

NORTH LINCOLNSHIRE COUNCIL

AUDIT SUB-COMMITTEE

ANNUAL GOVERNANCE STATEMENT 2010/11

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 The Annual Governance Statement (AGS) 2010/11 was approved by the sub committee in June. However it was agreed that the Governance Statement would be updated following the audit of the council's accounts and resubmitted for consideration and approval in September.
- 1.2 The AGS is generally positive and shows that the council's governance arrangements continue to be generally good and meet best practice in most areas.
- 1.3 Developments designed to address significant issues are identified in the AGS. Whilst no significant issues were identified through the accounts audit process a development point has been added about audit committee membership and attendance.

2. BACKGROUND INFORMATION

- 2.1 The Audit Sub-Committee approved the Annual Governance Statement (AGS) for 2010/11 approved June 2011. Under the changes to the Accounts and Audit (England) Regulations 2011 the AGS must accompany the final accounts and be considered in its own right. This could take place in September however the committee has 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 has now been updated to reflect assurance provided through the outcome of external audit's final accounts work and it is presented again in appendix A for approval.
- 2.2 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. The AGS 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. Five significant governance issues requiring further development were identified in the AGS which was approved in June. These are:
 - Ensure continued compliance in addressing External and Internal Audit recommendations particularly in times of increased risk associated with significant local and national change

- Monitor the impact of revised budget monitoring procedures in achieving the delivery of budget reduction measures identified in the 2011/15 financial plan
- Continue to strengthen partnership governance arrangements already established and meet any requirements from new or emerging legislation and professional standards.
- Ensure the council has 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 support and capacity is provided to the new administration to lead the council in the key decisions necessary to meet financial, legislative and governance challenges.

No significant issues were identified through the audit of accounts process however a further governance issue has been added to the areas for development:

- Continue to develop and strengthen the role of the Audit Committee (and sub-committee) by providing opportunities for debate and challenge through:
 - continuous improvements to the reporting process
 - providing appropriate training opportunities
 - encouraging full representation by Members.

3 OPTIONS FOR CONSIDERATION

3.1 The Sub-Committee is asked to consider whether or not the Annual Governance Statement provides sufficient assurance on the council's governance arrangements in 2010/11. If it concludes that it does provide sufficient assurance the Committee is invited to approve the updated AGS. The Sub-Committee may make amendments or seek clarification as necessary.

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

4. ANALYSIS OF OPTIONS

4.1 The Annual Governance Statement for 2010/11 is designed to deliver an overall opinion and provide this Sub-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 Sub-Committee's terms of reference.

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 Sub-Committee is asked to consider whether the Annual Governance Statement for 2010/11 provides sufficient level of assurance on the adequacy of governance arrangements throughout the council to allow the Sub-Committee to fulfil its role.
- 8.2 It is recommended that the Annual Governance Statement for 2010/11 is approved.

DIRECTOR OF FINANCE
AND DIRECTOR OF CORPORATE AND COMMUNITY SERVICES

Pittwood House
Ashby Road
SCUNTHORPE
North Lincolnshire
DN16 1AB

Author: Carol Andrews

Date: 30/08/2011

Background Papers:

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

**NORTH LINCOLNSHIRE COUNCIL
ANNUAL GOVERNANCE STATEMENT
2010/11**

Scope of responsibility

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.

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.

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.

A copy of the code is on our website at www.northlincs.gov.uk or can be obtained from Pittwood House, 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

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 objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

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, aims and objectives 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, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at North Lincolnshire Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

The governance framework

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

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

The council set its vision and priorities for 2010/11 after extensive consultation with all its stakeholders. The three-year Strategic Plan entitled 'Going Forward Together' identified the priorities for the council and the council's contribution to delivering the community strategy. The plan showed how we manage the council and our priorities for improvement; how we aligned our resources to meet our strategic priorities; and how we contributed to the shared ambitions for the area. The drivers behind the plan were the council ambitions – four of which were shared with the North Lincolnshire Strategic Partnership and a transformational strategy which contained four strands: valued council; organisational excellence; organisational fitness and worksmart. There were clear links with revenue and capital projects approved in line with the 2011/15 financial plan and supporting strategies including Value for Money and Human Resources (workforce planning).

Service plans integrate all key council planning processes and make explicit service delivery contribution to the council's ambitions. The planning process identifies the contribution services and individuals have to achieve the shared vision through the Community Strategy. During 2010/11 service planning was strengthened to ensure consistency across all services areas and more explicit links to achieving council wide outcomes.

Changes to the council's vision and streamlined service planning will be introduced during 2011/12.

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 2009/10 Annual Report was enhanced with more focus on outcomes and budget achievement. The Annual Report for 2010/11 will be 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

Performing Together is the council's performance management framework. This sets out the council's model for planning, achieving and reviewing performance. During 2010/11 performance targets were reviewed quarterly at a corporate level and by services to ensure key service delivery targets were monitored and appropriate action is taken where necessary. Quarterly Performance Reviews (QPR) is a key method for reviewing progress towards ambitions and priorities in the service plans and the council's strategic plan. An important link is made between cost and performance to ensure value for money is considered and other critical issues such as risk management information. In May 2011 the performance team was transferred and integrated with the VFM team. An escalated reporting process was in place to address poor performance. Action plans were required for all indicators showing performance below the national lower quartile, including a risk assessment of action proposed. These were then subject to more regular performance monitoring process through Corporate QPRs and Performance Improvement Panels involving Members and Service Directors. There was also an

annual performance review before senior management and councillors. A review of the council's performance framework is currently underway in response to recent changes to the 2010/11 government spending review outcomes which included the abolition of the LAA and national indicator set. The review is at an advanced stage and will introduce changes to the performance framework during 2011/12.

The Value for Money (VFM) Board developed the VFM Strategy 'Delivering Value Together' which was approved by Cabinet in February 2010 and incorporated a strategic commissioning policy aligned with the VFM programme. The Strategy set out the council's commitment to delivering better value, highlighted key elements that contribute to improving the council's value for money performance and provided a fitness check of those elements, identifying areas which required strengthening. The Transformation Board included VFM through the 'valued council' work stream of the Transformation Plan. It is recognised that as a low cost council generating efficiencies is more difficult to achieve. However a review of efficiencies and improvement opportunities designed to reduce cost; improve service delivery and maximise utilisation of council assets was carried out and identified some opportunities to improve efficiencies and reduce costs. The VFM Board has been disbanded and a council-wide review of all service areas will be carried out during 2011/12. The outcome of the exercise will identify strong and weak areas of value for money which in turn will inform the council's improvement priorities.

Robust budget monitoring procedures have operated throughout the year and have enabled the council to achieve a small under spend (£514k Service outturn) at a time of great financial pressures due to the recession. This now includes key elements of the balance sheet to ensure appropriate coverage of key financial risks. 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 have been 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)

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.

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

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 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. The Overview and Scrutiny Panels 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. (The Overview 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 is prepared by the Standards Committee during 2010/11. The government has announced that the Standards Board for England will be abolished however changes to the Standards Committee have yet to be finalised

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

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.

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.

Following local elections in May new arrangements were developed, This included training to support the new administration's Audit Committee prior to the first meeting in June 2011. As the membership of the new Committee increased to 19 members a

politically balanced sub-committee of 5 members was appointed in June with full delegated powers to carry out its key functions in accordance with the Committee's terms of reference. The sub-committee can then carry out specific and more detailed work contained within the forward plan and assurance map and refer any matters of major significance to the Audit Committee as required.

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

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. However, under the Localism Bill it is proposed that the current standards regime be abolished although authorities will still retain a duty to uphold standards. Authorities may adopt voluntary codes of conduct but the mandatory requirement is revoked. The council has recently established a project team to oversee the implications for the council of the Bill including the impact on Standards and this will feedback to appropriate officers in due course.

There is an Officer Code of Practice for declarations of interest, gifts and hospitality. 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. The Officer Code will require amendment to take into account the provisions of the Bribery Act 2010 once the Act is in force. A brief outline of the provisions of this Act was given to elected members as part of their induction training in May 2011.

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

The council has a formal Constitution and Delegations to Officers. These set out how the council operates and how it makes decisions. These policies are reviewed and amended to reflect changes in regulations and working practices when necessary. Delegations to Officers were recently amended following the council's restructure.

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.

Risk management arrangements have developed over a number of years and the Strategic Risk Management Group (SRMG) 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 risks associated with major projects such as Building Schools for the Future, the Pods, and the Waste Management contract have been added and regular risk register updates are reported to SRMG. 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.

During 2011/12 improved management information will be available to monitor risks and the adequacy of controls in place through the introduction of new risk management software.

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

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. 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 Bill.

Cross council governance groups have been reviewed and rationalised. Terms of reference and membership were also redefined to improve the efficiency and effectiveness of the groups.

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 Service 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

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 introduced in March 2010.

An improved and streamlined complaints procedure provides a more simplified system of complaints handling and opportunity to learn from them.

The Standards Committee receive the Monitoring Officers' annual report on a review of member complaints together with the Local Ombudsman's Annual Report. For the municipal year 2009/10 the Monitoring Officers' annual report on the work of the Standards Committee was replaced by a report of the Committee itself and a number of other initiatives aimed at enhancing knowledge of its work. 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

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.

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.

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.

Senior management conferences and development opportunities through breakfast briefings have provided support to drive continuous improvement in service delivery through decisive leadership.

Valuing People Together is the council's 3-year corporate workforce strategy. It is linked directly to the council's corporate strategy, *Going Forward Together* and it sets out the council's strategic approach to recruitment, retention and development, its workforce objectives, challenges and plans of action. There is a corporate training programme to ensure skills gaps can be addressed and a learning and development reviewing process (LADAR) 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

The council's communication strategy 'Communicating Together' 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 is the council's magazine Direct, which is distributed to all households (and is available on the web) and provides a useful tool for surveying stakeholders' views.

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.

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.

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.

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. A risk-based approach was adopted and the framework was applied to the Local Strategic Partnership and the most significant service partnerships first. Changes in key personnel have also increased the risk profile in some partnerships.

Review of effectiveness

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.

External assessment

The council's external auditors carry out a programme of work each year to assess the adequacy of the control environment in place within the council. This is also summarised and reported in the Annual Audit Letter. External Audit's Value for Money assessment was reported to the Audit Committee in September 2010. The council's Value for Money arrangements were assessed using the Audit Commission's criteria under the following themes:

Managing Finances

How effectively do you manage your finance to deliver value or money?

- Financial Planning
- Understanding Costs
- Financial Reporting

Governing the Business

How well do you govern yourself and commission services providing value for money and better outcomes for local people?

- Commissioning and Procurement
- Data Quality and the Use of Information
- Good Governance
- Risk Management and Internal Control

Managing Resources

How well do you manage your physical assets and people to meet current and future needs and deliver value for money?

- Asset Management
- Workforce Planning

The report concluded that there were no major weaknesses in the council's arrangements and there had been good progress in the improvement areas reported in 2008/09. Most of the recommendations have been addressed evidenced by:

- Progress on shortfall in efficiency targets
- Clearer integration of financial and performance reports
- Better information to the audit committee to allow more effective scrutiny
- Improved assessment of the risk of incorrect performance indicators and checking arrangements; and
- Updated partnership governance procedures.

The report also recognised that overall VFM arrangements had improved but it was too early to assess the impact on outcomes of some of the improvements. Other improvement opportunities identified were:

- Raising public awareness of the local standards framework
- Ensuring overall risks facing the council are more explicit; and
- Consideration of introducing independent assessment of risk management arrangements.

Good progress has been made to address the recommendations made in the report and further work is planned such as:

- Best practice has been considered and a number of improvements are being introduced to raise public awareness the standards framework such as :
 - Enhanced website (including members' register of interests)
 - Annual report to Council and article for Direct
 - Discussions with the secretary of ERNLLCA (sub-regional body for town/parish councils) regarding ways of working together to promote standards
- Improvements in Audit Committee reporting were introduced in September 2010. The evaluation of strategic risk controls was enhanced by introducing a definition of the adequacy of controls to provide greater clarity to Members on the level of assurance provided.
- Arrangements for the assessment of risk management were considered in accordance with CIPFA guidance on the role of the chief internal auditor. This showed that suitable arrangements are in place to ensure independence is maintained.

Also in September the Audit Committee received external audit's Annual Governance Report. This summarised the findings from the 2009/10 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.

Four recommendations to improve the year end accounting practices were made as a result of the final accounts work; all have been implemented.

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 2009/10 was reported to the Audit Committee in January 2011.

The key messages were:

- An unqualified audit opinion was issued on the 2009/10 accounting statements on 30th September 2010.
- An unqualified value for money conclusion was issued on 30th September 2010. This means External Audit is satisfied that the council made proper arrangements to secure economy, efficiency and effectiveness of its use of resources.
- The council made good progress in dealing with the improvement areas highlighted in last year's assessment
- The Audit Committee monitors progress on the recommendations detailed in audit reports issued during the year
- It is too early to assess the impact of the transformation plan developed in response to the expected future reduction in central government grants
- The council has made good progress in implementing the requirements of International Financial Reporting Standards (IFRS).

External Audit's 2009/10 grants review highlighted that the arrangements in place to ensure the timely and accurate submission of grant claims had been maintained. Overall no significant weaknesses were found in the arrangements to prepare grant claims. Apart from one claim there was an improvement on supporting documentation. Opportunities to make further improvements to current arrangements were identified and will be implemented shortly and an update on action taken will be reported to the Audit Committee.

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.

For the municipal year 2009/10 the Monitoring Officer's report on members' conduct was replaced by a report by the committee itself and a number of other initiatives aimed at enhancing knowledge of the work of the Standards Committee. The report was considered by the Standards Committee in June 2010. Eight complaints were received, none of which related to any member in their capacity as North Lincolnshire Council members and no matters were referred to the Standards Board.

In January 2011 the Office of Surveillance Commissioners inspected the council on its use of Regulation of Investigatory Powers Act which is the regulatory framework to govern the way public authorities handle and conduct covert investigations. The findings of the report were generally positive, and describes the council as “one of the better-performing local authorities.” The inspection also noted:

- a high standard of applications and authorisations,
- the fact that the council has incorporated all the new provisions in respect of RIPA, and that the reports to elected members are excellently structured and provide appropriate detail
- the council had complied with all the recommendations in the previous Inspector’s Report.

Internal assessment

Internal Audit provided an opinion to the Audit Committee in June 2011 on the adequacy of internal control across all the council’s activities. Internal Audit’s Annual Report for 2010/11 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 shows either significant or adequate assurance on controls in place.
- 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.
- No significant council wide control issues were identified from school audits
- Counter fraud arrangements have been strengthened and meet with best practice guidance available. Although the number of investigations has increased since last year no significant frauds were reported during the year. During the year however a significant attempted fraud (£0.6m) against the council was averted. This involved an attempt from outside the council to falsify a request to change the bank details of a genuine creditor to fraudulently divert payment. The payment was frozen and the Police contacted. The money has been fully recovered and Police enquiries are ongoing. It is believed to be part of large scale fraud on a national or potentially international scale and details have been passed to our police contact within the Economic Crime Unit who specialise in this type of fraud and an arrest has been made.
- The adequacy of internal control arrangements were evaluated as providing no assurance in 4 audit reviews. These relate to poor cash handling procedures in 2 establishments; non-compliance with Contract Procedure Rules in one section of the council and poor authorisation and monitoring of leave entitlement in one establishment. In all cases an appropriate management response has been received to all audit recommendations and procedures have been revised and strengthened. Follow up work is scheduled to ensure internal control has improved.

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.

A report was also be prepared for the Audit Committee in June on the effectiveness of Internal Audit during 2010/11 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
- Good customer feedback
- Achievement of most performance targets.

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.

The risk management strategy in place during 2010/2011 was agreed by the Strategic Risk Management Group (SRMG) and the Audit Committee and was reviewed and strengthened for 2011/2012. The risk management strategy and action plan helps to prioritise work to the areas of highest risk to the council. The strategy has been updated to reflect national and local economic and financial risks which may impact on the council along with significant change through major restructure, reshaping service delivery and operations and new legislation. 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 financial plan 2011/15. A review of business continuity arrangements for all significant contractors or suppliers was carried out and along with reviews of risk management arrangements in significant contracts such as Building Schools for the Future, the Pods and the Waste Management contract. Successful implementation and delivery of the transformation plan is vital therefore risks that could impact on key transformation milestones were also monitored through the action plan. Strategic risks were reviewed and updated in response to new and emerging risks and approved by the Committee in September. The review of Strategic Risk controls reported to the Audit Committee in April 2011 showed that all risks are managed to an acceptable level as there are no risks where no assurance is provided. All strategic risks have been evaluated as having significant or adequate controls in place with the exception of risk 21 'Failure of Major Partnerships' which is assessed as partial control assurance. Further work to improve controls has been identified and will be followed up.

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
- Low attendance levels at mandatory training in some service areas
- Inadequate evidence of reporting risk management considerations in quarterly performance reviews.

External Audit's VFM opinion report showed that there are 'improving risk management and internal control arrangements with no significant weakness.'

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. An anti money laundering policy has been introduced and targeted training provided in conjunction with the police.

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 2010/11 aimed at preventing, detecting and deterring fraud.

The Audit Committee has a key role to receive and challenge assurance that good corporate governance, financial management and reporting, internal control and risk management arrangements exist throughout the council. The Committee's work has developed over a number of years and improvements have been recognised in annual external audit reports. Following the elections the arrangements changed with the appointment of an audit sub-committee comprising of 5 Members (3 Conservative and 2 Labour Members). Labour Members did not attend the first meeting of the sub-committee in June. It is important for the effective functioning of the Audit Committee that there is political representation from all parts of the council to provide an effective and robust independent challenge to help maintain the council's governance standards.

Governance developments planned during 2011/2012

1. Ensure continued compliance in addressing External and Internal audit recommendations particularly in times of increased risk associated with significant local and national change.
2. Monitor the impact of revised budget monitoring procedures in achieving the delivery of budget reduction measures identified in the 2011/15 financial plan.
3. Continue to strengthen partnership governance arrangements already established and meet any requirements from new or emerging legislation and professional standards.
4. Ensure the council has 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.
5. Ensure sufficient support and capacity is provided to the new administration to lead the council in the key decisions necessary to meet financial, legislative and governance challenges.
6. Continue to develop and strengthen the role of the Audit Committee (and sub-committee) by providing opportunities for debate and challenge through:
 - continuous improvements to the reporting process
 - providing appropriate training opportunities
 - encouraging full representation by Members.

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

September 2011

Signed:

Chief Executive

September 2011