

LANCASTER CITY COUNCIL

ANNUAL GOVERNANCE STATEMENT 2009/10 (DRAFT)

SCOPE OF RESPONSIBILITY

Lancaster 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. The 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, Lancaster City Council is responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

Lancaster City Council has approved and adopted a *Code of Corporate Governance*, which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government*. A copy of the code is on the council's website or can be obtained from the Internal Audit Manager, Town Hall, Dalton Square, Lancaster, LA1 1PJ.

This statement explains how Lancaster City Council has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2003 (as amended) 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 for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

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 Lancaster 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 Lancaster City Council for the year ended 31 March 2010 and up to the date of approval of the *Annual Governance Statement* and the *Statement of Accounts*.

THE GOVERNANCE ENVIRONMENT

The following paragraphs set out the key elements of the council's governance arrangements as incorporated in the *Code of Corporate Governance*:

- The council reviews its vision for the local area annually in the context of the Local Strategic Partnership's *Sustainable Community Strategy* and through direct consultation with the community. The council's vision, priorities and objectives are brought together and published in the three-year *Corporate Plan*.
- The council's performance management framework is established to measure and monitor the quality of services for users and to ensure that they are delivered in accordance with the authority's objectives. Performance is driven by the *Corporate Plan* priorities and objectives, which are in turn cascaded into Service business plans and individual employee appraisals and action plans.
- Performance is actively managed by the executive through the Performance Management Group and quarterly Performance Review Team meetings and is subject to review and challenge by the Overview & Scrutiny function via the Budget & Performance Panel.
- The council seeks to ensure the economical, effective and efficient use of resources and continuous improvement in the way in which it exercises its functions, through reviews carried out by the Overview and Scrutiny function, Internal Audit and those conducted by the external auditors and other external agencies.
- The council's *Constitution* is the keystone to establishing the roles and responsibilities of the executive, non-executive, scrutiny and officer functions. The *Constitution* sets out how the council operates, how decisions are made and the procedures followed to ensure that these are efficient, transparent and accountable to local people.
- The council's commitment to high standards of conduct and integrity is supported by established codes of conduct for employees and elected Members. Standards of probity are maintained through the *Anti-Fraud and Corruption Policy and Strategy*, the *Whistleblowing Policy* and the council's *Comments, Compliments and Complaints Policy*.
- The Head of Financial Services has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972.
- The council adopts a bi-annually reviewed three-year *Medium Term Financial Strategy* to inform and support the council's key priorities and objectives. The financial management and scheme of delegation of the council is conducted in accordance with rules set out in the *Financial Regulations and Procedures* within the *Constitution*. Key financial systems are documented to define how decisions are taken and the processes and controls required to manage risks.
- The council's Audit Committee is established to monitor the effectiveness of risk and financial management arrangements and undertakes all recognised core functions of an audit committee.

- The Head of Legal and Human Resources Services is the council's designated Monitoring Officer, with responsibility for promoting and maintaining high standards of conduct and for ensuring compliance with established policies, procedures, laws and regulations. The Monitoring Officer is required to report any actual or potential breaches of the law or maladministration to full Council and supports the Standards Committee in its function of promoting and maintaining high standards of conduct of councillors and co-opted Members.
- The facilitation of policy and decision making, in line with the council's overall budget and policy framework, is established through the council's Cabinet, with any key decisions (as defined in the *Constitution*) outside of this framework being referred to the council as a whole. The council publishes a *Forward Plan* containing details of key decisions made on behalf of the council by Cabinet and by senior officers under their delegated powers.
- In taking decisions, compliance with relevant laws and regulations and with internal policies and procedures is promoted through a requirement for views to be obtained from relevant officers, including the Monitoring Officer and statutory Financial Officer.
- Processes are in place to identify the development needs of both elected members and officers. Corporate training programmes are developed and delivered annually in addition to individual service training budgets to meet more specific, specialist needs.
- The *Code of Corporate Governance* sets out the council's commitment and approach to incorporating good governance arrangements in respect of its significant partnerships.
- The council's *Risk Management Policy and Strategy* sets out the framework for managing risk throughout the council. Senior officers of the council have primary responsibility to effectively manage strategic and operational business risks relating to their service areas. The Risk Management Steering Group oversees and promotes risk management practices and the council's Audit Committee is responsible for monitoring the effectiveness of risk management within the Authority.
- The council's Internal Audit service operates to the standards set out in the 'CIPFA *Code of Practice for Internal Audit in Local Government 2006*' and the council has established an objective and professional relationship with its external auditors and other statutory inspectors.

REVIEW OF EFFECTIVENESS

Lancaster 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 executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The following are the main processes applied in maintaining and reviewing the effectiveness of the systems of internal control and governance:

- The Audit Committee and the Head of Legal and HR Services, in her role as the council's Monitoring Officer, have a duty to monitor and review the operation of the *Constitution* to ensure that its aims and principles are given full effect. A function of full Council is to adopt and change the *Constitution* following recommendation(s) from the Monitoring Officer and/or Audit Committee
- The council's Overview and Scrutiny Committee has responsibility to consider and, if necessary, 'call-in' decisions made by Cabinet and the Budget and Performance Panel reviews the council's budget and performance at both a strategic and service level.
- The effectiveness of performance management arrangements is monitored by the executive, via quarterly Performance Review Team meetings and is reviewed by the overview and scrutiny function via the Budget & Performance Panel.
- The council's Standards Committee, chaired by one of four independent representatives, is responsible for promoting, reviewing and monitoring adherence with standards of conduct for elected members. The Committee conducts hearings in respect of any matters referred for investigation by its Assessment Sub-Committees.
- The Audit Committee has responsibility for reviewing the Code of Corporate Governance and the adequacy of internal controls and risk management arrangements. It also monitors the performance and effectiveness of Internal Audit and considers and monitors the external audit plan
- Internal Audit is responsible for providing assurance on the effectiveness of the council's systems of internal control, including arrangements for risk management and governance. Internal Audit's role is to assist managers by evaluating the control environment, providing assurance wherever possible and agreeing actions to optimise levels of control. The council's external auditors place reliance on the work of Internal Audit in fulfilling their statutory duties and regularly inspect Internal Audit work
- The Internal Audit Manager is responsible for submitting an annual report to the Audit Committee detailing the performance of Internal Audit for the previous financial year, and giving an opinion on the effectiveness of the council's systems of internal control.
- In January 2010 the external auditors KPMG, in their *Annual Audit Letter*, issued an unqualified opinion on the council's accounts for 2008/09. They concluded that the council had adequate arrangements in place for securing value for money. The auditor's views drew on their assessments of the council's "Direction of Travel" and "Use of Resources", in which they judged the council to be at level 2 - "meeting minimum requirements – performing adequately".

In their *Audit Letter*, the external auditors advised the council on areas where action was needed, including

- The requirement from 2010/11 to prepare financial statements under International Financial Reporting Standards (IFRS);
- The proposed requirement for all public sector bodies to report publicly on sustainability performance; and
- Continuing pressures on local authorities' funding in the medium term and the need to have comprehensive efficiency programmes and sound financial management arrangements and be prepared to take bold measures to mitigate the impact on priority services.

SIGNIFICANT GOVERNANCE ISSUES

Work carried out by both the council's external and internal auditors has indicated that effective internal financial controls exist within the council's main financial systems to ensure the accuracy and integrity of the information they provide and no significant control weaknesses have been brought to the council's attention.

A serious breakdown in standards of professional conduct and financial management was identified during the year in the Council Housing Service's Repair and Maintenance Service. An investigation resulted in disciplinary action being taken and a comprehensive action plan drawn up to remedy the procedural weaknesses identified. The Audit Committee will monitor progress with implementing this action plan.

Given these points, the action already taken, and from the assurances provided from the review of the effectiveness of the systems of the corporate governance framework and system of internal control, it is the council's opinion that they accord with current proper practice and are working effectively.

The council recognises that financial pressures and the significant programme of structural and managerial change that it is currently undertaking present a new range of challenges to maintaining effective systems of governance. It is recognised that continued efforts is needed to address any significant issues affecting the council and to ensure a continuous improvement of governance controls, and to that end the council will:

- ***Continue to seek to identify efficiencies and improve the Value for Money the council*** and its key partnerships provide, through a continued focus on operational efficiency, a review of the *Value for Money Strategy*
- ***Continue to strengthen delivery of customer-focused services*** by continuing the programme of service integration into the council's Customer Service Centres and by reviewing the level of both statutory and non-statutory services provided with a view to achieving more focused and prioritised service planning and allocation of resources.
- ***Continue to develop the effectiveness of partnership working*** by extending the roll-out of a programme reviewing and evaluating the governance arrangements of the council's key partnerships.
- ***Use organisational change as an opportunity to review standards of governance*** and promote high standards of conduct, ethics and performance throughout the organisation.
- ***Continue to improve the measurement and monitoring of the environmental impact*** of the council's policies, plans and decisions.

The council proposes, over the coming year, to take steps to address the above matters to further enhance its governance arrangements. The council is satisfied that these steps will address the need for improvements that were identified in the review of effectiveness and will monitor their implementation and operation as part of the next annual review.

S Langhorn
Leader of the Council

M Cullinan
Chief Executive

S Taylor
Head of Legal and HR Services
Monitoring Officer

N Muschamp
Head of Financial Services
(Section 151 Officer)