

## **Audit and Governance Committee**

13 May 2008

Report of the Assistant Director (Audit and Risk Management)

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## **2007/08 Annual Governance Statement**

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### **Summary**

- 1 The purpose of this report is to provide Members with details of the progress which has been made;
  - to prepare the 2007/08 Annual Governance Statement (AGS), formerly the Statement on Internal Control (SIC), which is to be published with the Statement of Accounts.
  - to address the significant control issues identified in the 2006/07 SIC.

### **Background**

- 2 As reported to the last meeting of this Committee (on 15 January 2008), the Accounts and Audit Regulations 2003 imposed a legal requirement on all local authorities to conduct a review of the effectiveness of its system of internal control and to publish a SIC as part of the annual accounts.
- 3 CIPFA/SOLACE originally published a guidance document for local authorities in 2001, called *Corporate Governance in Local Government: A Keystone for Community Governance*. The guidance was not mandatory but was intended to help authorities to develop and maintain strong governance arrangements.
- 4 CIPFA/SOLACE recently published an updated Framework document. The new document '*Delivering Good Governance in Local Government Framework*' set out six core principles of governance which authorities are required to adopt. In accordance with this requirement, the Council adopted a new local Code of Governance in September 2007 which reflects the new CIPFA/SOLACE framework.
- 5 The new guidance also introduced the requirement on local authorities to prepare an Annual Governance Statement (AGS) instead of a SIC (from 2007/08 onwards). In preparing the AGS it is necessary to address the overall governance arrangements of the organisation rather than specifically the systems of internal control.

## 2007/08 Annual Governance Statement (AGS)

- 6 The Council had previously developed a robust system to prepare the annual SIC. As agreed by this Committee, the system is being used as the basis for preparing the new AGS, subject to the changes detailed in paragraph 8 below.
- 7 The process continues to be coordinated by the Officer Governance Group, and a key element of the process remains the review of the Council's governance arrangements and systems of internal control. This review includes a requirement for each Directorate to complete a self assessment of the key controls within their respective areas. Each Director must then complete and sign a Directorate Assurance Statement, using the information obtained from the review of key controls and associated evidence. The S151 Officer and Monitoring Officer must also complete and sign disclosure statements. The review process will also take account of the Chief Internal Auditor's opinion on the overall adequacy and effectiveness of the Council's internal control environment. In addition, Internal Audit are undertaking a review of other documentary evidence to identify possible control weaknesses (for example, internal and external audit reports and other inspection reports).
- 8 The following specific changes have been made to the process:
  - the Directorate and Corporate self assessments have been adapted so that they clearly focus on the six governance principles rather than simply the Council's system of internal control;
  - Corporate Management Team has taken ownership of the corporate self assessment and for addressing any weaknesses which may be identified;
  - The Chief Executive is now required to complete and sign an Assurance Statement;
  - For the 2007/08 AGS, Internal Audit will map the Council's existing governance arrangements and identify gaps. This exercise will help to confirm the existence of the current governance arrangements, identify ownership and assess the level of assurance required;
  - In future years, Internal Audit will provide independent assurance on the effectiveness of these governance arrangements. This will necessitate some changes in emphasis when the Audit Plan is prepared.
- 9 The Officer Governance Group will evaluate any control issues identified through the review process and consider which should be disclosed in the AGS as significant control weakness. A control weakness will be considered to be significant where;
  - a) the issue has seriously prejudiced or prevented achievement of a principal Council aim or objective;

- b) the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in a significant diversion of resources from another aspect of the Council's services;
  - c) the issue has led to a material impact on the accounts;
  - d) the Audit and Governance Committee has advised that it should be considered significant for this purpose;
  - e) the Chief Internal Auditor has reported on it as significant in the annual opinion on the Council's internal control environment;
  - f) the issue, or its impact, has attracted significant public interest or has seriously damaged the Council's reputation;
  - g) the issue has resulted in formal action being taken by the S151 Officer and/or the Monitoring Officer.
- 10 A copy of the timetable to prepare the AGS is attached at Annex 1, for information.

### **Progress to Date**

- 11 Internal Audit has reviewed the progress which has been made to address the nine significant control issues identified in the 2006/07 SIC. In all cases work is ongoing to improve the relevant governance arrangements and control framework. For some of those control issues where work is still ongoing there is still insufficient evidence that the new or improved control arrangements are fully embedded across the Council. Further details of the progress which has been made to address the significant control weaknesses are given in Annex 2.
- 12 Internal Audit has completed the amendments to the Directorate and Corporate control self assessments to reflect the new requirements for the AGS. Directorates are currently in the process of reviewing and completing their key control self assessments, and providing evidence of:
- a) what action(s) they had been taken to address any control weaknesses identified as part of the 2006/07 SIC review, plus
  - b) any new or emerging control weaknesses.
- 13 Directorate responses are being verified as part of the review of governance arrangements which Internal Audit is currently undertaking. CMT has also considered the issues identified in the corporate self assessment.
- 14 The Officer Governance Group will take account of the results of the follow up exercise prior to the preparation of the draft AGS.

## Consultation

15 Not relevant for the purpose of the report.

## Options

16 Not relevant for the purpose of the report.

## Analysis

17 Not relevant for the purpose of the report.

## Corporate Priorities

18 This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

## Implications

19 The implications are;

- **Financial** – there are no financial implications other than the time required to undertake the review of key controls and prepare the AGS.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there is a legal requirement for the Council to publish a Annual Governance Statement as part of the annual Statement of Accounts.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

## Risk Management Assessment

20 The Council will fail to comply with legislative requirements if it does not publish a Annual Governance Statement with the annual Statement of Accounts. The Council would be criticised by the external auditor if the process followed to prepare the Annual Governance Statement was not sufficiently robust. This in turn would adversely impact on the Council's CPA score for the Use of Resources.

## Recommendation

21 Members are asked to;

- note the results of the work completed to date by Internal Audit to prepare the 2007/08 AGS.

### Reason

*To enable Members to consider the adequacy and effectiveness of the Council's control environment.*

- consider the results of the follow up review of the 2006/07 SIC action plan.

### Reason

*To ensure Members are aware of the progress which has been made to address previously reported significant control issues.*

## Contact Details

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Report Approved



Date 29 April 2008

## Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

## Background Papers

- CIPFA/SOLACE – ‘Delivering Good Governance in Local Government’ – Framework and Guidance Note for English Authorities
- Accounts and Audit Regulations 2003 (as amended)
- CIPFA guidance – ‘The Annual Governance Statement’ – Meeting the Requirements of the Accounts and Audit Regulations 2003 (as amended 2006)

## **Annexes**

Annex 1 – Timetable for preparing the 2007/08 AGS

Annex 2 - 2006/07 SIC Action Plan Follow Up