

REPORT FOR DECISION

MEETING: **AUDIT COMMITTEE**

DATE: **22nd FEBRUARY 2011**

SUBJECT: **QUARTERLY GOVERNANCE STATEMENT OCTOBER TO DECEMBER 2010**

REPORT FROM: **DIRECTOR OF FINANCE AND E-GOVERNMENT**

CONTACT OFFICER: **S. Kenyon - Head of Strategic Finance**

TYPE OF DECISION: **NON-KEY DECISION**

FREEDOM OF INFORMATION/STATUS: This paper is within the public domain

SUMMARY: This report presents Members with a quarterly update on the Annual Governance Statement (approved by Audit Committee June 2010).

OPTIONS & RECOMMENDED OPTION The Committee is asked to note the contents of the report.

Members are requested to consider the "Top 10" risks proposed by the CIPFA "Better Governance Forum".

IMPLICATIONS:

Corporate Aims/Policy Framework:

Do the proposals accord with Policy Framework? Yes.

Financial Implications and Risk Considerations:

The Annual Governance Statement is a fundamental document for recording, monitoring and communicating the effectiveness of the internal control framework within the Council.

Failure to maintain an internal control / governance framework jeopardises the Council's ability to deliver economy, efficiency and effectiveness in the delivery of its priorities / ambitions.

Statement by Director of Finance and E-Government:

Publication of the Statement is a requirement of the Accounts & Audit Regulations (2003).

Equality/Diversity implications: No

Considered by Monitoring Officer: Yes - Through the Governance Panel; the Monitoring Officer has raised no issues that require inclusion in the Quarterly Statement.

Are there any legal implications? No

Staffing/ICT/Property: No

Wards Affected: All

Scrutiny Interest: No

TRACKING/PROCESS

DIRECTOR: Mike Owen

Chief Executive/ Management Board	Executive Member/Chair	Ward Members	Partners
Scrutiny Commission	Executive	Committee	Council
		Audit 22/2/11	

1.0 Purpose of the Annual Governance Statement

- 1.1 The purpose of the Annual Governance Statement 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 as to their effectiveness.
- 1.2 There is a mandatory requirement to produce a Governance Statement for inclusion in the Authority's Statement of Accounts – as approved June 2010.
- 1.3 It is accepted good practice to continuously review the internal control framework, and make interim reports to those charged with governance – the Audit Committee.
- 1.4 The Council has adopted this practice for the last three years, and refers reports to the Audit Committee on a quarterly basis.

2.0 Quarterly Update

2.1 Risk Management

- 2.1.1 Risk registers are held at both Corporate and Departmental level.

- 2.1.2 The registers are web-based to allow “real time” update as and when circumstances require.
- 2.1.3 Registers are reported to the Council’s Management Board on a quarterly basis. Management Board have dedicated agenda time to systematically work through the Corporate Risk Register, ensuring there is clear ownership of risks, and that appropriate responses / action plans are in place. Management Board next considers and updates the Corporate Risk Register on **21st February 2011**.
- 2.1.4 An officer level risk management group sits quarterly to discuss operational matters; the Group last met on **25th January 2011**.
- 2.1.5 Similarly, a member level Corporate Risk Management Group sits quarterly to review registers and action plans. The group last met on **10th January 2011** to review and update the Corporate Risk Register.
- 2.1.6 A Risk Management Annual Report is presented to this Committee, the Executive & Full Council.
- 2.1.7 The latest version of the Corporate Risk Register (to 31st December 2010) is reproduced below highlighting quarterly direction of travel to date;

Ref	Risk	Q1		Q2		Q3	
		Impact	Likelihood	Impact	Likelihood	Impact	Likelihood
001	Locally, there is a risk that the budget is unsustainable	3	3	4	3	4	2
		9 (High)		12 (High)		8 (High)	
002	Continue to develop and implement preparations and improvement programme for Comprehensive Area Assessment	2	2	Risk Removed		Risk Removed	
		4 (Low)					
003	Absenteeism levels are unacceptably high impacting upon performance and incurring additional costs - overtime agency staff etc..	3	2	4	2	4	2
		6 (Medium)		8 (High)		8 (High)	
004	In light of anticipated funding reductions the organisation needs to have an effective transformation process to ensure that services are delivered within available resources. It is likely this will impact on the range of services provided and levels of performance.	2	2	3	3	3	3
		4 (Low)		9 (High)		9 (High)	

006	Demand led costs within Childrens Services are growing at a rate that cannot be contained within the current budget	3 6 (Medium) 2	3 12 (High) 4	4 16 (High) 4
007	Arrangements for workforce development / planning do not produce the staff mix (numbers, skills, etc) required for future service delivery	3 6 (Medium) 2	3 6 (Medium) 2	3 6 (Medium) 2
008	Demands for Adult Social Care outstrip the available resources and capacity	3 6 (Medium) 2	3 6 (Medium) 2	3 6 (Medium) 2
009	Disaster Management policies, practices & manuals are ineffective	2 4 (Low) 2	Risk Removed	Risk Removed
010	There is an opportunity for the Council to review its Asset Base; maximising the performance / return on assets, and where necessary disposing of underperforming assets	3 6 (Medium) 2	3 6 (Medium) 2	3 6 (Medium) 2
012	To effectively implement a Pay & Grading Review in line with the NJC pay agreement	3 6 (Medium) 2	Risk Removed	Risk Removed
013	Nationally, the review of public sector spending is likely to mean a reduction in funding, and a risk that Council Services can no longer be provided at their current levels.	3 6 (Medium) 2	4 16 (High) 4	4 16 (High) 4

2.1.8 The Council is a member of CIPFA's "Better Governance Forum"; this provides guidance on best practice and advises members of emerging national risks.

2.1.9 In January, the Forum produced a "Top 10" list of risks for Audit Committees to consider. This is reproduced at Appendix 1 for members to consider / discuss.

2.2 Business Continuity

2.2.1 The Authority has ranked key services in terms of required recovery times, and business continuity plans continue to be developed.

2.2.2 A database has now been developed to host these plans, and ensure appropriate arrangements are in place where services are inter-dependant.

A deadline of 31st December 2010 was set for completion of the database; whilst progress has been made – **69% complete** (previously 45%) – it remains a concern that not all plans are complete. The Council’s Risk Manager is now targeting specific areas where plans remain outstanding.

2.3 Budget Monitoring

2.3.1 A summary of the forecast outturn for the year (as at 31/12/10) is shown in the table below;

Department	Budget £'000	Forecast £'000	Variance	
			£'000	%
Adult Care Services	42,437	42,628	+191	+0.45
Chief Executives	5,423	5,298	-125	-2.30
Childrens Services	25,849	26,675	+826	+3.20
Env & Dev Services	34,262	34,162	-100	-0.29
Non-Service Specific	32,414	31,000	-1,414	-4.36
TOTAL	140,385	139,763	-622	-0.44

2.3.2 The projected underspend of **£0.622m** represents approximately **0.44%** of the total net budget of **£140.385m**.

2.3.3 As Members will be aware, financial reporting involves an element of judgement, and this particularly applies to the treatment of budget pressures. Often an area of overspending identified at this point in the year will resolve itself before the end of the year following appropriate budget management action.

2.3.4 However it is felt that it is most appropriate to alert Members to potential problems at this stage so that they can monitor the situation and take ownership of the necessary remedial action and this is the basis on which the report is written.

2.3.5 A full report from the Director of Finance & e Government is included elsewhere on this agenda. Based on the information contained in this report, on the risk assessments that have been made, and using the latest available information on the likely achievement of savings options it is clear that there is no reason to take the minimum balances above their current level.

2.4 Work of Internal Audit

2.4.1 The Internal Audit Section operates according to a risk based Audit Plan.

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

- NNDR
- Payroll
- Housing benefits
- Stores (Asset Management)
- Cash and Bank Reconciliation
- Creditors
- Treasury Management
- Pensions

- Risk Management
- Debtors

2.4.3 The section produces reports which rank recommendations according to urgency / priority. The section has made a total of **308** recommendations for the year to date. To date, none of these recommendations have been ranked RED – which would warrant specific inclusion in the Governance Statement.

2.5 Work of Governance Panel

2.5.1 The Governance Panel has now met nine times since its inception in November 2008, and continues to be a valuable arena to exchange information / concerns regarding the Council's governance arrangements.

2.5.2 The Panel comprises;

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

2.5.3 The Panel last met on **27th January 2011**; no concerns were raised which required specific reference in this update.

2.6 Gifts & Hospitality

2.6.1 A web-based system operates for members and officers to report offers of gifts & hospitality, and any interests which may conflict with their role.

2.6.2 A full update of declarations for the period ended **31st January 2011** is reported elsewhere on this agenda.

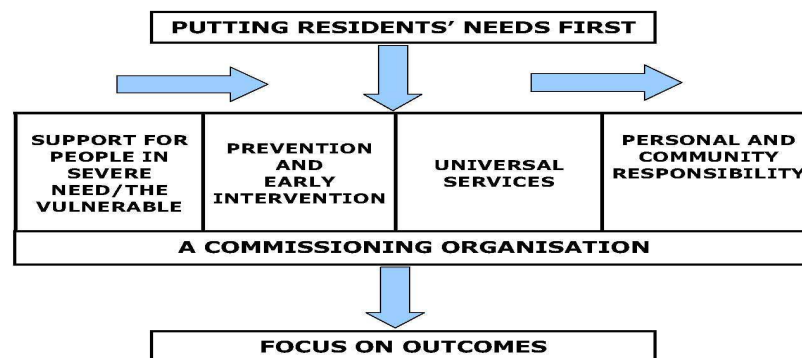
2.7 Transformation Strategy

2.7.1 Previous updates have outlined the outcome of the Government's Comprehensive Spending Review.

2.7.2 The position for Bury has now been confirmed with the publication of the final grant "settlement" figures. Whilst this removes the uncertainty, the settlement presents a financial challenge on an unprecedented scale.

2.7.3 It is clear that this cannot be addressed through the Council's traditional budgeting processes and the Council will have to embark upon a more radical transformation process, asking fundamental questions about the services it is to deliver in the future.

2.7.4 The diagram overleaf sets out the seven transformation principles that will be applied;



2.7.5 A fundamental and objective review of services will be undertaken assessing why and how services are currently delivered and identifying improvements going forward.

2.7.6 Service Transformation Assessment Reviews (STAR) will be undertaken in phases, initially as follows;

Phase 1	Phase 2
<ul style="list-style-type: none"> • Communications, Marketing and Consultation • Financial Assessment and Means Testing • Learning Disabilities • Organisational Development and Training • Parks and Open Spaces • Safeguarding 	<ul style="list-style-type: none"> • Environmental Services • Highways • Income Billing and Collection • Leisure • Libraries • Working with the Third Sector and Communities

2.7.7 A Transformation Strategy is nearing completion and will be the subject of consultation. This will be a key document that will provide leadership, instil confidence about the future and create a dynamic process of planned change through an inclusive engagement process.

2.8 Sickness Update

2.8.1 At the December meeting of the Audit Committee, Members reiterated their concerns about staff sickness levels, and requested that regular updates be included in the within the Quarterly Governance Statement.

2.8.2 The table overleaf summarises sickness levels by department using the former Best Value Performance Indicator BVPI12.

2.8.3 The indicator shows the average number of days lost per full-time equivalent (FTE) over a rolling 12 month period.

Department	Days lost per FTE; 12 months to 30/6/10	Days lost per FTE; 12 months to 30/9/10	Days lost per FTE; 12 months to 31/12/10
Adult Care	18.03	18.98	19.12
Chief Executives	9.04	7.34	6.53
Childrens Services	8.67	8.57	8.37
Environment & Development	12.63	12.25	11.61
Council Average	11.04	10.87	10.55

- 2.8.4 It is encouraging to note that overall sickness levels are now on a downward trend, however clearly there are still areas for concern.
- 2.8.5 Sickness absence is rated as a high risk on the Corporate Risk Register, and is closely monitored by Management Board and Departmental Management Teams.
- 2.8.6 HR managers regularly meet with Occupational Health to case manage the most challenging long term and short term absences within departments. Reports identifying the 'top ten' worst offenders in each department have been produced and these in turn are case managed. During Q2 departments have succeeded in resolving some of the most challenging long term cases and resources have been identified to provide additional capacity within HR teams to focus on absence management.
- 2.8.7 The development and use of systems for monitoring levels of stress related ill health and for identifying individual concerns is incorporated within the stress management strategy agreed by Management Board in January 2011. Stress related ill health is responsible for more lost working days than any other cause of illness; over 21% of all sickness absence is attributable to stress.
- 2.8.8 Revisions to the Managing Attendance Policy (agreed by Management Board on 24th January) and the commitment to employee wellbeing and the management of stress are designed to further reduce the incidence of sickness absence.
- 2.8.9 Sickness absence figures will continue to be reported to the Audit Committee in future quarterly updates.

3.0 Conclusion

- 3.1 This report provides an assurance, and presents evidence that the Council reviews its internal control / governance mechanisms on a continuous basis.
- 3.2 There have been no significant internal control issues during the period covered by this report.
- 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.

Mike Owen
Director of Finance and E-Government

Background documents:

Risk Registers

Internal Audit Reports

Gifts & Hospitality Register

Corporate Monitoring Report

Minutes of Governance Panel

For further information on the details of this report, please contact:

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10 Governance Risks for 2011 – Better Governance Forum (CIPFA)

Potential Risk Area	What the Audit Committee can do	Potential Risk Area	What the Audit Committee can do
<p>Service Reduction Plans Has the approach to identifying budget savings involved 'good governance' principles? For example have the full range of risks been identified? Will new risks be created by the proposals?</p> <p>There is no 'easy' way to implement a significant programme of savings but the goal should be to maintain a viable organisation. This means looking at longer term issues as well as short term impacts.</p>	<p>Ask about the process to identify proposed budget savings or service reductions.</p> <p>Seek assurance that the proposals are supported by:</p> <ul style="list-style-type: none"> ➢ Good quality data ➢ Comprehensive risk identification ➢ Evidence of consultation ➢ Impact assessment, for example equalities or environmental <p>Use the Better Governance Fourm Risk Tool to assess governance risks.</p>	<p>Changes to Information governance legislation The Information Commissioner is now enforcing monetary fines on organisations which fail in their duties to comply with the Data Protection Act 1998. Other enforcement action (Undertakings and Audits) are also available.</p> <p>There is expected to be changes to the FOI to cover private sector organisations which deliver major outsourced public services.</p> <p>Cloud computing is considered as a major source for future efficiencies? Has the audit committee been presented with a business plan?</p>	<p>Ask what your organisation has done to review its compliance arrangements.</p> <p>If the organisation is collaborating with neighbouring authorities, have they set up an Information Sharing Protocol?</p> <p>Does the organisation have a clear policy about data security and encryption and are these policies updated regularly and brought to the attention of staff?</p> <p>Has the organisation developed a strategy of protecting and responding to a cybercrime attack?</p> <p>Do you have clauses in your contracts to manage FOI requests which may go to your private sector partner organisations?</p>
<p>Major organisational change programmes Is your organisation pursuing a major change programme, for example significant outsourcing or shared service arrangements?</p> <p>Such programmes are likely to have significant legal, financial, service continuity and people risks that need to be carefully managed.</p> <p>Assurance and accountability arrangements also need to be considered, both for the project itself and for the new arrangements.</p>	<p>Seek assurance over the effective management of project risks.</p> <p>Ask about the plans for assurance and accountability. For example:</p> <ul style="list-style-type: none"> ➢ Will internal audit have access to the new body? ➢ What financial risk are there and how will these be monitored? ➢ Will the annual governance statement need to cover the new body? 	<p>Forthcoming changes to the standards regime (England) How will leadership in ethical government in your organisation be affected by the forthcoming legislation on standards committee?</p> <p>The Localism Bill was published in December 2010 and once enacted English authorities will no longer be required to have a standards committee or code of conduct for members. The authority will have a duty to promote and maintain high standards of conduct.</p>	<p>Find out if your authority will be keeping its Standards Committee and whether it plans to develop a voluntary code of conduct.</p> <p>If there will be not standards committee, what Member body will provide leadership on ethical governance to ensure the authority can fulfil its duty to promote high standards of conduct?</p>
Potential Risk Area	What the Audit Committee can do	Potential Risk Area	What the Audit Committee can do
<p>Partnerships and the 'Big Society' Your organisation's goals and objectives for its partnerships might have changed, and so might those of your partners. As well as internal factors such as reduced funding, new initiatives such as the Big Society may change things.</p>	<p>Ask for the latest partnership risk assessments.</p> <p>Where there are significant strategic risks the audit committee might want to ask for assurance about how these risks are being managed.</p> <p>Consider whether there is scope to work with the audit committees of your</p>	<p>Local Accountability With the reduction in national accountability such as the CAA, the government has said it wants to see greater local accountability. New plans for local referenda are set out in the recently published Localism Bill, together with measures for pay accountability.</p>	<p>Evaluate how effective the audit committee is in providing local accountability.</p> <p>Existing routes for ensuring accountability are likely to be holding public meetings and publishing an annual report.</p> <p>Consider how effective these are and what</p>

<p>The consequence could be that you or a partner needs to change a partnership agreement or withdraw from the partnership. New forms of partnership might be proposed with new partners.</p> <p>Are there any financial, legal or reputational risks as a result? What are the consequences for service delivery?</p>	<p>partners.</p>	<p>How is the audit committee responding to this challenge?</p>	<p>more could be done.</p>
<p>Fraud Risk All of these governance risk areas also potentially increase the risk of fraud.</p> <p>Does the organisation have an up to date fraud risk assessment that reflects current changes?</p> <p>Has the risk of fraud been considered in relation to service reduction planning, IFRS etc?</p>	<p>Ask whether fraud risks have been identified, assessed and appropriate actions taken. Review major fraud risks.</p> <p>Use the checklist for those charged with governance to review your counter fraud arrangements.</p> <p>Ask if there have been briefings or guidance given for example on legislation such as the Bribery Act and to those working in 'at risk' areas such as procurement and contracts</p>	<p>Changes to external audit of local authorities In England new arrangements are being developed by Communities and Local Government. Legislation and guidance will come out later in 2011, together with any transition arrangements.</p> <p>There are likely to be implications for the audit committee concerning the appointment of external auditors.</p>	<p>Ensure that your are kept up to date with the latest guidance.</p>
<p>Potential Risk Area</p>	<p>What the Audit Committee can do</p>	<p>Potential Risk Area</p>	<p>What the Audit Committee can do</p>
<p>Transparency Agenda All public bodies are expected to publish details of expenditure by January 2011. Has your organisation complied or will they be able to do so?</p> <p>Have other aspects of decision making been made as transparent and accessible as possible?</p> <p>At the same time have you considered the fraud risks of greater transparency?</p> <p>Has the organisation developed a clear strategy to deal with redaction and commercially sensitive information?</p>	<p>Ask what actions have been taken and whether your organisation is ready.</p> <p>Ask whether the fraud risks have been identified and whether controls have been put in place. For example, staff should not change invoice or supplier details without verification from the supplier.</p>	<p>International Financial Reporting Standards For local authorities the 2010/11 accounts will be the first presented under new IFRS regulations. One of the goals of IFRS is to introduce greater transparency and accountability, but any change carries risks that need to be properly managed.</p>	<p>Ask how the IFRS transition is being managed.</p> <p>Ask for a briefing on what the changes mean for the audit committee and their review of the accounts.</p> <p>Review the Audit Commission checklist 'Countdown to IFRS'</p>