

Norwich Joint Highways Agency Committee

24 June 2010

Item: 8

Annual Governance Statement, 2009-10

A Joint Report by the Director of Environment, Transport and Development Norfolk County Council and Director of Regeneration and Development Norwich City Council

This report introduces the proposed Annual Governance Statement for 2009-10, for inclusion in the Annual Statement of Accounts. The Governance Statement provides assurance that the organisation's governance framework is adequate and effective.

Members are recommended to consider:

- the requirements for an annual governance statement and support the annual review
- that the City Council's Code of Corporate Governance has been reviewed and is considered adequate
- that Chief Officers recognise the 'corporate ownership' of its governance requirements
- the significant governance issue relating to the Annual Governance Report and Internal Audit at the City Council.

1 Introduction and background

- 1.1 The Accounts and Audit (Amendment) (England) Regulations 2006 require the reporting of an Annual Governance Statement from 2007-08. The Governance Statement provides assurance that the organisation's governance framework is adequate and effective.
 - 1.2 From 2007-08, the requirement was first to review the City Council's existing Code of Corporate Governance and then to report an Annual Governance Statement. This statement will need to be signed by the Committee Chairman and Director.
 - 1.3 Guidance for the review of the City 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 provided to the Chairman of the Committee.
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- 1.4 This report introduces a proposed Annual Governance Statement for 2009-10, for inclusion in the Annual Statement of Accounts.
- 1.5 The City Council is urged by the CIPFA/SOLACE guidance to test the current governance structures against the principles in the new published CIPFA/SOLACE 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
 - annually preparing a governance statement in order to report publicly on the extent to which we comply with our own code on an annual basis, including how we have monitored the effectiveness of the governance arrangements in the year, and on any planned changes in the coming period.
- 1.6 The City Council's Head of Legal and Democratic Services and Head of Finance have considered the approach to these requirements.
- 1.7 This report presents the outcomes of the review of the effectiveness of the Code of Corporate Governance against the Framework, as appropriate to the Highways Agency Agreement.
- 1.8 The audit of the 2006-07 accounts was completed in March 2010. The Audit Commission issued an unqualified opinion on the Statement of Accounts after making a high number of material amendments to the statements.
- 1.9 CIPFA's Better Governance Forum issued a briefing paper covering 'Reviewing the Annual Governance Statement or Statement on Internal Control', in May 2010. The document is attached for reference at Appendix B.

2 The Code of Corporate Governance

- 2.1 The City Council adopted a revised Code in October 2008 in line with the CIPFA/SOLACE recommended Code of Corporate Governance.
- 2.2 The City Council's Head of Legal and Democratic Services will ensure its ongoing application and effectiveness.

3 The Annual Governance Statement

- 3.1 The new Code, based on the CIPFA/SOLACE Framework has been adopted by the City Council and we are comfortable that, from a review of the key elements and processes that comprise the authority's governance arrangements, as included in the draft statement in Appendix A, there appear to be no significant shortcomings in current arrangements apart from the Audit Commission's triennial review of the
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City Council's internal audit service which found weaknesses against the Code of Practice, for which an action plan has been drafted and issues from the Annual Governance Report.

- 3.2 The Annual Governance Statement is required to be published in the Annual Statement of Accounts, reported elsewhere on this agenda.
- 3.3 Much of the evidence that was gathered to support the previous Annual Governance Statement is relevant to this Statement. The evidence has been gathered, reviewed and reported by the County Council's Internal Audit section as agreed by the Committee.

4 The Annual Review of Effectiveness of Governance

- 4.1 Now that the City Council's Code of Governance has been reviewed, 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 within the City Council by this Committee.
- 4.2 The results of the review have been reported to the Directors and then reported to the Committee.
- 4.3 The City Council Head of Finance has not identified any other Significant Governance issues to us beyond those already reported in this Annual Governance Statement.

5 Partnerships

- 5.1 Beyond the partnership between the City and County Council set out in the Highways Agency Agreement there are no additional partnerships that require reviewing.
- 5.2 Effective Corporate Governance arrangements help to deter crime, or increase the likelihood of detection through making crime difficult, increasing the risks of detection and prosecution and reducing rewards from crime.

6 Recommendation

- 6.1 The Committee is recommended to consider:
 - the above requirements (see part 3) for an Annual Governance Statement and support the annual review
 - that the City Council's Code of Corporate Governance has been reviewed and is considered adequate
 - that Chief Officers recognise the 'corporate ownership' of its governance requirements
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- the significant governance issue relating to the Annual Governance Report and Internal Audit at the City Council.

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If you need this Report in large print, audio, Braille, alternative format or in a different language please contact Adrian Thompson 0344 800 8020 or 0344 800 8011 (textphone) and we will do our best to help.

Appendix A

The Proposed template for the Annual Governance Statement required for 2009-10

Annual Governance Statement 2009-10

Scope of responsibility

The Norwich Joint Highways Agency Committee 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. The Norwich Joint Highways Agency Committee 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, the Norwich Joint Highways Agency Committee 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.

The City Council has, since 1 April 1974, acted as agent of the County Council for various highways and traffic functions. A Norwich Joint Highways Agency Agreement was established under the Local Government Act 1972, the Local Government Act 2000, and the Highways Act 1980. The current Agency Agreement is dated 4th July 2006. This is confirmed within "Joint Arrangements", Article 11 to the Norwich City Council constitution with a similar reference in the County's constitution.

As a consequence of the Local Government Review process and timetable of decisions on Norfolk's councils, the Agency Agreement was extended a further year to March 2011.

The Joint Committee consists of two Norfolk County and two Norwich City Councillors. It is advised and supported by three Norfolk County and three Norwich City Advisory Councillors.

Norwich City Council is the lead authority, and the Joint Committee's activities are undertaken through the offices of the City Council. Norwich City Council's Annual Governance Statement is published in its Statement of Accounts. The draft programme of works is drawn up by Norwich City Council, and has to be approved by Norfolk County. A "Description of Joint Arrangements" is given in Appendix 18 of the Norwich City Council constitution, with a similar reference in the County's constitution.

The Joint Committee's Terms of Reference and specification of Functions are also contained within Appendix 18 of the Norwich City Council constitution.

Norwich City Council has approved a Code of Governance and this Annual Governance Statement demonstrates how the principles have been fulfilled. The code is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

A copy of the Code is on their website at www.norwich.gov.uk (see Appendix 20a of the Constitution). This statement explains how the authority has complied with 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.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values by which the Committee and through it the Highways Agency Agreement is directed and controlled, and its activities through which it accounts to, engages with and leads the community. It enables the Committee 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 the Committee'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 Joint Highways Agency Committee for the year ended 31 March 2010 and up to the date of approval of the statement of accounts.

The key elements of the systems and processes that comprise the Committee's governance arrangements include arrangements for:	
<ul style="list-style-type: none"> Identifying and communicating the Committee's vision of its purpose and intended outcomes for citizens and service users. 	<p>The Norwich Area Transport Strategy (NATS) Plan links to Government guidance and the draft Regional Spatial Strategy. It:</p> <ul style="list-style-type: none"> Recognises the Norwich Area as a centre where growth will be focused. Supports the Norwich Area as a sustainable community, complementing development by measures to provide a high quality urban experience. Supports Norwich's role as a Regional Interchange Centre Promotes travel choice <p>The City Council and County Council each have Corporate Plans. The Plans are available electronically on the City Council and Norfolk County Council's websites.</p>
<ul style="list-style-type: none"> Reviewing the City and County Council's visions and their implications for both of the authority's governance arrangements. 	<p>The Norwich Area Transport Strategy (NATS) was reviewed in 2004 and sets out a transportation strategy for Norwich until 2012.</p> <p>The City Council reviewed its Corporate Plan in March 2010.</p> <p>During 2009, an Implementation Plan for NATS has been developed, which outlines how transport schemes will be delivered over the next 15-20 years.</p> <p>The Implementation Plan was presented to the County Council Cabinet on 6th April 2010.</p>

	<p>To ensure Norfolk County Council is always working in the best interests of the people of Norfolk it reviews its vision and the County Council Plan annually.</p> <p>Agendas and minutes for all County Council meetings, including The Norfolk Norwich Joint Highways Agency Committee, are accessible on the Norwich City Council and Norfolk County Council websites.</p>
<ul style="list-style-type: none"> 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. 	<p>The Committee measures the performance against the Highways Agency Agreement.</p> <p>Performance monitoring is reported to the Committee at its bi-monthly meetings and in an Annual Report.</p> <p>In order to measure the quality of services we provide in trying to achieve our objectives, the City Council and County Council produces performance indicators. Each objective in each Council's Plan has an expected outcome for people in Norfolk, and each of these has one or more associated Performance Indicators from the new National Indicator Set (NIS). Using the NIS is a useful way of seeing if we have improved and to compare Norfolk County Council to other councils providing the same or similar services.</p> <p>Current year performance for Norwich City and for Norfolk County Council are published on their websites.</p>
<ul style="list-style-type: none"> 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. 	<p>The Committee's terms of reference appear at Appendix 18 of the City Council's Constitution. The Highways Agency Agreement also sets out the arrangements. A Service Level Agreement was signed in April 2009. Both the Highways Agency Agreement and the Service Level Agreement were</p>

	<p>extended until March 2011.</p> <p>Norwich City Council has a constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these efficient, transparent and accountable to local people. The law requires us to have some of these processes, whilst others are a matter for the Council to choose. The Constitution is periodically reviewed by the Constitution Working Party following recommendations from the Head of Legal and Democratic Services.</p> <p>The Constitution can be found on the City Council website.</p>
<ul style="list-style-type: none"> Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff. 	<p>Norwich City Council's Constitution includes codes of conduct for both members and staff. Our Corporate HR department produces a HR Practises Manual in which there is also a code of conduct for staff.</p> <p>The Constitution can be found on Norwich City's website.</p>
<ul style="list-style-type: none"> 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. 	<p>The Highways Agency Agreement sets out the arrangements for the function which is hosted by the City Council. During the year the agreement was extended until March 2011.</p> <p>Norwich City Council produces both Financial Procedures and Financial Regulations. The Financial Regulations form part of the Constitution and are required to be reviewed annually to ensure they incorporate the latest changes. The Head of Legal and Democratic Services is responsible for recommending changes to the Financial Regulations and the accompanying procedures (these are currently held in manual form) and then taking them for approval by the</p>

	<p>executive.</p> <p>A review of the Standing Orders and Financial Regulations commenced during 2009-10 and is planned to be completed in 2010-11.</p>
<ul style="list-style-type: none"> Ensuring the Committee's financial management arrangements conform with the governance requirements of the CIPFA Statement on The Role of the Chief Financial Officer in Local Government. 	<p>The Statement of Accounts are prepared by the Head of Corporate Accounting and Exchequer Services, Norfolk County Council in consultation with the City Council Head of Finance.</p> <p>The financial management of the function is administered jointly by Norfolk County Council and Norwich City Council through the Highways Agency Agreement.</p>
<ul style="list-style-type: none"> Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities. 	<p>Norwich City set up an Audit Committee in June 2007. That committee receives reports, which would include work undertaken on functions supporting the Highways Agency agreement.</p> <p>Norfolk County Council set up an Audit Committee in October 2005.</p> <p>The main purposes of both Audit Committees is to provide proactive and effective leadership on audit and governance issues and champion both audit and the embedding of risk management throughout the Council and to review the effectiveness of the system of internal control.</p> <p>The Audit Committees receive reports on the adequacy of risk management and internal control and the scope includes Norfolk Norwich Joint Highways Agency Committee functions.</p> <p>The Audit Committees also receive the respective Annual Internal Audit Reports and Annual Governance Statements for each Council.</p>

	<p>The minutes and agendas from its quarterly meetings are available on each Council's website. There is also general information on the website about the Audit Committee, including which Councillors sit on the committee.</p> <p>A summary of internal audit work relating to the Committee is being reported to the June meeting in 2010.</p> <p>Agendas and minutes for the Norfolk Norwich Joint Highways Agency Committee are accessible on Norwich City Council's website.</p>
<ul style="list-style-type: none"> Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. 	<p>The Head of Legal and Democratic Services is given the duty of being the Monitoring Officer for Norwich City Council. This means that he is responsible for ensuring compliance with relevant laws and regulations. A protocol covering the role and functions of a Monitoring Officer is contained within the Constitution.</p> <p>The Monitoring Officer's Annual Report to Standards Committee supports the assurance statements included in the Annual Governance Statement.</p> <p>The Constitution is available on the City Council's website.</p>
<ul style="list-style-type: none"> Whistle-blowing and receiving and investigating complaints from the public. 	<p>Whenever a member of the public contacts the City Council to either complain or praise the Council the contact will be dealt with in accordance with our Complaints & Compliments Policy and procedures, which are explained on the City Council website.</p> <p>Norwich City Council and Norfolk County Council operate Anti Fraud & Corruption Strategies which are linked</p>

	<p>to our Whistle blowing policies. These are internal policies which all staff are expected to follow. Both the City Council's and County Council's policies are available on their websites.</p>
<ul style="list-style-type: none"> Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training. 	<p>The Chairman and Vice Chairman attend 'Business Meetings' to monitor the performance of the Highways Agency Agreement.</p> <p>Council members have generic induction training when they are appointed.</p> <p>Within the Council there is a Democratic Services Officer who is part of the Democratic Services team.</p> <p>It is their job to look after the pastoral needs of the County Councillors, arranging training, keeping an updated register of interests, and also a hospitality register. They arrange travel and conference attendance and also deal and resolve IT queries for Members.</p>
<ul style="list-style-type: none"> Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation 	<p>The Norwich Area Transport Strategy (NATS) Plan sets out the aims and objectives and includes consultation. During 2009, an Implementation Plan for NATS has been developed, which outlines how transport schemes will be delivered over the next 15-20 years. The Implementation Plan was presented to the County Council Cabinet on 6th April 2010.</p> <p>Norwich City Council publishes its 'Citizen' magazine monthly.</p> <p>Norfolk County Council publishes several magazines for members of the public. Your Norfolk magazine is delivered to every household in Norfolk whereas Norfolk Matters magazine is specifically for members, partners and stakeholders. Both are</p>

	<p>available electronically on our website.</p> <p>Each Council's website contains a variety of useful information, including latest news, and allows users to sign up for email updates. Users can access online services such as the Norfolk Consultation Finder. This is a website dedicated to current consultations and also members of the public to easily participate in the Council's activities.</p>
<ul style="list-style-type: none"> • 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, and reflecting these in the authority's overall governance arrangements. 	<p>Beyond the City and County Council there are no direct partnerships that the Committee has entered into.</p> <p>Norwich City Council 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.</p> <p>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 and policy is the member champion for partnership working.</p>

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Review of effectiveness

The Norwich Joint Highways Agency Committee 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 executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Chief Internal Auditor'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:	
The Authority and the Executive	
<ul style="list-style-type: none"> Statutory roles of Council's Monitoring Officer and Section 151 Officer to ensure internal control procedures are efficient and effective and are being complied with on a routine basis to ensure legality and sound financial standing. Risk Management policies and procedures are in place to ensure that the risks facing the authority in achieving its objectives are evaluated, regularly reviewed and mitigation strategies developed. These arrangements are approved and reviewed by Cabinet following advice from the Chief Executive and all Chief Officers. 	<ul style="list-style-type: none"> The Committee has, where appropriate, received the full range of professional officer advice to enable them to carry out their functions effectively and in compliance with statutory requirements. The Committee has a risk register. The embedding of risk management into business activity is continuing. Strong action is being taken throughout the County Council and the City Council to ensure risk management is fully embedded. An embedding risk management plan has been reported to the County Council's Audit Committee and is being implemented. Corporate and departmental risk registers, including the Highways Agency work, are in place and being used as a management tool. Insurance policies and funds are in place and are regularly reviewed at least annually to ensure the Council is adequately

<ul style="list-style-type: none"> • Provision of effective, efficient and responsive systems of financial management. • Delivery of services by trained, skilled and experienced personnel. • Performance monitoring processes are in place to measure progress against objectives and to provide for remedial action where appropriate. 	<p>safeguarded.</p> <ul style="list-style-type: none"> • The financial management of the function is administered through the Highways Agency Agreement. The Business meetings monitor the results. • The City Council operates an Appraisal scheme and the service is managed by experienced and qualified officers. • Regular reports on Performance Indicators are presented to the Chief Officers and the Business meetings. • An Annual Report is reported to the Committee.
The Audit Committee/Overview and Scrutiny Committee/Risk Management Committee	
<ul style="list-style-type: none"> • The audit and scrutiny function is carried out and developed through the Cabinet Scrutiny Committee, the Audit Committee. 	<ul style="list-style-type: none"> • The Cabinet Scrutiny Committee, the Audit Committee have continued to carry out reviews across a wide range of topics.
The Standards Committee	
<ul style="list-style-type: none"> • The role of the Standards Committee is to promote and maintain high standards of conduct by councillors and co-opted members. 	<ul style="list-style-type: none"> • The City's Standards Committee met during 2009-10 and report items included in the promotion of standards and ethics.
Internal Audit	
<ul style="list-style-type: none"> • Internal Audit provide independent and objective assurances across the whole range of the Joint Committee's financial and non-financial activities. 	<ul style="list-style-type: none"> • A joint report of internal audit work regarding the Highways Agency will be reported to the Committee in June 2010. • The audit teams are continuing to develop their work programme such that resources are allocated based on a systematic assessment of all areas of risk facing the Council in carrying out its functions.

	<ul style="list-style-type: none"> An action plan is being implemented to address the City Council's internal audit's non-compliance with auditing standards and progress will be reported to the City Council's Audit Committee.
Other explicit review/assurance mechanisms	
<ul style="list-style-type: none"> External Audit provide a further source of assurance by reviewing and reporting upon the Council's internal control processes and any other matters relevant to their statutory functions and codes of practice. Codes of practice are issued by external bodies in respect of Council services and processes, with which the Council is expected to comply. 	<ul style="list-style-type: none"> The Audit Commission has not yet issued an Annual Audit and Inspection Letter or Governance Report for the Committee for 2007-08, 2008-09 or 2009-10. When these reports are available they will be reported to the Committee. The report for 2006-07 concluded that Norwich Highways Agency Joint Committee failed to put in place certain arrangements relating to a sound system of internal control, to manage its significant business risks and to manage its performance against budgets. The City and County Council has adopted the CIPFA Treasury Management in Public Services Code from November 2002. The Council has implemented the Accounts and Audit Regulations 2003 and is implementing the amendments made in the 2006 regulations. The City's Internal Audit Team and NAS have implemented the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2003 and are implementing the 2006 code. An action plan is being implemented to address the City Council's

<ul style="list-style-type: none"> • Reviews by external agencies and inspectorates, which would encompass most major services, and other specific external evaluations, for example, the Local Government Ombudsman and Health & Safety inspectorates. 	<p>internal audit's non-compliance with auditing standards and progress will be reported to the City Council's Audit Committee.</p> <ul style="list-style-type: none"> • The Department for Transport has an interest in the CIVITAS programme.
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Significant Governance Issues

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

The Audit Commission's Annual Governance Report for the Joint Committee's Audit in 2006-07, issued March 2010, was considered at the 27 May 2010 meeting of the Committee. The report included an action plan to fully address the failure to put in place arrangements at that time:

- to maintain a sound system of internal control
- to manage its significant business risks
- for managing its performance against budgets.

The Audit Commission's triennial review of the City Council's internal audit service found weaknesses against the Corporate Governance Code of Practice, for which an action plan has been drafted.

The Audit Commission's Annual Governance Report for the City Council was considered at City's Audit Committee on 24 September 2009. The report acknowledged that there had been improvements, leading to an unqualified opinion on the financial statements. However, a number of material and non-material misstatements were found during the audit, requiring adjustment by management.

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

With regard to value for money, the report concluded that the Council had made some progress in its use of resources, but that weaknesses remained in three areas. Therefore the value for money opinion was qualified because the Council did not meet the minimum value for money criteria for the following:

- financial reporting
- risk management and internal control
- workforce planning.

A detailed action plan to address all the recommendations in that report has been agreed.

Signed: Leading Member

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Vice Chairman

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Chief Officer

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Better Governance Forum briefing paper

Audit Committee Update

-helping audit committees to be effective

Issue 2 – Reviewing the Annual Governance Statement or
Statement on Internal Control

May 2010

Introduction

Dear Audit Committee Member,

This is the second edition of the new series of briefing papers for audit committee members in public sector bodies.

Produced by the CIPFA Better Governance Forum it is free to our subscribing organisations. We aim to provide members of audit committees with direct access to relevant and topical information that will support them in their role. This issue includes an article to help you review your Annual Governance Statement or Statement on Internal Control and pointers to other information and guidance relevant to your role. If you missed the first edition, which covered the review of the audit plan, then you can download a copy from the Better Governance Forum website http://www.cipfanetworks.net/governance/library/default_view.asp?content_ref=9685

The CIPFA Better Governance Forum is part of the Chartered Institute of Public Finance and Accountancy which is the leading body for setting standards of governance and recommended practice for audit committees in local government and other parts of the public sector. The Forum is a subscription network covering all aspects of governance providing guidance, briefings and workshops.

We hope you will find these updates helpful. We have had some very positive feedback both from audit committee members and from those who support the committee. Please continue to send through your comments together with suggestions for future topics.

We aim to produce briefings three times a year. It will be emailed to the key contact in your organisation who will be able to email it to you or print it if you prefer. If you want to make sure you receive your copy directly please provide us with your details using the link on page 3.

Best wishes

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Future editions of this briefing:

The next edition is planned for September and will feature risk management and how the audit committee can help make the management of risk more effective in the organisation.

We are also starting to plan the editions for 2011. Possible topics for future editions are:

- Value for money
- International Financial Reporting Standards
- Counter-fraud arrangements
- Scrutiny of treasury management
- Effectiveness of internal audit.

Let us know which topics are most important to you and any other suggestions.

Workshops and training for audit committee members in 2010

Advanced Audit Committees

Have you cracked the basics? Then how about your role in relation to value for money, treasury management or counter fraud?

17 November 2010 – York

<http://www.cipfanetworks.net/governance/events/>

Effective Audit Committees

17 June 2010 – Glasgow

14 July 2010 - London

<http://www.cipfanetworks.net/training/>

Reviewing the Annual Governance Statement and Statement of Accounts

8 June 2010 – Birmingham

<http://www.cipfanetworks.net/governance/events/>

In-house training

In house training, tailored to your needs is available. For further details contact Claire Simmons on 0208 6678542 or Claire.Simmons@cipfa.org.uk

<http://www.cipfanetworks.net/training/>

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website. This will give you access to governance material and guidance documents. If you would like to request that these

Receive our briefings directly:

This briefing will be sent to all key contacts of organisations that subscribe to the CIPFA Better Governance Forum with a request that it be forwarded to all audit committee members.

If you have an organisational email address (for example jsmith@mycouncil.gov.uk) then you will also be able to register on our website. This will give you access to governance material and guidance documents. If you would like to request that these briefings are sent directly to you please contact me Diana.Melville@cipfa.org.uk

Sign up today at www.cipfanetworks.net/governance.

Reviewing the Annual Governance Statement or Statement on Internal Control

What is an Annual Governance Statement (AGS), Statement on Internal Control (SIC) or Statement on Internal Financial Control (SIFC)?

The AGS, SIC or SIFC is a public statement, normally included with your statement of accounts, which explains how your organisation manages its governance and control arrangements. They are produced by both public and private sector organisations.

What does my organisation need to have?

Confusingly not all public bodies have the same requirement! While CIPFA recommends that all local government bodies in the UK have an Annual Governance Statement, this is only a statutory requirement in England and Northern Ireland. Welsh authorities have a Statement on Internal Control although an AGS is likely to be required from 2010/11 as the Welsh Assembly Government have consulted on this. In Scotland authorities are required to have a Statement on Internal Financial Control.

Central government bodies and health authorities are all required to have a Statement on Internal Control.

What's included in these statements?

Although the names are different, there are many similarities between these statements as they all evolved out of the Statement on Internal Financial Control. And there are common features in all good statements. A good statement is open and honest, stating what works well and where improvements are needed. It includes a plan, showing who is responsible for taking action and when they will take action by. It also outlines progress against previous action plans. Whilst the focus of an SIFC is on financial controls, the other statements cover the full range of internal controls and the AGS covers wider governance matters such as ethics and leadership too.

The statement summarises the key processes for delivering good systems of control and governance and indicates who is responsible for what. Processes are likely to include internal audit activity, risk management, performance management and other types of review and challenge. Responsibility lies with management, especially senior management, and the audit committee has an important role to play in providing challenge and oversight.

What does the Audit Committee do?

The audit committee has an on-going role in delivering good governance. Every time it reviews an audit report (internal or external) or holds an officer to account for his or her action (or inaction), it is helping to deliver good governance. In relation to the statement itself, the audit committee should take a robust and challenging approach, ensuring that:

- The statement reflects the organisation and is an honest self-assessment. Members should review evidence and challenge it where they believe it to be inaccurate or incomplete.
- They have sufficient assurance from enough separate parts of the organisation (this is known as 'triangulation' in audit circles) to be confident that, where controls and governance are deemed to be good, they are good and, where weaknesses are identified, the statement contains an accurate assessment of those weaknesses.
- The statement itself is well written and would be understood by someone with no knowledge of your organisation. In other words, it should be in plain English, with no jargon and it should include sufficient explanations.
- The action plan addresses all identified problem areas, including those identified in previous years where actions remain incomplete. Actions should be SMART (specific, meaningful, allocated, realistic and timely).

What makes for good governance?

Good practice approaches include:

- Creating and regularly reviewing a vision and direction for your organisation so that everyone understands what they are there to deliver.
- Indicating the level of service to be delivered – you can't be excellent at everything so what will you concentrate on and what can be good enough?
- Board / Member and officer roles are clearly defined, with schemes of delegation and codes of practice/conduct, so that everyone understands what they should and should not be doing.
- Having standing orders, financial regulations and guidance notes so that everyone knows what procedures are to be followed.
- A robust, challenging and supporting audit committee to provide oversight and review.
- Arrangements to ensure that you comply with laws and regulations and identify and act on changes promptly.
- Appropriate and flexible whistle-blowing arrangements.
- Methods to identify and act on officer and member development needs.
- Excellent and open communication with your community.
- Ways to ensure good governance in all your partnerships.
- Promotion of the values of good governance and ethical standards.

How do you draw up a good statement?

- Review and map your assurance framework to make sure that it covers all areas, including the hard to reach ones such as partnerships, and that you do not have any duplication in assurance.
- Obtain wide engagement – not just the head of audit or governance doing everything, but getting mini-governance or assurance statements from directors and heads of service that contribute to the overarching statement and/or setting up a working group to develop the statement.
- Be open and honest – it's about improvement and adding value, not about looking good.
- Be prepared to challenge yourself and look for areas for improvement, perhaps by benchmarking or comparing yourself with other organisations.
- Compare the assurances received to the strategic risk register. Are there any high risk areas that have not been adequately covered?
- Look for any inconsistencies or discrepancies. For example, has assurance been provided that there are no significant problems in an area but you have conflicting evidence from elsewhere (audit, risk, performance, complaints, fraud, etc)?
- Check progress against action plans during the year so problems can be dealt with quickly and governance becomes part of the way we do things round here, not just a once-a-year activity.
- Ensure that the action plan is widely known and understood in the organisation and beyond so that those charged with action are held to account and delivery is more likely.

Key questions to ask:

1. What process has the organisation gone through to gather evidence to support the AGS/SIC/SIFC? Has it involved staff from across the organisation?
2. Have assurance statements already gone through a process of challenge and review prior to presentation to the audit committee? What did this show?
3. Does the action plan flow out of the statement and identify the major issues we need to address as an organisation?
4. Does the action plan include actions outstanding from previous years, prioritised as necessary?
5. How will the action plan be communicated to staff, stakeholders and the public?

Other sources of information

There are lots of sources of information and guidance on governance that are general or sector specific. Ask your internal auditors or governance staff for copies of the guidance that relates to your organisation. The Better Governance Forum website contains the following documents:

The Statement on Internal Control: A guide for Audit Committees, National Audit Office
A Good Practice Guide to the Statement on Internal Control, National Audit Office
Delivering Good Governance in Local Government, Framework and Guidance Note, CIPFA & SOLACE
Rough Guide to the Annual Governance Statement, CIPFA

Elizabeth Humphrey
Senior Associate, CIPFA Better Governance Forum

Recent developments you may need to know about:

Application Note to Delivering Good Governance in Local Government: a Framework – CIPFA/SOLACE

In 2009 CIPFA published its Statement on the Role of the Chief Financial Officer in public service organisations. This was followed by the Statement on the Role of the CFO in Local Government. The statement has introduced the principle of 'comply or explain' for organisations when undertaking their annual governance reviews. The

[Application Note to Delivering Good Governance in Local Government: a Framework](#) advises on the application of the Statement on the Role of the Chief Financial Officer in Local Government under the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government. It shows how the annual governance statement can reflect compliance with the Statement for reporting purposes.

Statement on the Role of the Chief Financial Officer in public service organisations

Audit Committees outside local government may also like to consider the CIPFA Statement on the Role of the Chief Financial Officer in public service organisations when reviewing their governance arrangements. http://www.cipfa.org.uk/panels/finance_director/index.cfm

Update on the consultation on the role of Head of Internal Audit

The draft CIPFA Statement on the role of the Head of Internal Audit was launched at the CIPFA Audit Conference on 19th May 2010. The document and consultation material is available on the CIPFA website. <http://www.cipfa.org.uk/pt/consultations.cfm>

The CIPFA Statement has five principles which apply across all public service organisations:

The Head of Internal Audit in a public service organisation plays a critical role in delivering the organisation's strategic objectives by:

1. championing best practice in governance and management, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments; and
2. giving an objective and evidence based opinion on all aspects of governance, risk management and internal control.

To perform this role the Head of Internal Audit:

3. must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
4. must lead and direct an internal audit service that is resourced to be fit for purpose;
and
5. must be professionally qualified and suitably experienced.

Launch of the Effective Internal Audit guide

The guide provides guidance on assurance frameworks and the role of internal audit, how internal audit teams can improve and demonstrate their effectiveness. It includes case studies, improvement tools and links to other resources.

Audit committee members can use this guide to help understand how internal audit should support the achievement of the organisation's objectives and provide leadership within the organisation. In addition it also highlights how crucial the audit committee is in supporting internal audit. It will be available free to Better Governance Forum subscribing organisations on the website.

Severance Agreements for Chief Executives

The Audit Commission recently published a report examining severance payments to Chief Executives in local government. The report, *By Mutual Agreement*, includes recommendations to the Government, Councils and the Local Government Association. The report found that three in every ten departing council chief executives receive compensation for the early termination of their contract and the costs of severance payments for councils can be high. Making a severance payment may be in the best interests of councils and the taxpayer, but the formal processes are not working well. [By Mutual Agreement](#) Last year the Better Governance Forum published guidance on negotiating staff severance agreements. It is available from our website.

Counter fraud checklist for those responsible for governance

This new checklist is now available free to Better Governance Forum subscribing organisations on the website. http://www.cipfanetworks.net/governance/library/default_view.asp?content_ref=10290 It can be used by those responsible for governance (audit committees or equivalent) to assess their contribution to the fraud defences of their organisation and determine what action is needed. This is appropriate to use in any organisation.

Fraud risk evaluation diagnostic (FRED)

FRED enables practitioners such as risk managers, internal auditors, finance managers, and counter fraud specialists, to gain an understanding of the susceptibility to fraud and corruption of their organisation. The first part will be available soon.

It has been designed to:

- quickly gain an overview of the susceptibility of the organisation to fraud and to identify the high risk areas
- maintain an understanding of the level of fraud risk in the organisation over time
- Aid planning of work designed to combat fraud and corruption and as part of the development of a zero-tolerance culture.

FRED will also inform the Annual Governance Statement / Statement of Internal Control and help provide information for assessment of internal control by both internal audit and external audit.

The Audit Committee Cycle

Accounts

As well as reviewing the Annual Governance Statement or Statement on Internal Control, audit committees will also be reviewing the statement of accounts. If you are not experienced in this area it can be daunting to receive long complex documents and undertake a meaningful review. The accounts show the financial health of your organisation and its ability to manage its resources and they are important documents that are publicly available. Efforts should be made to present financial information clearly and in 'plain English' to non-experts and this is one of the areas where audit committee members can add value.

Audit Committee self-assessment

A periodic self-assessment of how you are performing can be a useful improvement step and can also support your Annual Governance Statement or Statement on Internal Control. There are a number of checklists you can use and copies can be found on our website:

A Toolkit for Local Authority Audit Committees, CIPFA Better Governance Forum
The Audit Committee Self-Assessment Checklist, National Audit Office

Annual Report on the Audit Committee

Does your audit committee produce an annual report on its work? Those that do have found it a useful way to demonstrate the range and impact of their work to the rest of the organisation, the public and other stakeholders.

Suggestions for what you should include:

- How you have fulfilled your terms of reference.
- Major areas reviewed during the year and recommendations made.
- Governance developments or changes that the committee has promoted.
- Development activities such as training undertaken.

Reflecting back over the year and the issues raised will also support your review of the Annual Governance Statement, Statement on Internal Control or Statement on Internal Financial Control and help to shape your work programme for 2010/2011.

If you would like to see examples of similar reports then you can find these on the Better Governance Forum website.



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