

AUDIT COMMITTEE	AGENDA ITEM No. 6
1 JUNE 2009	PUBLIC REPORT

Committee Member responsible:	Councillor M Dalton, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

DRAFT ANNUAL GOVERNANCE STATEMENT 2008 / 2009

R E C O M M E N D A T I O N S	
FROM : John Harrison, Executive Director (Strategic Resources)	Deadline date : N/a
Committee is asked to:	
<ol style="list-style-type: none"> 1. Review and comment on the supporting appendices (A - G) used to establish assurance on the governance arrangements within the Council; 2. Review and comment on the Annual Governance Statement (Appendix H), including any areas which should be amended; and 3. Subject to changes identified in 2 above, agree and approve the draft statement for inclusion in the statement of accounts. 	

1. **ORIGIN OF REPORT**

This report is submitted as part of the annual closure of accounts process and is included in the Audit Committee work programme for 2009 / 2010.

2. **PURPOSE AND REASON FOR REPORT**

The production of the Annual Governance Statement forms part of the annual closure of accounts process. It is not a financial exercise, but represents a corporate overview of the processes and procedures adopted by Peterborough to manage its affairs.

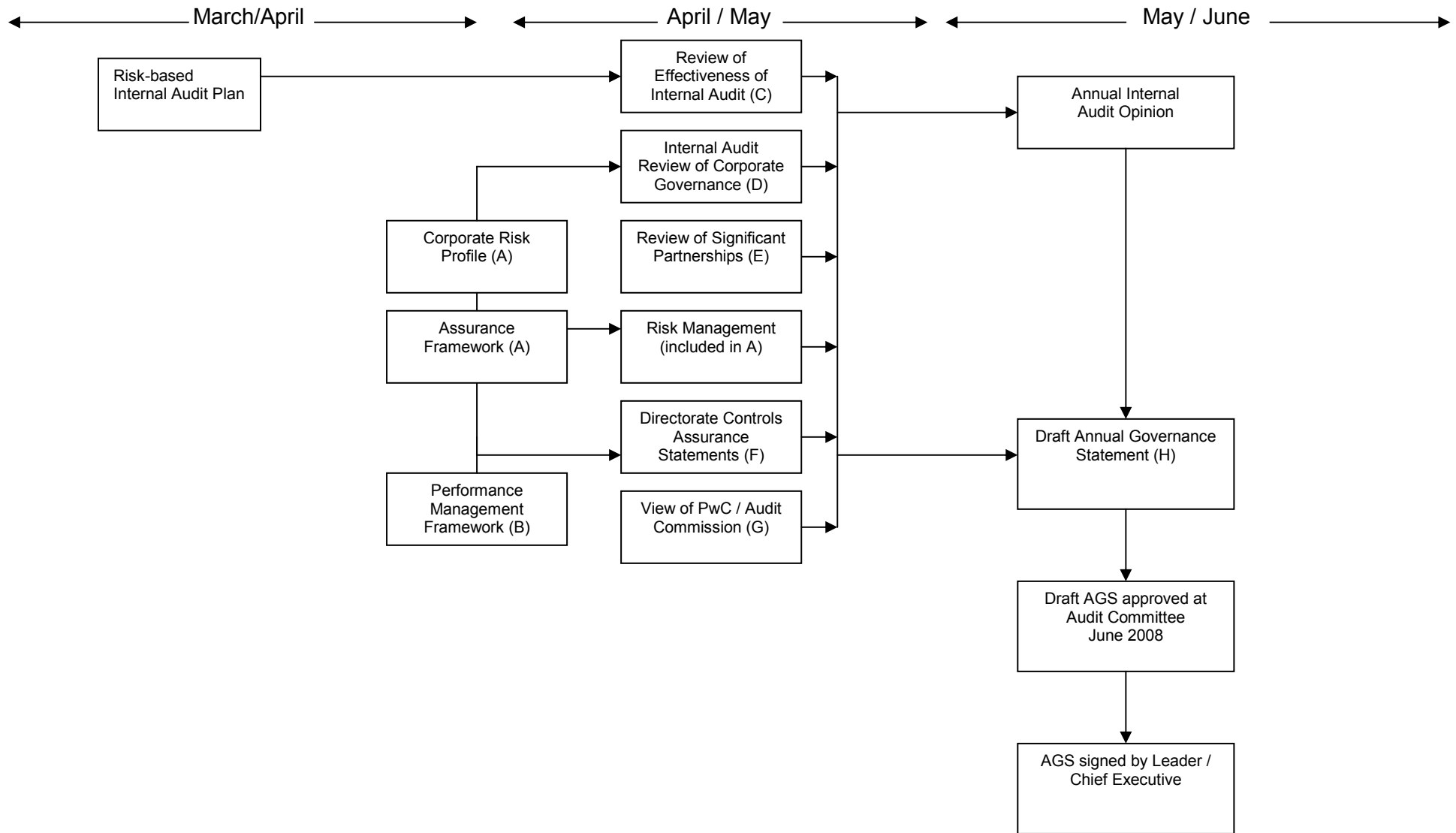
3. **BACKGROUND**

3.1 The purpose of this report is to provide details of the findings of the 2008 / 2009 Annual Review of Internal Control arrangements and to seek approval to the draft Annual Governance Statement (AGS), prior to its incorporation in the Statement of Accounts.

3.2 The Accounts and Audit Regulations 2003 (amended 2006) require the Council to conduct annual reviews of the system of internal control and publish an AGS within its annual financial statements. The format of the AGS is required to be in accordance with CIPFA 'proper practice'. The CIPFA Finance Advisory Network has also issued detailed practical guidance on meeting the requirements of the Accounts and Audit Regulations 2003 (amended 2006).

- 3.3 Central to CIPFA's guidance are the following steps:
- Identify statutory obligations and organisational risks;
 - Identify principal risks to the achievement of objectives;
 - Identify and evaluate key controls to manage risks;
 - Obtain assurance on the effectiveness of key controls; and
 - Evaluate assurances and identify gaps in controls / assurances
- 3.4 The guidance highlights the links and overlaps between the production of the AGS and the annual corporate governance review. There is a need to involve Directors / Chief Officers and managers assigned with the ownership of risks and delivery of services in both the annual review of corporate governance and the production of the Council's AGS.
- 3.5 This report seeks to record the Council's assurance framework used to support the AGS 2008 / 2009. The methodology comprises the following stages:
- Corporate Risk Profile and the Assurance Framework (**Appendix A**);
 - Performance Management Framework (**Appendix B**);
 - Review of effectiveness of Internal Audit (**Appendix C**);
 - Review of Corporate Governance (**Appendix D**);
 - Significant Partnerships (**Appendix E**);
 - Directorate Assurance Statements (**Appendix F**);
 - Views of External Audit (**Appendix G**); and
 - Views of Internal Audit and Investigations (separate Agenda reports).
- 3.6 The draft statement has then been established (**Appendix H**) and represents a true and fair reflection of the corporate responsibility within the Council. Once completed and approved, the AGS is submitted to the Leader of the Council and Chief Executive for signing. The above stages are set out diagrammatically below.
- 3.7 In completing this exercise it is acknowledged that governance arrangements and the system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or will be detected within a timely period. As a result, the certification of the attached statement is completed "to the best of your knowledge".
- 3.8 No adverse comments have been received.

Methodology for the development of the Annual Governance Statement 2008 / 2009



4. METHODOLOGY

4.1 Corporate Risk Profile (Appendix A)

4.1.1 The Corporate Risk Profile provides management assurance that the Council's principal risks are being well managed. Peterborough Corporate Management Team last formally approved the Profile in February 2008 when a comprehensive review was undertaken at the time. Further risk monitoring is undertaken as part of the regular performance management assessments at CMT, together with adopted best practice project appraisals.

4.1.2 Although a number of risks are high profile / high impact, Directors are confident that all risks identified are being managed within acceptable tolerances.

4.1.3 There have been overall improvements in risk management across the Council in 2008 / 2009. Ongoing training has been cascaded through departments and there has been an continuing emphasis on covering partnership and project risks. Project risks are embedded in the managed arrangements around projects and these are reported in a dashboard format to their respective Boards.

4.1.4 There has been an improvement in the corporate ownership of the management and monitoring of corporate risk management arrangements across the Council. This is a key element in the Risk Management Strategy. The procurement of a risk management software solution, closely linked to that utilised for business continuity purposes will also deliver ongoing benefits. This solution is controlled by the Resilience Manager for operational risks, with the Head of Strategic Finance maintaining control over the strategic risks.

4.2 Assurance Framework (Appendix A)

4.2.1 The Council's key objectives, risks, controls and available assurances (and any gaps) have been mapped to provide assurance that there is an effective Assurance Framework. The Assurance Framework has been documented in the Audit Committee Handbook (circulated to Members January 2008 and formally adopted June 2008). The Handbook is a new initiative designed to further consolidate the Council's assurance and risk management framework.

4.2.2 The framework was issued and discussed at Audit Committee on 30 March 2009. 65 areas of assurance have been identified, mapped to the strategic risks and the Internal Audit Plan, and this is regularly refreshed to ensure full coverage is maintained. There have been no material changes since then.

4.3 Performance Management Framework (Appendix B)

4.3.1 Regular reporting of performance is in evidence across the Council. Monthly reports are produced using the corporate system, Performance Plus, and quarterly reports are produced for members. Regular discussions are held at CMT and various boards. This covers performance against three areas - the Corporate Plan, the Local Area Agreement and the National Indicator Set. Any areas of concern identified are tackled through CMT and appropriate decisions taken to reduce or prevent any deterioration in performance.

4.3.2 Following an external audit review, overall arrangements for data quality have shown an improvement in the year and is now rated as 3 out of 4 (previous score 2). This report was submitted to Audit Committee in February 2009. A clear action plan has been established and monitored against.

4.4 Review of the Effectiveness of Internal Audit (Appendix C)

4.4.1 An assessment of the effectiveness of Internal Audit was undertaken by PricewaterhouseCoopers and issued in August 2007. The action plan has been discussed

at Audit Committee on 5 November 2007. External Audit have followed up this review in December 2008 and the report has been submitted to the Executive Director (Resources) for comment. Once finalised this will be presented to Audit Committee.

4.4.2 Further reference is made to Internal Audit within the Annual Audit Letter from PwC which was discussed at Audit Committee on 30 March 2009. PwC were able to place reliance on our work during the year. Overall, positive assurance can be provided that the Council has an effective Internal Audit Service.

4.4.3 In order to provide future independent review on the service, discussions are being held with a separate local authority to undertake a peer review of the service.

4.5 Review of Corporate Governance (Appendix D)

4.5.1 Audit Committee on 31 March 2008 received a report on the revised Local Code of Governance. As part of the review to establish this new Code, data collated throughout this process by the Chief Internal Auditor provided positive assurance that the Council is compliant with the CIPFA / SOLACE Framework.

4.5.2 Regular updates on governance arrangements are reported through to Full Council, for example, constitutional changes. Significant governance issues established in the Annual Governance Statement are reported to Audit Committee, together with the progress made to address them.

4.6 Review of Significant Partnerships (Appendix E)

The Council has established its significant partnerships. Internal Audit has developed an overall partnership toolkit and this has been initially used to ensure that there are appropriate governance arrangements in place for current and future partnerships. The toolkit is to be discussed at a future strategic governance group meeting to look to develop and take forward further.

4.7 Director / Heads of Service Controls Assurance Statements (Appendix F)

4.7.1 Each Director and Head of Service personally signed an Assurance Statement having reviewed its key control checklists and the views compiled through the self assessment process to come to an opinion on the governance arrangements and internal control environment within their service. 13 issues were identified from these statements and have been included in the Draft Annual Governance Statement.

4.7.2 Items of a financial nature which could impact on the overall accounts position have been separately referred to Strategic Finance.

4.8 View of PriceWaterhouseCoopers (External Audit) (Appendix G)

4.8.1 Throughout the year, PwC have been commissioned to undertake various reviews which have all been circulated and discussed / approved at Audit Committee. PwC provides an Annual Audit Letter providing an overall evaluation of the Council's progress having regard to the Council's core performance assessment, its financial and service performance and consideration of its strengths and areas for improvement. The content of the letter was reported to Cabinet and Audit Committee on 30 March 2009, and overall is positive and states that the Council is a 3 star service. Improvements have been made in a number of areas.

4.9 Internal Audit (Annual Audit Opinion: Separate report on Committee Agenda)

4.9.1 Internal Audit activities are quarterly reported through Audit Committee and any significant control and governance issues or material to the overall control environment of the Council are highlighted. An annual opinion is produced and submitted to Members highlighting the

works delivered, together with key governance / control issues which need to be addressed.

4.9.2 There is an agreed scheme in place for the audit of key financial and non-financial systems. Findings of audits of these systems this year were analysed with findings from previous years to enable an opinion to be formed on every key system.

4.9.3 Whilst there has been an increase in the number of systems within limited or no assurance compared with previous years, their overall impact on the whole control environment is not considered to be material. The Internal Audit overview concludes that, based on the services' cumulative knowledge and experience of the systems and controls in place, previous audit work and findings of audits in 2008 / 2009, overall throughout the Council there remains a sound internal control environment. Significant assurance is provided and an unqualified opinion put in place.

5. ANNUAL GOVERNANCE STATEMENT

5.1 The CIPFA Financial Advisory Network produced a "*Rough Guide to the Annual Governance Statement*" in 2008 which provides a framework for reviewing the adequacy and effectiveness of the Council's key controls.

5.2 The draft AGS follows recommended best practice and pulls together the various sources of assurance in to one document, and is a statutory document to be included in the final accounts.

6. CONSULTATION

6.1 This draft AGS has been issued to the Corporate Management Team and the s.151 Officer for consideration, together with the external auditors, PricewaterhouseCoopers.

7. ANTICIPATED OUTCOMES

7.1 Approval of the documents for inclusion in the draft accounts for 2008 / 2009.

7.2 The Council now has a structured assurance framework in place in support of the AGS (as presented and discussed at Audit Committee on 30 March 2009).

7.3 It is reasonable from all the assurances now available to the Council to conclude that a sound system of internal control operated throughout 2008 / 2009.

8. REASONS FOR RECOMMENDATIONS

8.1 To seek endorsement from members that the corporate governance and internal controls within the authority are being delivered and provide effective challenge to the organisation.

9. ALTERNATIVE OPTIONS CONSIDERED

9.1 None required at this stage.

10. IMPLICATIONS

10.1 This report contains no specific financial implications. The agreement of the AGS does not have any direct financial implications, however, in order to maintain financial control and address risks as identified within the report, Directorates may need to allocate resources from within their existing budget.

BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985)

CIPFA / SOLACE Framework - Delivering Good Governance in Local Government

CIPFA Finance Advisory Network - The Annual Governance Statement

This page is intentionally left blank