewed and approved – review of financial procedures to follow.</p> <p>Complete</p>
<p>More effective use of Oracle financial system</p>	<p>Continue training programme for managers and budget holders. By end July 07.</p> <p>Create procedure manuals for finance staff. By end July 07.</p>	<p>All complete</p>
<p>Preparation of the statement of internal control (SIC) – process needed for gathering and evaluating the evidence from managers to support the SIC.</p>	<p>Follow up improvement plans to ensure that the necessary remedial actions are carried out. By March 08.</p>	<p>In progress.</p>
<p>Collection of sundry debtors</p>	<p>Improve the overall management of debt control processes.</p> <p>Reduce the levels of aged debt by March 08.</p>	<p>Complete.</p> <p>Reduced by approx. £1m gross</p>
<p>Income system – need for robust controls between cash receipting and general ledger.</p>	<p>Create necessary interfaces with necessary controls. By September 07.</p>	<p>Complete</p>
<p>Findings from outsourced audits of specific IT systems – security settings; access control.</p>	<p>Management should review the logical security settings for user profiles and set them to provide an optimum control framework.</p> <p>Management should define an access control policy, and regularly review all user profiles. By September 07.</p>	<p>Complete</p> <p>Partially complete</p>

## Appendix 3

<p>There is a need to ensure that existing and new partnerships have agreements which both safeguard the council and achieve objectives.</p>	<p>All partnerships involving the council to be identified with regard to their nature, objectives, financing, risk and governance, taking account of Audit Commission guidance.</p> <p>For each partnership, service level agreements to be agreed, implemented and monitored as appropriate by a nominated manager.</p> <p>Arrangements to be subject to internal audit as necessary. By March 08.</p>	<p>Partially complete. A register of key partnerships has been compiled and for each a governance assessment has been carried out.</p> <p>Work is in progress on producing a governance framework for all partnerships in the Local Strategic Partnership (LSP) "family", e.g. round tables, NRF Board. This was reported to CMT in March 08.</p> <p>The LSP strategic board and delivery board assessed the LSP using various GO East tools, in particular 'Aspire 2 Perform'. The results indicated that there were many areas needing to be developed, for which an improvement plan was being devised. This was endorsed by the strategic board in June 08.</p>
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