

REPORT FOR DECISION

Agenda Item	
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MEETING: Audit Committee

DATE: 24th February 2009

SUBJECT: Quarterly Review of Governance Statement

REPORT FROM: Head of Strategic Finance

CONTACT OFFICER: Stephen Kenyon

TYPE OF DECISION: NON KEY DECISION

**FREEDOM OF INFORMATION/
STATUS:** For Publication

SUMMARY:

This report presents Members with a quarterly update on the Annual Governance Statement (approved by Audit Committee June 2008).

OPTIONS AND RECOMMENDED OPTION (with reasons):

Members are requested to note the contents of the report.

IMPLICATIONS -

**Corporate Aims/Policy
Framework:**

Do the proposals accord with the Policy Framework? Yes No

**Financial Implications and
Risk Considerations**

The Annual Governance Statement is a fundamental document for recording, monitoring, and communicating the state of internal control within the Council. Failure to prepare an effective Statement, and failure to update on a regular basis presents a significant risk.

**Statement by Director of Finance
and E-Government:**

Publication of the Annual Governance Statement is a requirement of the Accounts and Audit Regulations 2003 (as amended

2006).

Equality/Diversity implications Yes No
Considered by Monitoring Officer: Yes No

Are there any legal implications? Yes No

Staffing/ICT/Property: No

Wards Affected: No

Scrutiny Interest: Potential input to Statement updates

TRACKING/PROCESS

DIRECTOR: Finance & eGovernment

Chief Executive/ Management Board	Executive Member/ Chair	Ward Members	Partners
Scrutiny Commission	Executive	Audit Committee	Council
		24/2/09	

1.0 Purpose of the Annual Governance Statement

1.1 The purpose of the Annual Governance Statement (AGS) is to provide a continuous review of the effectiveness of an organisation's internal control and risk management systems, so as to give an assurance on their effectiveness.

1.2 There has been a mandatory requirement to produce a Governance Statement for inclusion in the Authority's Statement of Accounts since 2007/08. The latest statement was approved by Audit Committee in June 2008 along with the statutory Statement of Accounts.

1.3 The Council's 2006 Use of Resources Judgement stated;

"The Authority needs to strengthen the assurance framework and ensure that the review of the SIC becomes a regular quarterly process"

1.4 This report details the continuous monitoring that takes place, and highlights any relevant issues.

2.0 Issues

2.1 Risk Management

2.1.1 Arrangements to revise Risk Registers at both Departmental and Corporate level are now firmly in place, and reviews have taken place each quarter for over 2 years.

2.1.2 The Corporate Risk Register records the Council's highest risks, and is revised quarterly taking into account the findings of Departmental Risk Reviews, and the views of Management Board and Elected Members (via Corporate Risk Management Group)

2.1.3 The register as at 31st December 2008 is presented below and is in the process of being updated for the end of March 2009;

CORPORATE RISK REGISTER AS AT 31st DECEMBER 2008

Ref	Risk Event Category	Risk Event	Impact (New)	Likelihood (New)	Residual Risk Score	Target Risk Score	Rank	Action Taken
1	Budgets	Budget is unsustainable and inadequate to support the achievement of the Council's Priorities and Ambitions	3	2	6	3	M	Controlled
2	Performance	Performance levels reduce as measured by CPA / JAR performance management systems	3	2	6	3	M	Accepted
3	Human Resource	Absenteeism levels are unacceptably high (as measured by BVPI targets)	3	2	6	3	M	Accepted
4	Technologies	Failure to effectively revise working practices to realise the full potential of new ICT systems now in place.	2	2	4	2	L	Accepted
5	Partnerships	Failure to comply effectively with established partnership governance arrangements within the Council and Team Bury	3	1	3	3	L	Accepted
6	Organisational Change	Childrens' Services are unable to meet existing and/or future demands within existing risk parameters	3	1	3	3	L	Accepted
7	Human Resource	Arrangements for workforce development / workforce planning do not support the provision of a 'Fit for Purpose' workforce	3	2	6	3	M	Accepted
8	Organisational Change	Demands for Adult Social Care out-strip the available resources and capacity	3	3	9	2	H	Accepted
9	Performance	Disaster Management policies practices and manuals are ineffective	2	2	4	2	L	Accepted
10	Assets	Back-log against the Maintenance Programme	3	2	6	3	M	Controlled
11	Community Safety	Relocation of Travellers Site	2	3	6	2	M	Accepted
12	Budgets	To effectively implement Pay & Grading Review in line with NJC pay agreement 04/07	4	4	16	4	H	Controlled
13	Budgets	Risk of deteriorating economic climate impacting upon the Council's financial wellbeing, and also leading to increased levels of support / service demands from the public	2	2	4	2	L	Accepted

2.1.4 Work continues to develop the Council's approach to risk management, e.g. development of risk registers in respect of partnership working.

2.1.5 The current approach to risk management has worked well to date, however it is in the process of being reviewed, with the aim of integrating it further into the day to day management and decision making processes of the Council.

2.1.6 The review draws upon best practice as identified by the Association of Local Authority Risk Managers (ALARM) as well as guidance from the Council's insurers and external auditors.

2.2 Work of Internal Audit

2.2.1 The Internal Audit section operates according to a risk based Audit Plan.

2.2.2 During the year to date, the section has examined the following fundamental financial systems;

- Main Accounting Feeder Systems
- Debtors
- Creditors
- Capital Payments
- Treasury Management
- Housing Benefits
- Housing Rents
- Council Tax
- Stores
- Income Control

2.2.3 The section produces reports which rank recommendations according to urgency / priority. The section has made a total of 304 audit recommendations for the year to date.

2.2.4 The highest category (RED) is for those recommendations where it is perceived control weaknesses warrant comment in the Governance Statement.

2.2.5 During the current Audit year, 3 reports have given rise to recommendations in this category;

- **Creditors Input**

Identified lapses in controls following the implementation of the Agresso system, including use of batch totals, and checking of supplier references

- **Confirm Highways System**

Highlighted issues relating to the schedule of rates, authorisation processes, and invoicing arrangements

- **Yesoiday Hatorah School**

Raised concerns about reconciliation of school records to the Council's main accounting system

2.2.6 Internal Audit will oversee the management response to these issues, and report any outstanding concerns back to this Committee.

2.2.7 As part of its proactive fraud prevention / detection work, the section has collated and submitted information to the National Fraud Initiative (NFI) for data-matching exercises in respect of the following areas;

- Payroll
- Residents Parking Permits
- Creditors
- Right to Buy
- Private Residential Care Homes
- Blue Badge Parking Permits
- Housing Rents
- Taxi Drivers
- Alcohol Licensees
- Market Traders
- Insurance Claimants

2.2.8 The results of the data-matching exercise are expected later this month.

2.3 Review of Ethical Governance

2.3.1 The Internal Audit Section has undertaken a widespread review of Ethical Governance to assess the adequacy of Governance arrangements. The review covered a range of senior officers, and Elected Members.

2.3.2 The Governance Panel is now established, and has met, and prepared an action plan in response to the findings of this review (reported to Audit Committee December 2008). The panel comprises;

- Director of Finance & eGovernment (s151 officer)
- Director of Legal & Democratic Services (Monitoring Officer)
- Head of Strategic Finance
- Head of Internal Audit

2.3.3 Limited awareness of the Ethical Governance framework was by far the most significant finding of the review. To address this, a training package is being developed with the in-house Organisational Development Team; this will be made available to officers and Elected Members.

2.4 Budget Monitoring

2.4.1 Finance and performance is monitored in different ways at different stages of the year:

Monthly - reports are considered by service management teams and summaries made available to specific Executive Members. A monthly summary of the financial position is submitted to Management Board .

Quarterly – detailed corporate monitoring reports based on the position at June, September, December and March are considered by Management Board, the Executive, the Audit Committee, Star Chambers and the Resource and Performance Scrutiny Commission. These reports set out a risk assessed summary of the financial position together with supporting performance information, explanations of the major variances, an assessment of the minimum level of balances, information on the forecast balances position and an assessment of performance against the objectives of the Financial Strategy (including the Golden Rules).

2.4.2 The table below shows a summary of the forecast outturn based on information available at 31 December 2008 (i.e. month 9):

	£m
Adult Care Services	2.505
Chief Executive's	0.194
Children's Services	(0.040)
E&DS	0.388
Non Service Specific	(2.464)
TOTAL PROJECTED OVERSPENDING	0.583

2.4.3 The overspending areas identified are being tackled in a number of ways including Best Value reviews and service specific Action Plans. Star Chamber meetings pay particular attention to budgets with the highest risk.

2.4.4 Despite the month 9 position showing a forecast overspend of £0.583m trends in recent months point to a constant improvement in the position and it is possible that the remedial action currently being taken will bring the budget into balance by 31st March 2009. A planned refund from the Waste Disposal Authority will go a considerable way to help achieve this although prudence dictates that the refund cannot be reported until it is confirmed. Prudence also dictates that financial plans should be based on the more pessimistic position and a sum equivalent to the forecast overspending will be earmarked within the General Fund balances.

2.4.5 Members are referred to the full corporate monitoring report by the Director of Finance & eGovernment elsewhere on this agenda.

2.5 Local Pay Agreement

2.5.1 The final pay model was approved by the Executive on 3rd December 2008.

2.5.2 The Council is currently consulting with the Trades Union.

2.5.3 Further updates will be brought to this Committee when available.

2.6 Use of Resources Judgement

2.6.1 The Council has now received its 2008 Use of Resources Auditor Judgement as follows;

	2008	2007	2006
Financial Reporting	3	3	3
Financial Management	3	3	3
Financial Standing	3	3	2
Internal Control	3	3	2
Vale for Money	3	3	3
Overall Assessment	3	3	3

2.6.2 Overall, the Council has scored a level 3; “performing well” for the last three years. Members are asked to note that the assessment criteria for each factor have become increasingly demanding year on year.

2.6.3 Work is now underway to prepare for the 2009 assessment, which is again more challenging, and introduces a wider scope, e.g. use of “natural” resources and environmental considerations.

2.6.4 Feedback from the Audit Commission confirms the 2009 assessment will equate to a harder test to the extent that they expect on average to see an immediate reduction of current scores by a factor of one i.e. authorities currently scoring 3 will fall to a 2 and very few authorities will receive a score of 4.

2.6.5 Meetings have been held between the Authority and KPMG to determine what action can be taken to optimise the Authority’s score and a working group has been established to progress this.

2.7 Gifts & Hospitality / Declarations of Interest

2.7.1 A web-based system is now in place for Members and officers to report offers of gifts & hospitality, and any interests which may potentially conflict with their role.

2.7.2 The systems are well used with regular declarations from all levels of the organisation. A quarterly report is presented to the Audit Committee outlining declarations made.

2.7.3 Email reminders have recently been sent to Members and Officers reminding them of the importance of making declarations.

2.7.4 A full report in respect of declarations for the period ended 31st December 2008 is included elsewhere on this agenda.

2.8 Annual Governance Statement 2008/09

- 2.8.1 Guidance is published annually by CIPFA outlining the required content for the Annual Governance Statement. This is currently being analysed and will be implemented.
- 2.8.2 Work is already starting to obtain background information – e.g. assurances from Directors, and key stakeholders.

3.0 **Conclusion**

- 3.1 This report gives an assurance, and provides evidence that the Council reviews its internal control / governance mechanisms on a continuous basis.
- 3.2 A number of significant control weaknesses have been identified through the work of Internal Audit. Internal Audit will oversee the management response to these issues, and report any outstanding concerns back to this Committee.
- 3.3 The control environment will continue to be monitored throughout the year, and Audit Committee will continue to receive updates on a quarterly basis.

List of Background Papers:-

Risk Registers
Internal Audit Reports
Gifts & Hospitality Register
Declarations of Interest Register

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