

<b>AUDIT COMMITTEE</b>	<b>AGENDA ITEM No. 7</b>
<b>7 JUNE 2010</b>	<b>PUBLIC REPORT</b>

Cabinet Member responsible:	Councillor Seaton, Resources Portfolio Holder	
Committee Member responsible:	Councillor Collins, Chair of Audit Committee	
Contact Officer(s):	Steve Crabtree, Chief Internal Auditor	☎ 384 557

## ANNUAL GOVERNANCE STATEMENT 2009 / 2010

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

### 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 2010 / 2011.

### 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 annual review of the 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 governance review. There is a need to involve Executive Directors / Heads of Service and managers assigned with the ownership of risks and delivery of services in both the annual review of governance and the production of the Council's AGS. Set out in **Appendix A** is the overall framework for its production, together with the various constituent parts which are separately recorded in the appendices below to support the statement.

Appendix	Description
<b>B</b>	Effectiveness of Internal Audit
<b>C</b>	External Audit Opinion
<b>D</b>	Executive Directors / Heads of Service Assurance Statement
<b>E</b>	Members Assurance Questionnaire
<b>F</b>	Performance Management and Data Quality
<b>G</b>	Assurance Framework and Risk Management
<b>H</b>	Corporate Governance
<b>I</b>	Partnerships

3.5 The draft statement has then been established (**Appendix J**) 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.

3.6 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".

#### 4. METHODOLOGY

##### 4.1 Internal Audit

4.1.1 There is a separate report on the Audit Committee agenda which has set out the Annual Internal Audit Opinion.

4.1.2 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. The annual opinion is produced and submitted to Members highlighting the works delivered, together with key governance / control issues which need to be addressed.

4.1.3 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.

4.1.4 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 2009 / 2010, overall throughout the Council there remains a sound internal control environment. Reasonable assurance is provided and an unqualified opinion put in place.

#### 4.2 Review of the Effectiveness of Internal Audit (Appendix B)

- 4.2.1 An assessment of the effectiveness of Internal Audit was undertaken against the CIPFA Code of Practice self assessment toolkit. From a series of 192 questions, analysis established that there were 6 potential areas which could be improved (both for Internal Audit and corporately for the authority) and the recommendations are documented. Internal Audit recommendations will be addressed and reported through Audit Committee as part of the quarterly update reports.
- 4.2.2 Further reference is made to Internal Audit within the Annual Audit Letter from PwC which was discussed at Audit Committee on 8 February 2010. PwC were able to place reliance on our work during the year.
- 4.2.3 Overall, positive assurance can be provided that the Council has an effective Internal Audit Service.

#### 4.3 External Audit Opinion (Appendix C)

- 4.3.1 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 8 February 2010, and overall is positive and states that the Council is performing well. Improvements have been made in a number of areas and further areas of change identified.

#### 4.4 Executive Directors / Heads of Service Assurance Statement (Appendix D)

- 4.4.1 Each Directorate provided an Assurance Statement having reviewed its key control checklists to come to an opinion on the governance arrangements and internal control environment within their service.
- 4.4.2 No adverse comments were received from departments. Question 9 in relation to staffing identified the ongoing development of staff reviews. A new "Performance Development Review" process was introduced in February / March 2010 which would have not had time to cascade through the organisation. In terms of Action Planning, this was identified in one area - contracting - and this is being addressed by the current review of Contract Regulations. Items of a financial nature which could impact on the overall accounts position have been separately referred to Strategic Finance.

#### 4.5 Members Assurance Questionnaire (Appendix E)

- 4.5.1 In order to gauge member views on governance issues which impact on fulfilling their role, a brief questionnaire was issued by Democratic Services to all Members on 31 March 2010. As at mid-May, 21 questionnaires had been returned. From the analysis, which is documented in the Appendix, it can be concluded that there is general satisfaction around the support provided to members.
- 4.5.2 In order to develop, while training and development was identified as strong by the majority of responses, a few expressed the view that it could be improved further. There was an overall perception that consultation with the public should be enhanced, particularly in relation to financial planning. This was also referred to in the External Audit Annual Letter in relation to the Neighbourhood Councils and is reflected as a key action with the draft Annual Governance Statement.

#### 4.6 Performance Management and Data Quality (Appendix F)

4.6.1 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 scrutiny panels / boards. Any areas of concern identified are tackled through CMT and appropriate decisions taken to reduce or prevent any deterioration in performance.

4.6.2 Following the External Audit review of data quality during the year, it has been established that there is a need for the quality of performance data to be improved - both in terms of its collation and also its verification. This has been included as a key action to be addressed within the Annual Governance Statement.

#### 4.7 Assurance Framework and Risk Management (Appendix G)

4.7.1 There have been ongoing improvements in risk management across the Council in 2009 / 2010. Training has been cascaded through departments and there has been a continuing emphasis on covering partnership and project risks together with cross cutting issues. Project risks are embedded in the managed arrangements around projects and these are reported in a dashboard format as part of the Business Transformation agenda.

4.7.2 The Risk Management Strategy has been fully reviewed and agreed by Audit Committee in September 2009 and now incorporates business continuity for the first time. As a result of this further enhancement, it has continued to improve the corporate ownership of the managing and monitoring of corporate risk across the Council.

4.7.3 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 (2<sup>nd</sup> Edition approved by Members February 2010). The framework is refreshed twice yearly so that relevant changes can be reported to Audit Committee, the last being in March 2010. There have been no material changes since then.

#### 4.8 Corporate Governance (Appendix H)

4.8.1 Regular updates on governance arrangements are reported through Corporate Management Team, Cabinet, Scrutiny Commissions, Standards Board, Audit Committee and ultimately to Full Council. This covers all aspects of governance - from constitutional changes, operational procedures, standards issues and audit and fraud related matters. Significant governance issues established in the Annual Governance Statement are reported to Audit Committee, together with the progress made to address them.

#### 4.9 Partnerships (Appendix I)

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 partnerships. Separate working groups were set up to ensure appropriate governance was in place for the recently established Leisure Trust.

### 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. 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 Executive Director (Strategic Resources), Solicitor to the Council, Head of Corporate Services and the Head of Legal Services for consideration, together with the external auditors, PricewaterhouseCoopers.

## **7. ANTICIPATED OUTCOMES**

- 7.1 Approval of the documents for inclusion in the draft accounts for 2009 / 2010.
- 7.2 It is reasonable from all the assurances now available to the Council to conclude that a sound system of internal control operated throughout 2009 / 2010.

## **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

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