

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**ANNUAL GOVERNANCE STATEMENT 2011/12**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To present the draft Annual Governance Statement (AGS) 2011/12 for Members' comment and approval.
- 1.2 The key points in this report are as follows:
- The AGS shows that the council's governance arrangements are generally good and meet good practice in most areas
  - Developments designed to address significant issues are identified in the AGS.

**2. BACKGROUND INFORMATION**

- 2.1 The Accounts and Audit (England) Regulations 2011 require the Authority to publish with its accounts an Annual Governance Statement. The Annual Governance Statement (AGS) must accompany the final accounts and be considered in its own right, as has been the case here. Under revised Regulations introduced last year this can take place in September. However the Committee decided to consider the AGS in June as well as in September to allow early action to be taken on any issues identified by the AGS. The Statement will be updated to reflect assurance provided through the outcome of external audit's final accounts work and presented again in September for approval.
- 2.2 CIPFA has also provided guidance to support councils to produce the AGS. The document provides examples of sources of assurance and evidence to compile the AGS.
- 2.3 The Annual Governance Statement sets out the council's governance framework and the results of the annual review of the effectiveness of the council's arrangements. Sources of assurance to support the statement are gathered throughout the council in the form of annual assurance statements prepared by Directors. These statements provide an evaluation of the adequacy of internal control within their service area and are evidenced by sources of assurance and managerial processes. Independent reviews carried out by internal audit in key areas such as risk management, corporate governance

and fundamental financial system work are important sources of assurance. External audit reviews and inspections contribute as sources of assurance

2.4 In accordance with best practice a management team comprising the Director of Policy and Resources, Director of Corporate and Community Services, Assistant Director Legal, and Head of Audit, Risk and Insurance oversee the process. The objectives of the group are:

- Comply with external audit recommendation / CIPFA guidance
- Determine the council's approach to preparing the AGS
- Provide a corporate overview
- Provide suitable challenge to the process
- Ensure the independence of Internal Audit is maintained
- Review and monitor changes to underlying processes and their impact on the AGS.

2.5 The draft Annual Governance Statement 2011/12 is attached (appendix A) and shows that the council has well-established governance arrangements that are monitored and reviewed on a regular basis. Changes and enhancements described in the AGS demonstrate the council's commitment to continual improvement. Significant governance issues requiring further development are identified in the AGS. These are:

- Ensure continued appropriate level of focus in addressing External and Internal audit recommendations particularly in times of increased risk (including risk of fraud) associated with significant local and national change.
- Maintain strong budget and workforce monitoring and efficiency reporting procedures in achieving the delivery of budget targets and investment in the key aims identified in the 2012/16 financial plan.
- Ensure the senior management review provides sufficient capacity to respond to new and major changes to legislation or government policy which may have a significant impact on the delivery of council services.
- Ensure sufficient capability to respond to the provisions of the Localism Act, namely:
  - Community Right to Challenge - by becoming an effective commissioning council
  - Continue to embed and monitor the new Standards arrangements
- Monitor the implementation of key changes to fundamental systems such as banking contract; cash management system, Local Taxation and Benefits shared service arrangements and the upgrade of the CareFirst system.
- Continue to strengthen and ensure compliance with partnership governance arrangements
- Strengthen information governance arrangements throughout the council.

2.6 The Annual Governance Statement for 2011/12 is currently in draft and represents the culmination of internal and external assurance sources.

Therefore the Statement will need to be updated to reflect the outcome of the final accounts audit process prior to resubmission to the Committee alongside the audited accounts.

### **3 OPTIONS FOR CONSIDERATION**

3.1 The Committee is asked to consider whether or not the Annual Governance Statement provides sufficient assurance on the council's governance arrangements in 2011/12. If it concludes that it does provide sufficient assurance the Committee is invited to approve the AGS. The Committee may make amendments or seek clarification as necessary.

3.2 The Committee may decide not to approve or to amend the AGS.

### **4. ANALYSIS OF OPTIONS**

4.1 The Annual Governance Statement for 2011/12 is designed to deliver an overall opinion and provide this Committee with the assurance required on the adequacy of governance arrangements throughout the council. Members should seek clarification on its contents as necessary to ensure the AGS provides sufficient assurance to fulfil their role as set out in the Committee's terms of reference.

4.2 The option set out in 3.2 represents an opportunity missed to receive an important source of assurance to assist the Committee to fulfil its role effectively.

### **5. RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY.IT)**

5.1 Regular reviews of governance arrangements should safeguard the council's assets and ensure that value for money is achieved in the use of resources. There are no staffing, property or IT implications.

### **6. OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 – CRIME AND DISORDER, RISK AND OTHER)**

6.1 The requirement for an Annual Governance Statement and reporting requirements are set out in the Accounts and Audit (England) Regulations 2011. The Chief Financial Officer has a statutory duty under the provisions of the Local Government Act 1972 to ensure the proper administration of the council's financial affairs. The council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

6.2 Processes that underpin the Annual Governance Statement support excellent service delivery, enhance risk management arrangements and promote good corporate governance.

## 7. **OUTCOMES OF CONSULTATION**

- 7.1 The Annual Governance Statement draws on contributions from all Directors, External audit and other inspection reports and therefore represents a corporate view.
- 7.2 The Annual Governance management team has also overseen this process.

## 8. **RECOMMENDATIONS**

- 8.1 The Audit Committee is asked to consider whether the Annual Governance Statement for 2011/12 provides sufficient level of assurance on the adequacy of governance arrangements throughout the council to allow the Committee to fulfil its role.
- 8.2 It is recommended that the Annual Governance Statement for 2011/12 is approved and a further update is submitted for the Committee to consider alongside the audited accounts in September.

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**Background Papers:**  
**CIPFA- Delivering Good Governance in Local Government Framework**  
**The Accounts and Audit Regulations (England) 2011**

**NORTH LINCOLNSHIRE COUNCIL  
ANNUAL GOVERNANCE STATEMENT  
2011/12**

**SCOPE OF RESPONSIBILITY**

1. North Lincolnshire Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. North Lincolnshire Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, North Lincolnshire Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
3. North Lincolnshire Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.
4. A copy of the code is on our website at [www.northlincs.gov.uk](http://www.northlincs.gov.uk) or can be obtained from the Civic Centre, Ashby Road, Scunthorpe. This statement explains how North Lincolnshire Council has complied with the code and also meets the requirements of regulation 4(3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement.

**THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

5. The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic priorities and to consider whether those priorities have led to the delivery of appropriate, cost effective services.

6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, priorities and aims and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of North Lincolnshire Council's policies, priorities and aims, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
7. The governance framework has been in place at North Lincolnshire Council for the year ended 31 March 2012 and up to the date of approval of the statement of accounts.

## **THE GOVERNANCE FRAMEWORK**

8. The council's governance arrangements are supported by well-established systems and processes including:

### **Identifying and communicating the authority's purpose and vision and intended outcomes for citizens and service users**

9. The Strategic Plan 'Going Forward Together' identified the priorities for the council and also set out how the council would deliver the community strategy. The plan explained how the council would achieve its visions and ambitions for the North Lincolnshire area, its communities and the people who live and work there. The plan identified 15 priorities to help the council achieve 4 shared ambitions for the area.
10. The new administration introduced its priorities and financial strategy for 2012-16. This was approved by Council on 21 February 2012 and set out the strategic direction for the council under an over-arching vision of 'Putting Our Customers First'. There are key priorities:
  - To give excellent service to customers
  - To provide value for taxpayers' money
  - To make communities stronger
  - To generate the area and increase property.
11. The priorities and aims are communicated through notices around all major buildings and there will be further publicity following the approval in July of the Council Strategy.
12. Service planning was streamlined through the introduction of service performance profiles.

## **Reviewing the authority's vision and its implications for the authority's governance arrangements**

13. The council's activities and achievements, its financial position and performance are published each year in an annual report which is available on the council's website. The 2010/11 Annual Report was enhanced with more focus on outcomes and budget achievement and published in September.

## **Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources**

14. National changes to the performance framework for local government required the council to introduce revised robust self-assessment and improvement mechanisms.
15. In light of these requirements the system of reporting performance via Quarterly Performance Reviews (QPRs) ceased in 2011/12. The existing 200 national indicator set were pared back to enable the council to focus on priorities at a local level. As a result of the review the council now has 88 performance indicators that are used to measure performance. Quality of Life and Customer Service performance have been identified as areas for further development. The Performance Management System (PMS) is used to measure performance against council priorities. Service performance is monitored via Directorate Performance Reports (DPRs) and a corporate report is produced three times a year. During 2011/12 Cabinet Team received monthly summaries on;
  - Key Performance Indicators
  - Activity Data (raw data)
  - Quality of Life Scorecard.
16. The Improvement & Value for Money Group (IVfM) replaced The Council Performance Working Group. The purpose of the group is to lead the implementation of the council's performance management framework, ensuring that improvement action is taken where appropriate and to review and challenge the achievement of VFM for council services. A major task for the group is to improve the clarity of performance information and meet national Performance Transparency requirements.
17. The Statement of Intent: One-Council Commissioning was approved by cabinet in March 2012. Its purpose is to set out a commitment to developing an effective integrated commissioning capability to support our Council Strategy "One Council - Putting Our Customers First" and 2012/16 budget plan. The statement sets out the council's commitment to improving outcomes for local people through effective integrated commissioning. It recognises that commissioning can be used to modernise and dynamically drive improvements in its services,

recognising its strategic role in improving customer satisfaction and the value for money we provide to local people.

The approach was used in the re-commissioning exercise of IT following a review and challenge process which included market sounding.

18. Robust budget monitoring procedures have operated throughout the year and have enabled the council to achieve a service under spend of £1.2m at a time of great financial pressures due to the recession. Action is identified either on a service or council wide basis to address potential budget overspends or underachievement of income (e.g. as a result of the economic slowdown). Budget monitoring information has been improved through greater integration of financial and performance data. These arrangements are applied to significant partnership work. Regular reporting of forecast outturn, explanations of variances and recovery plans for dealing with variances has continued for senior officers and members. All changes to service delivery must be financially assessed and included in reports to members for consideration. Budgetary control arrangements were strengthened further for 2011/12 to include efficiency savings and progress made on budget savings (including workforce implications) identified as necessary to meet the public sector funding reduction announced in October.

**Ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)**

19. The Statement on the Role of the Chief Financial Officer (CFO) in Local Government supports CIPFA's work to strengthen governance and financial management across the public services. The Statement sets out the principles that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them. The principles state the CFO:
- is a key member of the Leadership Team, helping to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.
  - must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's overall financial strategy
  - must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.
  - must lead and direct a finance function that is resourced to be fit for purpose
  - must be professionally qualified and suitably experienced.

The status of the CFO was maintained in the Senior Management review and designated to the Director of Policy and Resources. North Lincolnshire's financial management arrangements have been reviewed and were evaluated to be compliant with these requirements.

**Defining and documenting the roles and responsibilities of the executive, non executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication**

20. The council's Constitution sets out clearly the respective roles and responsibilities of members and officers. A scheme of delegated powers is also set out in the approved Delegations to Officers and Appointment of Proper Officers schedule. The Constitution and scheme of delegation are regularly updated in response to legislative, structural or regulatory changes. The Constitution and scheme of delegation were amended in May 2012 to reflect changes necessary as a result of the senior management review.
21. The Executive (which is made up of the Leader and Cabinet of councillors) make decisions in line with the council's overall policies and budget. Any decisions outside the budget or policy framework would be referred to the Council as a whole to decide. Weekly cabinet team meetings take place to which appropriate officers are invited to discuss specific issues. The Overview and Scrutiny committees support the work of the Executive and Council by reviewing and making recommendations on policy, budget and service delivery. They can also monitor and review decisions taken by the Executive prior to implementation. There are also committees that deal with regulatory functions such as Planning, Licensing and Appeals. In accordance with the Local Government and Public Involvement in Health Act 2007, the Standards Committee deals with issues of members conduct. Appropriate procedures and training have been put in place to deal with the local assessment, review, investigation and determination of complaints. Standards for England reporting requirements are met and an annual report was prepared by the Standards Committee during 2011/12, including a foreword by the Chair, which was presented to full Council on 22<sup>nd</sup> November 2011.
22. The enactment of the Localism Act 2011 on 15<sup>th</sup> November 2011 saw a major overhaul of the current standards regime. From 1<sup>st</sup> July 2012, the mandatory code of members' conduct will be abolished as will the requirement to have a Standards Committee. Councils will be responsible for adopting their own code of conduct, based on the Nolan principles, and settling their own 'Arrangements' for receiving complaints about members conduct, including Parish and Town Council members in the area, and how they are investigated, and the sanctions that may be imposed for breach. As part of their 'Arrangements' Councils must appoint an 'Independent Person' whose views must be sought on any investigations undertaken.

23. To oversee its preparation for the new regime the Council, at its meeting on 21<sup>st</sup> February 2012, set up the cross party Localism Act 2011 (Standards Arrangements) Committee. Substantial progress has been made by the Council in ensuring that it will have a fully compliant revised regime by 1<sup>st</sup> July 2012.

#### **Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for local Authorities**

24. The council established an audit committee in May 2007 in line with best practice. The committee oversees the management of governance issues, internal controls, risk management and financial reporting. The terms of reference for the Committee are reviewed annually and revised to reflect professional bodies' expectations and best practice.

25. Reporting arrangements have been strengthened in a number of aspects:

- A forward plan of reports is prepared for the Audit Committee each year setting out sources of assurance the Committee will receive to fulfil its terms of reference.
- Recommendations provide more detail of the type and level of assurance members should seek to fulfil their role.
- Reports contain more detail (at the request of members) to provide more scope for questions and possible challenge.

26. Following local elections in May 2011 new arrangements were developed. The Audit Committee was made up of 19 members and delegated functions to a smaller Audit Sub-Committee comprising of 5 members. In May 2012 further changes were made to revert to a single Audit Committee of 7 members.

#### **Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff**

27. The Council has adopted the national members' code of conduct in accordance with Section 50 of the Local Government Act 2000 and the Local Authorities (Model Code of Conduct) Order 2007.

28. The enactment of the Localism Act 2011 will see from the 1<sup>st</sup> July 2012 the abolition of the current Standards regime, including the mandatory code of members' conduct and Standards for England as the departmental body overseeing members' conduct. From the 1<sup>st</sup> July 2012 Councils, including Town and Parish Councils, will have to have their own locally developed code of conduct in place which must adhere to the Nolan principles. In addition, Councils will within their codes have to make appropriate provision for the disclosure of interests including those termed 'Disclosable Pecuniary Interests' ('DPI's') which are to be defined in regulation. The Act sees the

introduction of possible criminal sanctions against members who fail to disclose or register DPI's.

29. In readiness for the adoption of its own code of conduct and 'Arrangements' the Council has undertaken extensive dialogue with the Town and Parish Councils in its area, including the East Riding and Northern Lincolnshire Local Councils Association, as well as with neighbouring authorities, Humberside Police and received regular briefings via its membership of the Association of Council Solicitors and Secretaries.
30. There is an Officer Code of Practice for declarations of interest, gifts and hospitality which was amended in the year to take into account the provisions of the Bribery Act 2010. In addition the employee code of conduct which covers additional issues such as management & supervision, health & safety and personal conduct is binding as part of each employee's contractual terms and compliance is managed through various policies contained within the council's Human Resources Manual.
31. Corporate governance arrangements ensure that the conduct of officers and members is of the highest standard in decision-making and application of policy and procedures in service delivery. The council's Local Code of Corporate Governance and key supporting procedures are monitored and regularly reviewed.

**Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks**

32. The council has a formal Constitution and Delegations to Officers. These set out how the council operates and how it makes decisions. These are reviewed on a regular basis and amended to reflect changes in regulations and working practices when necessary.
33. There is an established financial management framework in place that is set out in the council's Constitution through the Financial Regulations, Finance Manual, Contract Procedure Rules and Procurement Manual. The council's Chief Financial Officer sets out the internal controls that must be complied with to ensure the proper administration of the council's financial affairs. Regular updates are made to reflect operational changes or new legislation such as the Bribery Act.
34. Risk management arrangements have developed over a number of years and the Risk Management Group (RMG) has been instrumental in this process. The council has developed a comprehensive risk management strategy, which has been adopted throughout the council. The strategy is reviewed annually and an action plan of work

is developed each year. The risk management strategy sets out the council's approach to risk management and the framework in place to manage risks. This includes strategic and operational risk registers, which assess the likelihood and impact of risks, the mitigating controls in place and responsibilities for those controls. The Strategic Risk Register identifies corporate risks to the council. These are linked to the council's strategic objectives; the definition used was '*those risks which will significantly impair the achievement of the council's principal aims and objectives.*' The register identifies the likelihood and impact of controls and the lead responsibility for managing controls. The Strategic Risk register is reviewed and monitored regularly and the importance of new and emerging risks are recognised, for example, reputational risk was recognised as a strategic risk in its own right and added to the list. An important addition to the action plan is a rolling programme of service reviews to monitor progress on efficiency and budget reduction measures agreed as part of the 2011/15 financial plan. Risk related training has been provided for both members and officers throughout the year.

35. During 2011/12 new risk management software was introduced to improve management information will be available to monitor risks and the adequacy of controls in place.

**Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

36. There are well-established arrangements in place to ensure compliance with the council's Constitution, relevant laws, regulations etc. and that expenditure is lawful. Independent legal advice is available on request including specialisms such as employment, planning, education and child care law. In addition, from April 2011 specialist commercial and procurement advice has been provided by the Commercial and Procurement Legal Team under the Head of Commercial Practice. The lawfulness of the council's decision-making process is bolstered by the report format protocol which includes appropriate legal input. The risk/options analysis is now embedded so as to ensure that the decision maker is presented with an analysis of the options together with a range of implications. These controls are important in meeting the challenge of significant legislative change and the government's public reform agenda as indicated, for example, in the Localism Act 2011.
37. The council's strong relationship with schools has been enhanced with further engagement concerning about services and support available to them and summarised in a booklet for easy reference. In addition specific support has been provided to those schools wishing to convert to academies.
38. The council has a strong managerial framework that is supported with policies and procedures in all key areas. Senior managers review

controls in place to ensure objectives and obligations are met. Annual statements of assurance are prepared by each Director or relevant Assistant Director to confirm that the system of internal control within each service area is adequate and key supporting procedures are regularly monitored and reviewed. These are independently evaluated through the work of internal audit.

### **Whistle-blowing and for receiving and investigating complaints from the public**

39. The Whistle-blowing charter incorporates appropriate safeguards to protect whistleblowers and details of the Public Interest Disclosure Act 1998. The whistle blowing policy is advertised on the council's web site <http://www.northlincs.gov.uk/northlincs/councilanddemocracy/finances/fraud/fraudhotline.htm> and intranet. The whistle blower's hotline telephone details and email address are publicised throughout the council and via quarterly counter fraud newsletters.
40. A comprehensive complaints policy and procedure provides a more simplified system of complaints handling and opportunity to learn from them. The new complaints procedure has been approved by the Council Management Team and is currently going through the Member approval and decision making process.
41. The Standards Committee's annual report, which was received by full Council at its meeting on the 22<sup>nd</sup> November 2011, in addition to providing a review of member complaints also includes an analysis, and copy, of the Local Ombudsman's Annual Report for the year. For the year 2010/11 no findings of maladministration were made against the Council.
42. The Standards Committee receives a report at each meeting on the progress of complaints/investigations under the current Code of Conduct.

### **Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training**

43. The council promotes development through the member development charter and access to regular development opportunities. Councillors are helped in their role by a comprehensive induction process after election and ongoing training and development. The member development group drives forward continuous improvement in this area. North Lincolnshire is one of the few councils in the area to have been awarded the 'Member Development Charter' by IDeA and the nine Regional Employers Organisations. The council's commitment to learning and development is described in our Workforce Development Strategy which is currently under review

44. North Lincolnshire Council takes a strategic approach to addressing its current and future workforce issues. Its approaches to attracting, retaining, developing and motivating the workforce were recognised as being effective when we achieved the Investors in People standard in 2009. The Standard provides a framework for improving performance and developing people to meet business objectives
45. The council has also worked hard with North Lincolnshire residents, elected members and employees of the council, partners and other stakeholders in promoting equality, diversity and inclusion. This has been recognised by becoming the first council in the country to be awarded the Investors in Diversity Standard in September 2010 by the National Centre for Diversity.
46. Senior management conferences and development opportunities provide support to drive continuous improvement in service delivery through decisive leadership.
47. The council's corporate workforce strategy is due to be reviewed in 2012/13. It sets out the council's strategic approach to recruitment, retention and development, its workforce objectives, challenges and plans of action. The generic competency and management and leadership frameworks inform the corporate training programme to ensure skills gaps can be addressed and a learning and development reviewing process (LADAR) is used to assess the impact and effectiveness of each training course. Employee development reviews and one to one meetings take place to continually assess training and development needs through a personal action plan.

**Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation**

48. The council's communication strategy supports and drives communications around the ambitions, focuses communications on critical areas and improves co-ordination across the council. A key element of the communication strategy was the council's magazine Direct, however new channels are being used such as web based and other social media opportunities.
49. The council has encouraged and maintained an effective relationship with local people and other stakeholders by:
- publishing a Forward Plan of Key Decisions;
  - encouraging and supporting the public in a range of ways to present issues to the Full Council, Regulatory Committees, Scrutiny and Petition Panels.
50. The council has a good engagement framework with several examples of good practice e.g. consultation and engagement toolkit (recognized

by IDEA), in depth public consultation exercise using consultants (Research for Today) to evaluate key spending priorities for the three year plan. The outcome of the exercise informed the council's 2011/15 Financial Plan. This was supplemented with further consultation with residents to inform the 2012/16 Financial Plan.

**Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships and reflecting these in the authority's overall governance arrangements.**

51. A definition of the various types of partnerships has been established, this enabled the differing governance arrangements to be considered and developed where necessary. A strategic lead on partnerships was assigned and a governance framework has been developed that should be applied as a minimum to all relevant partnerships. The framework includes roles, responsibilities and accountabilities and financial and performance management arrangements and is currently being reviewed. During 2011/12 with the cessation of the Local Strategic Partnership more emphasis was placed on operational/service specific partnerships. A risk-based approach is being adopted and the framework has been applied to the most significant service partnerships first.

## **REVIEW OF EFFECTIVENESS**

52. North Lincolnshire Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates. The abolition of the Audit Commission has resulted in the appointment of new external auditors (KPMG) for the council. During 2012/13 the council will look to develop a good working relationship with KPMG representatives to ensure the smooth transition of new external auditors and maintenance of strong internal control arrangements.

### **External assessment**

53. In September 2011 the Audit Committee received external audit's Annual Governance Report. This summarised the findings from the 2010/11 audit and included:

- Key messages arising from the annual audit of accounts; and
- The results of work undertaken to assess arrangements to secure value for money in the use of resources.

Key outcomes reported were:

- A positive assessment that the council made proper arrangements for securing value for money
- An unqualified opinion on the council's accounts was expected.
- That the final accounts process met the necessary statutory deadlines.
- A number of adjustments were recommended to the accounts, the majority of which were minor.

54. The Annual Audit Letter provides an overall summary of the Audit Commission's assessment of the council, drawing on final accounts and value for money work. The Annual Audit Letter for 2010/11 was reported to the Audit Committee in January 2012. The key messages were:

- An unqualified audit opinion was issued on the 2010/11 accounting statements on 30<sup>th</sup> September 2011.
- An unqualified value for money conclusion was issued on 30<sup>th</sup> September 2011. This means External Audit is satisfied that the council made proper arrangements to secure economy, efficiency and effectiveness of its use of resources.

The report contained 1 recommendation to improve internal control arrangements, specifically, 'Members should review the structure, representation and attendance of the Audit Committee'.

55. External Audit's Certification of Claims and Returns Report summarised the council's arrangements for claiming grants in 2010/11, and the level of assurance it provides on the operation of the council's procedures. Overall there were no significant weaknesses in the council's arrangements to prepare grant claims reported and improvements in supporting working papers were also noted. Recommended improvements identified in the previous year's report were implemented and issues identified during this year's testing have been addressed.

56. The Audit Committee also receive regular reports on the implementation of all External Audit recommendations. This process confirms that action is in hand to implement all recommendations made.

57. The Standards Committee report for the municipal year 2010/11 was received by full Council at its meeting on the 22<sup>nd</sup> November 2011. It detailed that nine new complaints had been received seven of which related to Town and Parish members and two relating to Council members. None had been referred for investigation. As such no matters had been referred to Standards for England.

### **Internal assessment**

58. Internal Audit provided an opinion to the Audit Committee in June 2012 on the adequacy of internal control across all the council's

activities. Internal Audit's Annual Report for 2011/12 concludes that reasonable assurance could be given that the council's control environment was generally adequate. The opinion is derived from:

- The review of all fundamental financial systems show that all but one are assessed as having either significant or adequate assurance on controls in place. The Care First system was assessed as 'Partial' for the following reasons:
  - The system is currently unsupported – this presents the risk of inadequate disaster recovery arrangements in the event of system failure.
  - CareFirst is not compliant with the council's information security policy in respect of access and password controls.

However audit testing showed financial information generated was accurate and feeder system controls operated correctly, resulting in no material impact on the council's Statement of Accounts.

Work is ongoing on upgrading the system which should be completed by the autumn.

- Reviews of other significant systems such as risk management, and corporate governance also provide adequate assurance on controls in place. Corporate governance arrangements were evaluated by internal audit against CIPFA/SOLACE best practice framework. The council's arrangements meet with best practice in most areas. Some minor recommendations for improvement were made. Information governance audits highlighted some improvements necessary. Action has already been taken and further work is planned to improve arrangements.
- No significant council wide control issues were identified from school audits
- Counter fraud arrangements have been strengthened and meet with best practice guidance available. Investigations show no significant frauds were reported during the year.
- The adequacy of internal control arrangements were evaluated as providing no assurance in 1 audit review. These relate to poor imprest procedures at one establishment. A positive response has been received in respect of all recommendations for improvement as a result of audit work. In view of the action put in place all issues highlighted are now in the process of being addressed.

59. A report was also prepared for the Audit Committee in June 2012 on the effectiveness of Internal Audit during 2011/12 to fulfil the requirements of the Accounts and Audit (England) Regulations 2011. This showed internal audit provided an effective service based on:

- External audit's review of Internal Audit and evaluation of compliance with professional (CIPFA) standards
- Compliance with CIPFA's Statement on the Role of the Head of Internal Audit
- Good customer feedback

- Achievement of most performance targets.

60. Compliance with CIPFA's Statement on the Role of the Chief Financial Officer (CFO) in Local Government has been reviewed by Internal Audit. The review concluded that financial management arrangements comply with all principles set out in the Statement that define the core activities and behaviours that belong to the role of the CFO and the governance requirements needed to support them.

61. The review of the Strategic Risk Register was reported to the Audit Committee in January 2012. Lead responsibility for each risk has been designated to senior officers and an evaluation of controls is underway. Internal Audit's review of risk provided adequate assurance on management arrangements – the main areas for improvement being:

- Inconsistent standards of evidence of risk management consideration in some decision making reports
- Actions to review partnership risks need to be completed
- Operational risk registers need updating in some areas.

62. Internal Audit's evaluation of counter fraud arrangements against CIPFA guidance indicated that the council's arrangements generally comply with best practice and its risk of fraud profile was low. Nevertheless counter fraud arrangements have been strengthened during the year in response to further professional guidance and a potential increase in the risk of fraud caused by the recession and other economic factors. A publicity campaign to raise awareness about the potential risk of fraud has been launched and a counter fraud newsletter has been widely distributed throughout the council. The Counter Fraud Strategy has been reviewed and strengthened to demonstrate the council's zero tolerance stance on fraud. The Audit Committee receive regular reports on counter fraud work to gain assurance on the adequacy of arrangements in place and a specific counter fraud plan was introduced to provide the committee with assurance on Internal Audit work planned during 2012/13 aimed at preventing, detecting and deterring fraud.

### **63. GOVERNANCE DEVELOPMENTS PLANNED DURING 2012/2013**

1. Ensure continued appropriate level of focus in addressing External and Internal audit recommendations particularly in times of increased risk (including risk of fraud) associated with significant local and national change.
2. Maintain strong budget and workforce monitoring and efficiency reporting procedures in achieving the delivery of budget targets and investment in the key aims identified in the 2012/16 financial plan.
3. Ensure the senior management review provides sufficient capacity to respond to new and major changes to legislation or government policy

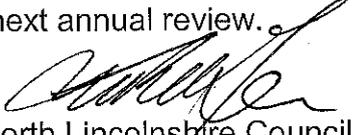
which may have a significant impact on the delivery of council services.

4. Ensure sufficient capability to respond to the provisions of the Localism Act, namely:
  - Community Right to Challenge - by becoming an effective commissioning council
  - Continue to embed and monitor the new Standards arrangements
5. Monitor the implementation of key changes to fundamental systems such as banking contract; cash management system, Local Taxation and Benefits shared service arrangements and the upgrade of the CareFirst system.
6. Continue to strengthen and ensure compliance with partnership governance arrangements.
7. Strengthen information governance arrangements throughout the council.

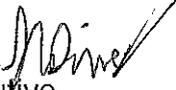
#### **64. CERTIFICATION**

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:   
Leader of North Lincolnshire Council

20 June 2012

Signed   
Chief Executive

20 June 2012

