

AUDIT COMMITTEE

Review of Governance and the Annual Governance Statement 2009/10

Report of Corporate Director (Finance & Performance)

PURPOSE OF REPORT

To seek the Committee's approval for the draft Annual Governance Statement for the 2009/10 financial year.

This report is public

RECOMMENDATIONS

- (1) That the draft Annual Governance Statement for 2009/10 (attached as Appendix C) be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: *To monitor the effective development and operation of risk management and corporate governance in the Council and to oversee the production of the authority's annual Governance Statement and recommend its adoption.* (The Constitution, part 3 section 8).

Accounts & Audit Regulations

- 1.2 In England, the preparation and publication of an annual governance statement in accordance with proper practices is necessary to meet a statutory requirement set out in Regulation 4(2) of the Accounts & Audit (Amendment) (England) Regulations 2006.

2.0 Report

- 2.1 In relation to the production of a Governance Statement, "proper practices" are defined as those set out in a framework and guidance issued by CIPFA & SOLACE¹ during 2007, applying from the 2007/08 financial year onwards. Specifically, the Council is required to develop and maintain a Local Code of Corporate Governance (this was approved by Audit Committee on 23rd January 2008) and to prepare a Governance Statement in order to report publicly on an annual basis on the extent to which the Council complies with its own Code.

¹ "Delivering Good Governance in Local Government" – CIPFA & SOLACE 2007

3.0 Proposal Details

- 3.1 The draft Annual Governance Statement has been drawn up following a review of the Councils' framework by a Management Group comprising the Corporate Director (Finance & Performance), the Head of Financial Services (s151 Officer), the Head of Legal and HR (the Monitoring Officer) and the Internal Audit Manager.

Review of Compliance with the Code of Governance

- 3.2 A review has been undertaken of the Council's position and performance against the Code of Governance approved in January 2008. The results of the Management Group's evaluation exercise is demonstrated in the Overview Charts (including a comparison with the 2008/09 results) and Evaluation Reports which are attached at Appendix A. Please note that these will be printed in black and white but may be viewed in colour on computer screens.

- 3.3 The Code of Governance consists of a set of sixty-seven elements within the following six core principles, which underpin a council's system of governance:

- 1. Focusing on the purpose of the authority and on outcomes for the community including citizens and service users 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 of the authority and demonstrating the values of good governance through behaviour**
- 4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**
- 5. Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers - also have the capability and capacity to deliver effectively**
- 6. Engaging with local people and other stakeholders to ensure robust local public accountability.**

Assurance

- 3.4 A document has been compiled which details the identified "sources" of assurance for each element of the Code. These range from a record of official policy and strategy documents such as the Constitution to the results of reviews such as Internal Audit and External Audit reports, to procedures such as one-to-one management meetings.
- 3.5 As in previous years, individual "assurance statements" have been sought from Service Heads in relation to internal control and governance arrangements within their areas. This assurance has been built in to the overall evaluation.

Review of the Effectiveness of the System of Internal Audit

- 3.6 The Accounts & Audit (Amendment) Regulations 2006 introduced a requirement that local authorities undertake an annual review of the effectiveness of their system of internal audit and that this should form a part of the overall review of governance.

- 3.7 The established format for this review is a self-assessment of the Internal Audit function and its contribution to governance, which is divided into two parts:
- an assessment of arrangements against “proper practices” as defined in the CIPFA Code of Practice for Internal Audit (2006); and
 - an evaluation of performance against a range of “characteristics of effectiveness”
- 3.8 The council’s external auditors undertook a review of Internal Audit during the 2008/09 audit. The results of this were reported to Audit Committee in June 2009 and an action plan was agreed addressing the issues raised. This review effectively provides the basis for first part of the review, mentioned above. A formal follow-up of the action plan (which will be reported in due course to Audit Committee) has yet to take place, but all agreed actions have been progressed during the year. The second part of the self-assessment, relating to “characteristics of effectiveness” is attached at Appendix B.
- 3.9 Taking the external auditor’s report (acknowledging the progress made on the issues raised). and the self assessment together indicates that the system of Internal Audit (which includes the contribution made by the Audit Committee and management in responding to audit work) is established substantially in accordance with appropriate standards and is delivering an effective service.
- 3.10 In conclusion, it is felt that the Audit Committee can take reasonable assurance that Internal Audit is operating effectively and can place reliance on its reports and work in considering the overall effectiveness of governance arrangements.

Evaluation Results

- 3.11 The charts and table of results shown in Appendix A show that, whilst there have not been any dramatic changes in the evaluation, there have been gradual improvements in a number of areas. It also highlights in some areas that the financial climate and organisational change being experienced raise some additional challenges to maintaining effective governance.
- 3.12 In consequence, the number of factors in which there remains a perceived shortfall in performance has increased by one (from 17 to 18). In a number of areas, the gap has been reduced so that there is now no factor with a perceived shortfall of more than one point. Where a shortfall exists, comments/conclusions are included in the evaluation on the current position and any plans to improve arrangements during 2010/11 and beyond.

The Draft Annual Governance Statement

- 3.13 Following the evaluation exercise, the Management Group has developed the draft Annual Governance Statement which is attached at Appendix C).

- 3.14 The timescale for the production of the Statement coincides with that for the approval of the financial accounts (i.e. 30 June 2010) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee). The Statement itself follows the statutorily prescribed format, with the following headings:
1. Scope of Responsibility
 2. The Purpose of the Governance Framework
 3. The Governance Framework
 4. Review of Effectiveness
 5. Significant Governance Issues
- 3.15 As well as addressing the requirements of the Accounts and Audit Regulations, the publication of an Annual Governance Statement incorporates and satisfies the requirement under the Local Government Statement of Recommended Practice (SORP) to produce a Statement on Internal Financial Controls (SIFC)

Signatories to the Statement

- 3.16 The statutory requirement is that the most senior officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent) should sign the Statement. They must be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about all corporate controls and is not confined to financial issues. As the statement covers the requirements to produce a statement on Corporate Governance and on Internal Financial Control, it is recommended that the S151 Officer and Monitoring Officer also sign the statement (as has been the case for previous years).

Action Plan

- 3.17 As in previous years, actions relating to those “Significant Governance Issues” identified in section 5 of the draft Governance Statement have already been acknowledged and incorporated into the Council’s Corporate Plan and individual Services’ Business Plans.

4.0 Details of Consultation

- 4.1 As part of the assurance gathering exercise, all Service Heads have provided an assurance statement for their areas of responsibility. Significant matters raised in those statements have been included in the Governance Statement.

5.0 Options and Options Analysis (including risk assessment)

- 5.1 As the production of an annual statement is a legislative requirement, no alternative options are identified.

6.0 Conclusion

- 6.1 The draft Annual Governance Statement and the results of the review undertaken by the Management Group reflect the developments and progress made by the Council during the last twelve months. Addressing the issues identified in the statement will help maintain this progress and contribute towards a further improved position for 2010/11.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report

SECTION 151 OFFICER'S COMMENTS

The s151 Officer has been involved in the governance review process and has no further comments.

LEGAL IMPLICATIONS

There are no legal implications arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been involved in the governance review process and has no further comments.

BACKGROUND PAPERS

Accounts and Audit Regulations 2003 (as amended).

Contact Officer: Derek Whiteway

Telephone: 01524 582028

E-mail: dwhiteway@lancaster.gov.uk

Ref: aud/cttee/audit/1011/300610/ags