

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**ANNUAL GOVERNANCE STATEMENT 2009/2010**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To present the draft Annual Governance Statement (AGS) 2009/2010 for members' comment and adoption as part of the council's accounts.
- 1.2 The key points in this report are as follows:
- The AGS shows that the council's governance arrangements are generally good and meet good practice in most areas
  - Developments designed to address significant issues are identified in the AGS.

**2. BACKGROUND INFORMATION**

- 2.1 The Accounts and Audit Regulations came into force in 1 April 2003 and require the Authority to publish with its accounts a Statement on Internal Control. In 2006 the amended regulations also required that:
- A review of the system of internal control is considered by a committee or meeting of members as a whole
  - A review of the effectiveness of internal audit is considered by a committee or a meeting of members as a whole, and
  - Replaced the Statement on internal Control with the Annual Governance Statement.
- 2.2 CIPFA has provided guidance to support councils to produce the AGS. The document provides examples of sources of assurance and evidence to compile the AGS. In March 2010 additional guidance was issued by CIPFA/SOLACE on how compliance with CIPFA's Statement on the Role of the Chief Financial Officer in Local Government should be reflected in the AGS. Proper consideration has been given to CIPFA's Statement and the council's response is incorporated in the 2009/10 AGS , namely:
- A description of governance arrangements in place to support the CFO in fulfilling his role, and :

- An evaluation of those arrangements against the 5 principles defining the core activities and behaviours that belong to the role of the CFO in public service organisations.
- 2.3 The Annual Governance Statement sets out the council's governance framework and the results of the annual review of the effectiveness of the council's arrangements. Sources of assurance to support the statement are gathered throughout the council in the form of annual assurance statements prepared by Service Directors. These statements provide an evaluation of the adequacy of internal control within their service area and are evidenced by sources of assurance and managerial processes. Independent reviews carried out by internal audit in key areas such as risk management, corporate governance and fundamental financial system work are important sources of assurance. External audit reviews and inspections contribute as sources of assurance
- 2.4 In accordance with best practice a management team comprising Service Director Finance, Service Director Legal and Democratic Services, Head of Strategy Development and Audit and Risk Manager oversees the process. The objectives of the group are:
- Comply with external audit recommendation / CIPFA guidance
  - Determine the council's approach to preparing the AGS
  - Provide a corporate overview
  - Provide suitable challenge to the process
  - Ensure the independence of Internal Audit is maintained
  - Review and monitor changes to underlying processes and their impact on the AGS.
- 2.5 Last year's Annual Governance Statement incorporated an evaluation of the council's governance arrangements against best practice and highlighted significant issues that required action by the council. Progress on these actions is reported in the 2009/2010 Statement.
- 2.6 The Annual Governance Statement 2009/2010 is attached (appendix A) and shows that the council has well-established governance arrangements that are monitored and reviewed on a regular basis. Changes and enhancements described in the AGS demonstrate the council's commitment to continual improvement. Significant governance issues requiring further development are identified in the AGS. These are:
- Address the Auditors findings in the Annual Audit Letter
  - Address areas for development in other review and inspection reports, such as the CAA organisational assessment
  - Address control issues highlighted in Internal Audit's Annual report including the corporate governance audit recommendations
  - Development and delivery of the Transformation Plan including Worksmart and other VFM and efficiency initiatives to meet future funding reductions.
  - Continue to strengthen governance arrangements for the LSP.

- 2.7 This report allows the council's Audit Committee to give full consideration to the AGS prior to its inclusion in the council's 2009/2010 accounts.
- 2.8 The Annual Governance Statement for 2009/2010 is currently in draft and may be subject to amendment as part of the accounts closure process.
- 2.9 External Audit will consider the AGS as part of the financial accounts audit.

### **3 OPTIONS FOR CONSIDERATION**

- 3.1 The Committee is asked to consider whether the Annual Governance Statement provides sufficient assurance on the council's governance arrangements in 2009/2010. If it concludes that it does provide sufficient assurance the Committee is invited to approve the AGS. The Committee may make amendments or seek clarification as necessary.
- 3.2 The Committee may decide not to approve or amend the AGS.

### **4. ANALYSIS OF OPTIONS**

- 4.1 The Annual Governance Statement for 2009/2010 is designed to deliver an overall opinion and provide this Committee with the assurance required on the adequacy of governance arrangements throughout the council. Members should seek clarification on its contents as necessary to ensure the AGS provides sufficient assurance to fulfil their role as set out in the Committee's terms of reference.
- 4.2 The option set out in 3.2 represents an opportunity missed to receive an important source of assurance to assist the Committee to fulfil its role effectively.

### **5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY.IT)**

- 5.1 Regular reviews of governance arrangements should safeguard the council's assets and ensure that value for money is achieved in the use of resources. There are no staffing, property or IT implications.

### **6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 – CRIME AND DISORDER, RISK AND OTHER)**

- 6.1 The requirement for an Annual Governance Statement is set out in the Accounts and Audit Regulations 2003 and reporting requirements are set out in the Accounts and Audit (Amendment) (England) Regulations 2006. The Chief Financial Officer has a statutory duty under the provisions of the Local Government Act 1972 to ensure the proper administration of the council's financial affairs. 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.

- 6.2 Processes that underpin the Annual Governance Statement support excellent service delivery, enhance risk management arrangements and promote good corporate governance.

## 7. **OUTCOMES OF CONSULTATION**

- 7.1 The Annual Governance Statement draws on contributions from all Service Directors, External Audit and other inspection reports and therefore represents a corporate view.
- 7.2 The Governance and Use of Resources management group has also overseen this process.

## 8. **RECOMMENDATIONS**

- 8.1 The Audit Committee is asked to consider whether the Annual Governance Statement for 2009/2010 provides sufficient level of assurance on the adequacy of governance arrangements throughout the council to allow the Committee to fulfil its role.
- 8.2 It is recommended that the Annual Governance Statement for 2009/2010 be adopted as part of the council's accounts.

SERVICE DIRECTOR FINANCE  
SERVICE DIRECTOR LEGAL & DEMOCRATIC SERVICES  
AND HEAD OF STRATEGY DEVELOPMENT

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### **Background Papers:**

**CIPFA- Delivering Good Governance in Local Government Framework**  
**IPF CIPFA Finance Advisory Network – Meeting the requirements of the Account and Audit Regulations 2003, Incorporating Accounts and Audit (Amendment) (England) Regulations 2006 – A Rough Guide for Practitioners**  
**CIPFA/SOLACE – Application Note to Delivering Good Governance in Local Government : a Framework March 2010**

# **NORTH LINCOLNSHIRE COUNCIL ANNUAL GOVERNANCE STATEMENT 2009-2010**

## **Scope of responsibility**

North Lincolnshire 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. North Lincolnshire 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, North Lincolnshire 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.

North Lincolnshire Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.

A copy of the code is on our website at [www.northlincs.gov.uk](http://www.northlincs.gov.uk) or can be obtained from Pittwood House, Ashby Road, Scunthorpe. This statement explains how North Lincolnshire Council 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 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 North Lincolnshire 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 North Lincolnshire Council for the year ended 31 March 2010 and up to the date of approval of the statement of accounts.

## **The governance framework**

The council's governance arrangements are supported by well-established systems and processes including:

### **Identifying and communicating the authority's purpose and vision and intended outcomes for citizens and service users**

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

The council sets its vision and priorities after extensive consultation with all its stakeholders. The three-year Strategic Plan entitled 'Going Forward Together' identifies the priorities for the council and also sets out what the council will do to deliver the community strategy. The plan shows how we manage the council and our priorities for improvement; how we align our resources to meet our strategic priorities; and how we contribute to the shared ambitions for the area. The drivers behind the plan are the council ambitions – four of which are shared with the North Lincolnshire Strategic Partnership and a transformational strategy containing four strands: valued council; organisational excellence; organisational fitness and worksmart. For 2009/10 the plan is strengthened with clearer links with revenue and capital projects approved in line with the financial plan 2009/2012, supporting strategies including Value for Money and Human Resources, outcomes, Local Area Agreement performance measures and environmental outcomes.

Service plans integrate all key council planning processes and make explicit service delivery contribution to the council's ambitions. The planning process identifies the contribution services and individuals have to achieve the shared vision through the Community Strategy. For 2010/11 service planning has been strengthened to ensure consistency across all services areas and more explicit links to achieving council wide outcomes.

The council's activities and achievements, its financial position and performance is published each year in an annual report which is available on the council's website. The 2009/10 Annual Report has been enhanced with more focus on outcomes and budget achievement.

### **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**

Performing Together is the council's performance management framework. This sets out the council's model for planning, achieving and reviewing performance. Performance targets are reviewed quarterly at a corporate level

and by services to ensure key service delivery targets are monitored and appropriate action is taken where necessary. Quarterly Performance Reviews (QPR) is a key method for reviewing progress towards ambitions and priorities in the service plans and the council's strategic plan. Action has been taken to strengthen the QPR process both internally and through the LSP and to enhance the Performance Improvement Process. An important link is made between cost and performance to ensure value for money is considered and other critical issues such as risk management information. An escalated reporting process has been developed to address poor performance. Action plans are required for all indicators showing performance below the national lower quartile, including a risk assessment of action proposed. These are then subject to more regular performance monitoring process through Corporate QPRs and Performance Improvement Panels involving Members and Service Directors. There is also an annual performance review before senior management and councillors.

The Value for Money (VFM) Board was instrumental in the development of the service planning and performance management arrangements to ensure VFM is properly considered in service plans, through Quarterly Performance Reviews and Performance Improvement Panels where necessary. A closer alignment of VFM work with the council's financial planning arrangements has been made to help meet the challenge of budget and efficiency savings the council faces. The VFM Board developed the VFM Strategy 'Delivering Value Together' which was agreed by cabinet in February 2010 and incorporates a strategic commissioning policy aligned with the VFM programme. The Transformation Board now includes VFM through the 'valued council' workstream of the Transformation Plan. As a low cost council generating efficiencies is more difficult to achieve, therefore external support has been engaged to support the delivery of the Transformation Plan by conducting a review of efficiencies and improvement opportunities designed to reduce cost; improve service delivery and maximise utilisation of council assets.

Robust budget monitoring procedures have operated throughout the year and have enabled the council to achieve a £1m under spend at a time of great financial pressures due to the recession. This now includes key elements of the balance sheet to ensure appropriate coverage of key financial risks. Action is identified either on a service or council wide basis to address potential budget overspends or underachievement of income (e.g. as a result of the economic slowdown). Budget monitoring information has been improved through greater integration of financial and performance data. Environmental performance and costs are also beginning to be monitored and considered. These arrangements are applied to significant partnership work. Regular reporting of forecast outturn, explanations of variances and recovery plans for dealing with variances has continued for senior officers and members. All changes to service delivery must be financially assessed and included in reports to members for consideration. Strong budgetary control arrangements in place will be important to manage future potential uncertainties in public funding.

### **Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)**

The Statement on the Role of the Chief Financial Officer (CFO) in Local Government supports CIPFA's work to strengthen governance and financial management across the public services. The Statement sets out the principles that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them. The principles state the CFO:

- is a key member of the Leadership Team, helping to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy
- must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.
- must lead and direct a finance function that is resourced to be fit for purpose
- must be professionally qualified and suitably experienced.

North Lincolnshire's financial management arrangements have been reviewed and were evaluated to be compliant with these requirements.

### **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 clearly the respective roles and responsibilities of members and officers. A scheme of delegated powers is also set out in the approved Delegations to Officers and Appointment of Proper Officers schedule.

The Executive (which is made up of the Leader and Cabinet of councillors) make decisions in line with the council's overall policies and budget. Any decisions outside the budget or policy framework would be referred to the Council as a whole to decide. The Overview and Scrutiny committees support the work of the Executive and Council by reviewing and making recommendations on policy, budget and service delivery. They can also monitor and review decisions taken by the Executive prior to implementation. There are also committees that deal with regulatory functions such as Planning, Licensing and Appeals. In accordance with the Local Government and Public Involvement in Health Act 2007, the Standards Committee deals with issues of members conduct. Appropriate procedures and training have been put in place to deal with the local assessment, review, investigation and determination of complaints. Standards for England reporting requirements are met and an annual report is prepared for the Standards Committee.



### **Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for local Authorities**

The council established an audit committee in May 2007 in line with best practice. The committee oversees the management of governance issues, internal controls, risk management and financial reporting. The terms of reference for the Committee are reviewed annually and revised to reflect professional bodies' expectations and best practice. For example, challenge and scrutiny of the Treasury Management process was added to the Committee's terms of reference in response to CIPFA guidance and the adoption of the revised code on Treasury Management in February 2010.

Reporting arrangements have been strengthened in a number of aspects:

- A forward plan of reports is prepared for the Audit Committee each year setting out sources of assurance the Committee will receive to fulfil its terms of reference.
- Recommendations provide more detail of the type and level of assurance members should seek to fulfil their role.
- Reports contain more detail (at the request of members) to provide more scope for questions and possible challenge.

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

The council has adopted the national members' code of conduct in accordance with Section 50 of the Local Government Act 2000 and the Local Authorities (Model Code of Conduct) Order 2007.

The Officer Code of Practice for declarations of interest, gifts and hospitality was relaunched following a review in February 2009. In addition the employee code of conduct which covers additional issues such as management & supervision, health & safety and personal conduct is binding as part of each employee's contractual terms and compliance is managed through various policies contained within the council's Human Resources Manual.

Corporate governance arrangements ensure that the conduct of officers and members is of the highest standard in decision-making and application of policy and procedures in service delivery. The council's Local Code of Corporate Governance and key supporting procedures are monitored and regularly reviewed.

### **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 council has a formal Constitution and Delegations to Officers. These set out how the council operates and how it makes decisions. These policies are reviewed and amended to reflect changes in regulations and working practices when necessary.

There is an established financial management framework in place that is set out in the council's Constitution through the Financial Regulations, Finance

Manual, Contract Procedure Rules and Procurement Manual. The council's Chief Financial Officer sets out the internal controls that must be complied with to ensure the proper administration of the council's financial affairs.

Risk management arrangements have developed over a number of years and the Strategic Risk Management Group (SRMG) has been instrumental in this process. The council has developed a comprehensive risk management strategy, which has been adopted throughout the council. The strategy is reviewed annually and an action plan of work is developed each year. The risk management strategy sets out the council's approach to risk management and the framework in place to manage risks. This includes strategic and operational risk registers, which assess the likelihood and impact of risks, the mitigating controls in place and responsibilities for those controls. The Strategic Risk Register identifies corporate risks to the council. These are linked to the council's strategic objectives; the definition used was '*those risks which will significantly impair the achievement of the council's principal aims and objectives.*' The register identifies the likelihood and impact of controls and the lead responsibility for managing controls. The Strategic Risk register is reviewed and monitored regularly and the importance of new and emerging risks are recognised. For example, data quality and partnerships have been added to the register. The risks associated with major projects such as Building Schools for the Future, the Pods, and the Waste Management contract are managed through the same process and regular risk register updates are reported to SRMG. Risk related training has been provided for both members and officers throughout the year.

#### **Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

There are well-established arrangements in place to ensure compliance with the council's Constitution, relevant laws, regulations etc. and that expenditure is lawful. Independent legal advice is available on request including specialisms such as employment, planning, education and child care law. The lawfulness of the council's decision-making process is bolstered by the report format protocol which includes appropriate legal input. The risk/options analysis is now embedded so as to ensure that the decision maker is presented with an analysis of the options together with a range of implications.

The council has a strong managerial framework that is supported with policies and procedures in all key areas. Senior managers review controls in place to ensure objectives and obligations are met. Annual statements of assurance are prepared by each Service Director to confirm that the system of internal control within each service area is adequate and key supporting procedures are regularly monitored and reviewed. These are independently evaluated through the work of internal audit.

#### **Whistle-blowing and for receiving and investigating complaints from the public**

The Whistle-blowing charter incorporates appropriate safeguards to protect whistleblowers and details of the Public Interest Disclosure Act 1998. The

whistle blowing policy is advertised on the council's web site <http://www.northlincs.gov.uk/northlincs/councilanddemocracy/finances/fraud/fraudhotline.htm> and intranet. The whistle blower's hotline telephone details are publicised throughout the council.

An improved and streamlined complaints procedure was launched in May 2009. The new procedure provides a more simplified system of complaints handling and opportunity to learn from them.

The Standards Committee receive the Monitoring Officers' annual report on a review of member complaints together with the Local Ombudsman's Annual Report. For the municipal year 2009/10 the Monitoring Officers' report will be replaced by a report of the Committee itself and a number of other initiatives aimed at enhancing knowledge of the work of the Committee will be introduced.

**Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

The council promotes development through the member development charter and access to regular development opportunities. Councillors are helped in their role by a comprehensive induction process after election and ongoing training and development. A member development group has been established to drive forward continuous improvement in this area. North Lincolnshire is one of the few councils in the area to have been awarded the 'Member Development Charter' by IDeA and the nine Regional Employers Organisations.

The council's commitment to learning and development is described in our Human Resources Strategy 'Valuing People'. The strategy demonstrates how the council will deliver one of its core values of 'We Value' in achieving its vision and ambitions.

North Lincolnshire Council takes a strategic approach to addressing its current and future workforce issues. Its approaches to attracting, retaining, developing and motivating the workforce were recognised as being effective when we achieved the Investors in People standard in 2009. The Standard provides a framework for improving performance and developing people to meet business objectives.

Valuing People Together is the council's 3-year corporate workforce strategy. It is linked directly to the council's corporate strategy, *Going Forward Together* and it sets out the council's strategic approach to recruitment, retention and development, its workforce objectives, challenges and plans of action. There is a corporate training programme to ensure skills gaps can be addressed and a learning and development reviewing process (LADAR) to assess the impact and effectiveness of each training course. Employee development reviews and one to one meetings take place to continually assess training and development needs through a personal action plan.

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

The council's communication strategy 'Communicating Together' supports and drives communications around the ambitions, focuses communications on critical areas and improves co-ordination across the council. A key element of the communication strategy is the council's magazine Direct, which is distributed to all households (and is available on the web) and provides a useful tool for surveying stakeholders' views.

The council has encouraged and maintained an effective relationship with local people and other stakeholders by:

- publishing a Forward Plan of Key Decisions;
- encouraging and supporting the public in a range of ways to present issues to the Full Council, Regulatory Committees, Scrutiny and Petition Panels.

The council has a good engagement framework with several examples of good practice e.g. consultation and engagement toolkit (recognized by IDEA), in depth public consultation exercise using consultants (Research for Today) to evaluate key spending priorities for the three year plan. The outcome of the exercise informed the council's 2010/13 Financial Strategy.

**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.**

A definition of the various types of partnerships has been established, this enabled the differing governance arrangements to be considered and developed where necessary. A strategic lead on partnerships has been assigned and a governance framework has been developed that should be applied as a minimum to all relevant partnerships. The framework includes roles, responsibilities and accountabilities and financial and performance management arrangements. A staged approach is being adopted and the framework has been applied to the Local Strategic Partnership and the most significant service partnerships first.

**Review of effectiveness**

North Lincolnshire 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 Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

### **External assessment**

The Comprehensive Area Assessment (Organisational Assessment) for 2009 carried out by the Audit Commission was reported to the Audit Committee along with the Annual Audit Letter in January 2010. This showed that the council's performance was 'adequate'. They identified that the council has a clear vision of what it needs to deliver, based on an assessment of local need. They felt that the council's services were variable with a mix of some good performance and some that could be improved. They also identified that service performance is not sufficiently focused on priorities and could be better focused on outcomes for local people. In addition they identified a number of areas where service performance could be improved. Corporate areas for improvement are being linked into the council's transformation plan. Service issues that have not already been identified as a performance concern will be the subject of a report by the relevant service director setting out how they will improve and the impact that will result.

The council's external auditors carry out a programme of work each year to assess the adequacy of the control environment in place within the council. This is also reported in the Annual Audit Letter. A key component of the CAA is the 'Use of Resources'. This includes an assessment being made on:

- Managing finances
- Governing the business
- Managing resources.

Overall the Auditors reported that the council had adequate arrangements in place in each of the main Use of Resources Themes (managing money, governing the business and managing resources). Each of the themes was assessed as 'meeting minimum requirements - performing adequately' (level 2 score).

## Use of resources theme scores

Use of Resources Theme	Subtheme Score	Overall Scored Judgement
<p><b>Managing finances</b> How effectively does the organisation manage its finances to deliver value for money?</p> <ul style="list-style-type: none"> <li>• Financial Planning</li> <li>• Understanding costs</li> <li>• Financial Reporting</li> </ul>	<p>3</p> <p>2</p> <p>2</p>	2
<p><b>Governing the business</b> How well does the organisation govern itself and commission services that provide value for money and deliver better outcomes for local people?</p> <ul style="list-style-type: none"> <li>• Commissioning and Procurement</li> <li>• Data Quality and the Use of information</li> <li>• Good Governance</li> <li>• Risk Management and Internal Control</li> </ul>	<p>3</p> <p>2</p> <p>2</p> <p>2</p>	2
<p><b>Managing resources</b> How well does the organisation manage its natural resources, physical assets and people to meet current and future needs and deliver value for money?</p> <ul style="list-style-type: none"> <li>• Natural Resources</li> <li>• Asset Management</li> </ul>	<p>2</p> <p>3</p>	2

The assessment showed some good arrangements were identified but not at a consistent level across all areas of the key lines of enquiry (assessment criteria). The arrangements for 2009 have been enhanced through the development of the Use of Resources Working Group and rigorous review of current criteria. The 2009/10 self assessment has been completed but is now suspended by the government therefore the potential outcomes are unknown however a request has been made to receive feed back on any improvement areas.

The Use of Resources report issued in September 2009 identified opportunities for the development of the council's arrangements, in respect of:

- Develop an approach to evidence gathering that encompasses outcomes from key policy decisions and measures the impact across all KLOE themes
- address the shortfalls in efficiency targets

- fully integrate financial and performance reporting to further drive the improvement agenda
- ensure the Audit Committee receive information to enable them to provide robust scrutiny of data quality
- ensure controls across all data systems are documented and evaluated
- use the partnership toolkit to demonstrate the positive impact on outcomes from partnership working
- ensure that mechanisms are in place to gauge the level of confidence that stakeholders and local people have in the governance arrangements of partnerships, including the conduct of members and staff
- continue to develop the assurance systems to support the Audit Committee to improve overall effectiveness
- encompass the carbon action plan and environmental policy into an overarching strategy to drive forward the reduction in natural resources.

In addition to the council's Organisational Assessment rating the Annual Audit Letter reported:

- An unqualified audit opinion was issued on the 2008/09 accounting statements on 30<sup>th</sup> September 2009.
- Accounting statements were much improved in 2008/09 compared to prior years with fewer errors and better working papers. Scope to improve some important controls over the general ledger was identified and these issues are now being addressed.
- Many of the issues identified in last year's letter have been addressed but reducing the level of overall staff absence continues to be a problem.
- An unqualified value for money conclusion was issued on 30<sup>th</sup> September 2009.

Good progress has been made to address the recommendations made in the report and further work is planned such as:

- A strategic approach is being taken to address the shortfalls in efficiency targets through a transformation plan and engagement of external support to carry out a review of efficiency and improvement opportunities.
- Clarity on assurance on internal control arrangements has been improved through revised reporting arrangements to the Audit Committee the development of an annual forward of key reports
- External audit recommendations in respect of the preparation of the financial accounts are being addressed
- The link between financial and operational performance has been strengthened in the council's revised strategic plan and receives greater emphasis in QPRs. Quarterly budget monitoring reports examine the impact of key operational cost drivers and financial and performance reporting is more integrated to further drive the improvement agenda.

- In February 2010 Cabinet approved the adoption of a carbon management plan and established a carbon Recycling to Save Fund, to deliver energy and carbon reductions over the next 5 years.

External Audit's 2008/09 grants review highlighted that the arrangements in place to ensure the timely and accurate submission of grant claims had been maintained. Overall performance was broadly the same as the previous year but with an improvement in timeliness. Opportunities to make further improvements to current arrangements were identified and the Audit Committee will receive regular updates on action taken to implement audit recommendations.

Also, the Audit Committee receives regular reports on the implementation of External Audit recommendations. This process confirms that action is in hand to implement all recommendations made.

The Monitoring Officer's annual report on Members Code of Conduct for 2008/09 was considered by the Standards Committee in July 2009. Twelve complaints were received, three of which were referred to the Standards Board. In one case the Board found there had been a breach of the code but that no action needed to be taken; in the other two cases there had been no breaches. Quarterly returns are submitted to the Standards Board as required as well as an annual statement. For the municipal year 2009/10 the Monitoring Officer's report on members' conduct will be replaced by a report by the committee itself and a number of other initiatives (e.g. meetings between the Standards Committee chair and the Chief Executive, Leader and Whips of the two political groups on a 6 monthly basis) aimed at enhancing knowledge of the work of the committee will be introduced,

### **Internal assessment**

Internal Audit provided an opinion to the Audit Committee in June 2010 on the adequacy of internal control across all the council's activities. Internal Audit's Annual Report for 2009/10 concludes that reasonable assurance could be given that the council's control environment was generally adequate. The opinion is derived from:

- The review of all fundamental financial systems shows either significant or adequate assurance on controls in place. Recommendations were made to improve journal administration arrangements and password and access controls in respect of the CareFirst system.
- Reviews of other significant systems such as risk management, and corporate governance also provide adequate assurance on controls in place
- Good progress has been made to clear the backlog of FMSiS assessments. To date no school has failed to meet the accreditation criteria
- No significant control issues were identified from school audits
- Counter fraud arrangements have been strengthened and meet with best practice guidance available. The council's risk assessment has been evaluated as low risk and no significant frauds were reported during the year



A positive response has been received in respect of all recommendations for improvement as a result of audit work. In view of the action put in place all issues highlighted are now in the process of being addressed.

The council has taken a range of actions in response to the Icelandic Banking crisis. In particular it is working with the LGA to recover the frozen investments, and a significant portion of these has been returned and more is expected (further details are in the Foreword). The investment strategy was reviewed to implement group and national limits and a restricted range of counterparties, (major UK clearing banks and the Treasury's Debt Management Office) is being used in the current market conditions. Recommendations made by CIPFA and the Audit Commission have been implemented; perhaps the most significant of which has resulted in increased scrutiny of Treasury performance through regular reporting to the Audit Committee during the year.

A report was also be prepared for the Audit Committee in June on the effectiveness of Internal Audit during 2009/2010 to fulfil the requirements of the Accounts and Audit Regulations (amendment) 2006. This showed internal audit provided an effective service based on:

- External audit's review of Internal Audit and evaluation of compliance with professional (CIPFA) standards
- Good customer feedback
- Achievement of most performance targets.

Compliance with CIPFA's Statement on the Role of the Chief Financial Officer (CFO) in Local Government has been reviewed by Internal Audit. The review concluded that financial management arrangements comply with all principles set out in the Statement that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them.

The risk management strategy in place during 2009/2010 was agreed by the Strategic Risk Management Group (SRMG) and the Audit Committee and was reviewed and strengthened for 2010/2011. The risk management strategy and action plan helps to prioritise work to the areas of highest risk to the council. The proposed action plan for 2010/2011 has been structured to meet the aims and objectives of the strategy. Successful implementation and delivery of the transformation plan is vital in the light of future public sector funding and is reflected in the risk management strategy. The impact of key transformation milestones on the control environment will be monitored through the action plan. For 2010/2011 service plans the risk of non delivery of council ambitions and priorities will be tracked along with key service partnership risks. An important task identified in the action plan is the review of the strategic risk register following the completion of new style service plans. During 2009/10 SRMG received and confirmed the council's strategic risks and ensured key controls are reviewed regularly. The review of Strategic Risk controls reported to the Audit Committee in January 2010 showed that all risks were adequately managed to an appropriate level and controls are assessed as satisfactory or good. This represents an overall improvement against the evaluation of

strategic risk controls reported to the Audit Committee in January 2009. Specifically controls have been strengthened in respect of the strategic risk 'Serious breach of information, integrity, confidentiality & availability' through the implementation of Government Connect requirements and improved physical controls such as resiting and refurbishment of the new IT suite. Internal Audit's review of risk provided adequate assurance on management arrangements – the main areas for improvement being:

- Improved risk management information and analysis through an electronic risk management solution
- Further training for staff where gaps have been identified through the generic competences, and the counter fraud and governance survey
- Targeted training with QPR service leads

One important development for 2010/2011 is the introduction of performance measures to demonstrate success and positive outcomes/impact of the strategy. The latest Comprehensive Area Assessment - Use of Resources rated internal control arrangements (which include risk management arrangements) as 2 – meeting minimum requirements – performing adequately. This represents consolidation of arrangements against more demanding criteria. The Use of Resources self assessment for 2009/2010 was completed but is now suspended by the government therefore the potential outcomes are unknown however a request has been made to receive feed back on any improvement areas.

A review of effectiveness of the Audit Committee was completed using the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on audit committees and a self-assessment 'toolkit'. The evaluation as indicated in the checklist shows the Audit Committee meets best practice in most aspects. Some opportunities for development were identified for the Committee to consider. The Audit Committee has also had the ability to raise queries with relevant officers on key issues e.g. performance. This work has been built on and arrangements have been enhanced through the introduction of the forward plan and assurance map of reports.

Corporate governance arrangements were evaluated by internal audit against CIPFA/SOLACE best practice framework. The council's arrangements meet with best practice in most areas. The review incorporates assurances received from internal and external review bodies, the Chief Financial Officer and Monitoring Officer. The findings and actions for improvement were reported to the Audit Committee in the Internal Audit Annual report.

Internal Audit's evaluation of counter fraud arrangements against CIPFA guidance indicated that the council's arrangements generally comply with best practice and its risk of fraud profile is low. Nevertheless counter fraud arrangements have been strengthened during the year in response to further professional guidance and a potential increase in the risk of fraud caused by the recession and other economic factors. A publicity campaign to raise awareness about the potential risk of fraud has been launched and a counter fraud newsletter has been widely distributed throughout the council. The Anti Fraud, Theft and Corruption Strategy has been reviewed and strengthened to

demonstrate the council's zero tolerance stance on fraud. An anti money laundering policy has been introduced and targeted training provided in conjunction with the police. The Audit Committee receive regular reports on counter fraud work to gain assurance on the adequacy of arrangements in place and for the first time a specific counter fraud plan has been developed to provide the committee with assurance on Internal Audit work planned during 2010/11 aimed at preventing, detecting and deterring fraud.

A follow up audit of the council's approach to partnership working, compliance with the framework and impact of applying the governance toolkit showed the partnership framework and assessment has been applied to the LSP and contributory partners. The framework is being applied to significant service specific partnerships and has resulted in rationalization of partnerships and strengthening of governance arrangements. The Comprehensive Area Assessment recognized opportunities for increasing the capacity of the LSP.

### **Governance developments planned during 2010/2011**

1. Continue to progress the work already underway to address the External Auditors findings in the Annual Audit Letter and Organisational Assessment such as
  - Continue to address the shortfalls in efficiency targets through the council's strategic transformation plan approach and at a service level through better engagement and efficiency capture.
  - Continue to investigate methods of reducing staff sickness levels to increase capacity within the council
  - Continue to develop reporting arrangements to the Audit Committee to increase the focus on how the Committee obtains assurance regarding the operation of the internal control framework and financial reporting arrangements
  - External audit recommendations have been implemented in the preparation of the 2009/10 financial statements and will be evaluated in their audit of accounts review. Any further recommendations made following this review will be considered.
  - Work will continue to develop the link between financial and operational performance.
  - Implement the council's carbon management plan to deliver energy and carbon reductions over the next 5 years.
2. Address internal control issues highlighted in Internal Audit's Annual Report including corporate governance review recommendations.
3. Development and delivery of the Transformation Plan including Worksmart and other VFM and efficiency initiatives to meet future funding reductions.
4. Continue to strengthen governance arrangements for the LSP.

## Certification

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

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:



22 June 2010

Leader of North Lincolnshire Council

Signed



22 June 2010

Chief Executive