

NORTH LINCOLNSHIRE COUNCIL

AUDIT COMMITTEE

ANNUAL GOVERNANCE STATEMENT 2008/2009

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To present the draft Annual Governance Statement (AGS) 2008/2009 for members' comment and recommend approval by the Leader of the council and Head of Paid Service.
- 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 Regulations came into force in 1 April 2003 and require the Authority to publish with its accounts a Statement on Internal Control. In 2006 the amended regulations also required that:
- a review of the system of internal control is considered by a committee or meeting of members as a whole
 - a review of the effectiveness of internal audit is considered by a committee or a meeting of members as a whole.
- 2.2 CIPFA has 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 draft 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 Service 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 Service Director Finance, Service Director Legal and Democratic Services, Head of Strategy Development and Audit and Risk Manager oversees 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 Last year's Annual Governance Statement incorporated an evaluation of the council's governance arrangements against best practice and highlighted significant issues that required action by the council. Progress on these actions is reported in the 2008/2009 Statement.
- 2.6 A draft Annual Governance Statement 2008/2009 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:
- Address control issues highlighted in Internal Audit's Annual report
 - Implement corporate governance audit recommendations
 - Address the Auditors findings on Use of Resources and Annual Audit & Inspection report
 - Address areas for development in other review and inspection reports.
- 2.7 This report allows the council's Audit Committee to give full consideration to the AGS prior to its inclusion in the council's 2008/2009 accounts.
- 2.8 The Annual Governance Statement for 2008/2009 is currently in draft and may be subject to amendment as part of the accounts closure process.
- 2.9 External Audit will consider the AGS as part of the financial accounts audit.

3 OPTIONS FOR CONSIDERATION

- 3.1 The Committee is asked to consider whether the Annual Governance Statement provides sufficient assurance on the council's governance arrangements in 2008/2009. 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.

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

4. ANALYSIS OF OPTIONS

4.1 The Annual Governance Statement for 2008/2009 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 is set out in the Accounts and Audit Regulations 2003 and reporting requirements are set out in the Accounts and Audit (Amendment) (England) Regulations 2006. 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 Service Directors, External Audit and other inspection reports and therefore represents a corporate view.

7.2 The Governance and Use of Resources management group has also overseen this process.

8. RECOMMENDATIONS

- 8.1 The Audit Committee is asked to consider whether the Annual Governance Statement for 2008/2009 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 2008/2009 be adopted as part of the council's accounts.

SERVICE DIRECTOR FINANCE
SERVICE DIRECTOR LEGAL & DEMOCRATIC SERVICES
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Background Papers:

CIPFA- Delivering Good Governance in Local Government Framework
IPF CIPFA Finance Advisory Network – Meeting the requirements of the
Account and Audit Regulations 2003, Incorporating Accounts and Audit
(Amendment) (England) Regulations 2006 – A Rough Guide for Practitioners

NORTH LINCOLNSHIRE COUNCIL ANNUAL GOVERNANCE STATEMENT 2008-2009

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(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

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 2009 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

The council sets its vision and priorities after extensive consultation with all its stakeholders. The three-year Strategic Plan entitled 'Going Forward Together' identifies the priorities for the council and also sets out what the council will do to deliver the community strategy. The plan shows how we manage the council and our priorities for improvement; how we align our resources to meet our strategic priorities; and how we contribute to the shared ambitions for the area. The drivers behind the plan are the council ambitions – four of which are shared with the North Lincolnshire Strategic Partnership and four of which were internal council ambitions. The previous plan was superseded in April 2009 with a new three-year plan (Going Forward Together) which reflects changing requirements and now includes:

- Stronger links with revenue and capital projects approved in line with the financial plan 2009/2012
- Strengthened links with supporting strategies including Value for Money and Human Resources
- Greater clarity about outcomes and Local Area Agreement performance measures
- Replacing of the council's internal ambitions with a transformational plan.

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.

The council's activities and achievements, its financial position and performance is published each year in an annual report which is available on the council's website.

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. Performance targets are reviewed quarterly at a corporate level and by services to ensure key service delivery targets are monitored and appropriate action is taken where necessary. Quarterly Performance Reviews (QPR) are a key method for reviewing progress towards ambitions and priorities in the service plans and the council's strategic plan. An important link will be made between cost and performance to ensure value for money is considered and other critical issues such as risk management information. Action plans are required for all indicators showing performance below the national lower quartile, which are then subject to more regular performance monitoring process through Corporate QPRs and Performance Improvement Panels involving Members and Service Directors. There is also an annual performance review before senior management and councillors.

The Value for Money (VFM) Board has been instrumental in the development of the service planning and performance management arrangements to ensure VFM is properly considered in service plans, through Quarterly Performance Reviews and Performance Improvement Panels where necessary. A closer alignment of VFM work with the council's financial planning arrangements has been made to help meet the challenge of budget and efficiency savings the council faces and the development of the VFM Strategy 'Delivering Value Together' will include a Strategic Commissioning Policy. The Strategic Procurement and VFM Manager is the lead on this agenda through a structured 3-year VFM programme of targeted VFM improvement projects covering all service areas.

Expanded budget monitoring procedures have operated throughout the year and have enabled the council to achieve a small under spend 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). 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.

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 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 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 relevant legislation the council has a Standards Committee to deal with issues of members conduct. The composition and operation of the Standards Committee was reviewed in May 2008 to ensure it was 'fit for purpose' to meet the new duties under the Local Government and Public Involvement in Health Act 2007. Appropriate procedures have been put in place to deal with the local assessment, investigation and determination of complaints.

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 compliance with best practice. The committee oversees the management of governance issues, internal controls, risk management and financial reporting. The Committee took decisive action on issues brought to their attention concerning non-compliance with FMSiS deadlines and commissioned additional work to evaluate the adequacy of the council's counter fraud arrangements and have approved changes to the Anti Fraud Theft and Corruption Strategy.

In their Annual Audit and Inspection Letter external audit identified a key development opportunity for the Audit Committee to increase the focus on how assurance can be obtained regarding the operation of the internal control framework and financial reporting arrangements. Work has already started on this and the Committee are asked to consider the level of assurance all reports provide. In addition a forward plan of reports was prepared for the Audit Committee in June to set out sources of assurance the Committee will receive to fulfil its terms of reference.

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.

Pending a national code the council also has a local employee code of practice on gifts and hospitality and pecuniary interests, which is based on the Local Government Management Board Standards, together with an employee code, which covers additional issues such as management & supervision, health & safety and personal conduct. It is binding as part of each employee's contractual terms. Compliance with the employee code is managed through various policies contained within the council's Human Resources Manual.

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.

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.

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. Risk related training has been provided for both members and officers throughout the year.

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. Legal advice is available on request including specialisms such as employment, planning, education and child care law. There are controls in place to ensure that all reports to members have been formally considered for legal, financial, risk management and procedural issues etc. before presentation.

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 are publicised throughout the council.

An improved and streamlined complaints procedure was launched in May 2009. The new procedure provides a more simplified system of complaints handling and opportunity to learn from them.

The annual report from the Ombudsman reported no cases of maladministration.

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. A member development group has been established to drive continuous development. Significant success in member development arrangements was recognised in January 2009 when the council was 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 Human Resources Strategy 'Valuing People'. The strategy demonstrates how the council will deliver one of its core values of 'We Value' in achieving its vision and ambitions.

The council takes a strategic approach to workforce planning and effectively supports staff to fulfil their role. 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. All service areas (except Children and Young People) have achieved Investors in People accreditation. This is a national Standard that sets out a level of good practice for training and development to achieve business goals. The Standard provides a framework for improving performance and developing people to meet business objectives. The remaining service area will apply for accreditation in July and the council will seek council wide accreditation in September.

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 monthly magazine Direct, which is distributed to all households 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 (SIMALTO) using consultants to evaluate key spending priorities for the three year plan. The outcome of the exercise informed the council's 2008/09 budgets and was used again in setting the 2009/2010 budget.

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 has been 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 staged approach is being adopted and the framework has been applied to the Local Strategic Partnership and the most significant service partnerships first.

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 Comprehensive Performance Assessment (CPA) for 2008 carried out by the Audit Commission and reported in the Annual Audit and Inspection Letter issued in April 2009 showed the council is 'improving well and demonstrating a 3 star overall performance'. This compares with 4 star 'improving adequately' last year. The assessment also concluded that the council provided top performing benefits and housing services, with all five remaining service areas being assessed at 3 (out of 4) including Use of Resources. The corporate assessment published in February 2008 provided a rating of two (out of 4).

The Audit Commission's Direction of Travel report assessed the council as 'Improving Well'. Arrangements to improve value for money were found to be good and the council had responded well to the findings of the Corporate Assessment by developing capacity in terms of partnership working and strategic leadership. Their summary, on the Audit Commission website, to support the direction of travel assessment shows good examples of service delivery and performance improvements together with areas for improvements as follows:

'North Lincolnshire Council is improving well. Despite the impact of the floods of June 2007, improvement in performance is above the national average. Crime has reduced in most areas although robberies have increased. Outcomes for children and young people have improved, including educational attainment at GCSE and the numbers of young people in post-16 education. Services for older people continue to be assessed as good. More waste is recycled but the amount of total waste collected has increased. The Council has improved access to services for its citizens with an improved website which is recognised by increased user satisfaction and visitor numbers. Improvement in housing is poor and progress on reducing teenage pregnancy and childhood obesity is slow. The Council has responded well to the findings of the corporate assessment by developing capacity in terms of partnership working and strategic leadership. However, capacity is hampered at an operational level by increasing levels of staff sickness absence. Performance management within the Council is sound but arrangements with partners are still developing. The Council's management structure has been reorganised to address its four strategic ambitions which focus on areas important to local people'.

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 reported in the Annual Audit and Inspection Letter. A key component of the CPA is the 'Use of Resources'. This includes an assessment being made on:

- Financial reporting
- Financial management
- Financial standing
- Internal control
- Value for Money

Overall Use of Resources arrangements are assessed as 'consistently above minimum requirements - performing well' (level 3 score). In three of the five themes that make up Use of Resources the council are assessed as (level 3 scores). Financial reporting and Value for money are assessed as (level 2 scores) 'only at minimum requirements – adequate performance.' The arrangements for 2009 have been enhanced through the development of the Use of Resources Working Group and rigorous review of current criteria. The 2009 self assessment is currently being evaluated by external audit and results will be known later in the year.

The Use of Resources report issued in December 2008 identified opportunities for the development of the council's arrangements, in respect of:

- Quality assurance arrangements within the annual accounts process; availability of working papers and arrangements to ensure full compliance with the SORP (Statement of Recommended Practice)
- Improving the quality of cost data in some areas; and clear and explicit information for members on the impact of savings and re prioritisation.

In addition to the council's CPA rating the Annual Audit and Inspection Letter reported:

- the council is improving well in many priority areas with many services rated as good
- the council has responded well to the findings of last year's corporate assessment
- the council now needs to work with its partners in delivering agreed shared priorities
- the local strategic partnership requires effective leadership to respond to the needs of the community and reduce inequalities as set out in the Sustainable Communities Strategy
- an unqualified opinion was given on the accounts together with an unqualified conclusion on arrangements for securing value for money.

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

- additional resources through political assistants and national, regional and individual training and development opportunities have been provided to support Members in their community and strategic leadership roles,
- benchmarking against inspection criteria has been carried out in preparation for the Adult Social Care inspection in July
- A report on progress on sickness following the previous Performance Improvement Panel (PIP) will be considered at a future PIP.
- The housing improvement plan will be included in the next Quarterly Performance Review (QPR)
- The reduction of obesity and teenage conceptions are recognized as key Local Strategic Partnership (LSP) and Local Area Agreement (LAA) priorities and monitored through corporate QPRs and PIPs
- The LSP has adopted the council's performance management arrangements. Work is in progress to develop these arrangements including the developing role for scrutiny in performance management.

- Clarity on assurance on internal control arrangements has been improved through revised reporting arrangements to the Audit Committee the development of an annual forward of key reports
- External audit recommendations in respect of the preparation of the financial accounts are being addressed
- The link between financial and operational performance has been strengthened in the council's revised strategic plan and receives greater emphasis in QPRs. Quarterly budget monitoring reports examine the impact of key operational cost drivers.

External Audit's data quality review reported that the council was performing well (consistently above minimum requirements) for ensuring data quality. Overall the council's data quality performance in 2007/08 has shown significant improvement from 2006/07 as the assessment criteria is amended each year and is progressively harder to reach. Further actions are planned to strengthen and improve arrangements.

External Audit's 2007/08 grants review highlighted the arrangements in place to ensure the timely and accurate submission of grant claims has improved significantly over the last two years. Opportunities to make further improvements to current arrangements were identified and the Audit Committee will receive regular updates on action taken to implement audit recommendations.

The council participates in the National Fraud Initiative (NFI). The Audit Commission has commended the council's work in this area. Also the small number of frauds identified from investigation of a large number of potential matches gives some confidence around the effectiveness of internal controls.

Also, the Audit Committee receives regular reports on the implementation of External Audit recommendations. This process confirms that action is in hand to implement all recommendations made.

The Monitoring Officer's annual report on Members Code of Conduct for 2007/08 was considered by the Standards Committee in July 2008; no major issues are highlighted. The composition and operation of the Standards Committee was reviewed in May 2008 to ensure it was 'fit for purpose' to meet Local Government Act requirements. Internal Audit has carried out an assessment against the Standards Board checklist and found that the systems and procedures put in place are sound. Quarterly returns are submitted to the Standards Board as required and an annual report for 2008/09 has been prepared for the Standards Committee by the Monitoring Officer in addition to completing an Annual Report to the Standards Board.

Internal assessment

Internal Audit provided an opinion to the Audit Committee in June 2009 on the adequacy of internal control across all the council's activities. Internal Audit's Annual Report for 2008/09 concludes that reasonable assurance could be given that the council's control environment was generally adequate. Some exceptions were:

- Authorised signatories – the process of updating and monitoring authorised signatories for creditor payments and most payroll returns has been standardised. A core, up to date, list of authorised signatories for creditor and payroll payments is maintained and monitored through the council's accounting system (efinancials). Updating of authorisation lists for time sheet returns was not completed during 2008/09 but it is now nearing completion. Extended audit testing was carried out and no problems were identified as good budgetary control procedures and regular validation exercises provide other mitigating controls
- Financial Management Standards in Schools (FMSiS) – overall there has been a slow response from schools. All secondary schools have achieved the standard. Primary schools are not submitting their self assessments in accordance with the agreed timetable although no school has failed to achieve the standard
- IT controls – there has been a slow response to audit recommendations – although issues are now being addressed by managers or will be actioned through the implementation of Government Connect requirements.

In view of the action put in place all issues highlighted are now in the process of being addressed.

Following the Icelandic banking crisis a review of Treasury Management arrangements was carried out by internal audit. The outcome of the review showed that investments were made properly and in line with the council's investment policy. External audit endorsed this view and are satisfied that appropriate action has been taken under the circumstances. In reaching their Use of Resources evaluation external audit concluded that despite £5.5m of investments being frozen as a result of the Icelandic banking crisis, the council's treasury management strategy and procedures were good and that appropriate advice had been taken and acted upon as the crisis unfolded.

The Audit Commission issued the findings of their national report 'Risk and Return' in March 2009. This looked at treasury management across all local authorities and identified strengths and weaknesses in arrangements. The report severely criticised a small number of authorities - North Lincolnshire Council was not one of those councils. Some of the recommendations made included reviewing Government advice (especially on credit ratings) and revision of CIPFA's code (an interim review of the latter has now been issued by CIPFA).

The report of the Treasury Select Committee also published in March considered the impact of Icelandic banks failure on the whole range of UK depositors. The Committee considered that local authorities should not be covered by a government guarantee. A further report from the Communities and Local Government (CLG) Select Committee has now been published, which largely affirms the recommendations made by CIPFA and the Audit Commission.

The council has taken a range of actions in response to this crisis. In particular it is working with the LGA to recover the frozen investments, and the return of a significant portion of these is expected (further details are in the Foreword). Also the investment strategy has been reviewed to implement

group and national limits. A restricted range of counterparties, (major UK clearing banks and the Treasury's Debt Management Office) is being used in the current market conditions. Recommendations made by CIPFA and the Audit Commission are being implemented, for example regular reporting of Treasury performance to the Audit Committee commenced with the June 2009 meeting.

A report was also be prepared for the Audit Committee in June on the effectiveness of Internal Audit during 2008/2009 to fulfil the requirements of the Accounts and Audit Regulations (amendment) 2006. 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.

The risk management strategy in place during 2008/2009 was agreed by the Strategic Risk Management Group (SRMG) and the Audit Committee and was reviewed for 2009/2010. This sets out and monitors the council's risk management arrangements and a programme of work for the year. SRMG identified the council's strategic risks and ensures key controls are reviewed regularly. The review of Strategic Risk controls reported to the Audit Committee in January 2009 showed there were adequate controls in place to manage all its strategic risks apart from 'serious breach of information integrity, confidentiality and availability'. Improvements to IT controls made during the year have upgraded this assessment. Internal Audit's review of risk management arrangements found overall arrangements to be adequate – the main area for improvement being regular updating and submission of operational risk registers in some services areas. The self-assessment on Use of Resources produced as part of the Comprehensive Performance Assessment includes risk management arrangements. The evaluation carried out by external audit concluded that the council maintained its level 3 assessment – 'consistently above minimum requirements - performing well'

A review of effectiveness of the Audit Committee was completed in April 2008 using the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance on audit committees and a self-assessment 'toolkit'. The evaluation as indicated in the checklist shows the Audit Committee meets best practice in most aspects. Some opportunities for development were identified for the Committee to consider. The Audit Committee has also had the ability to raise queries with relevant officers on key issues e.g. performance. The council has a good track record of financial probity and sound governance.

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. The review incorporates assurances

received from internal and external review bodies, the Chief Financial Officer and Monitoring Officer. The findings and actions for improvement were reported and approved by the Audit Committee in September 2008 and a further report will be prepared for the Audit Committee on conclusion of the current review.

Internal Audit's evaluation of counter fraud arrangements against CIPFA best practice was reported to the Audit Committee in September. This showed the council's arrangements generally comply with best practice and its risk of fraud profile is low. Opportunities for further improvement to arrangements were taken as part of the update of the Anti Fraud, Theft and Corruption Strategy which was approved by the Audit Committee in April 2009.

The code of practice for employees relating to interests and gifts and hospitality was revised in January 2009 and widely published throughout the council.

A follow up audit of the council's approach to partnership working showed the partnership framework and assessment has been applied to the LSP and contributory partners. The framework is being applied to significant service specific partnerships and has resulted in rationalization of partnerships. Compliance with the framework and impact of applying the governance toolkit will be evaluated by internal audit during 2009/2010.

Governance developments planned during 2009/2010

1. Continue to progress the work already underway to address the External Auditors findings in the Annual Audit & Inspection report such as
 - Consider the outcome of the Adult Social Care inspection
 - Continue to investigate methods of reducing staff sickness levels
 - Continue to monitor progress made on the housing improvement plan
 - Monitor performance in key priorities for the council and its partners in such areas as obesity and teenage conception
 - Continue to develop performance management arrangements with partners
 - Continue to develop reporting arrangements to the Audit Committee to increase the focus on how the Committee obtains assurance regarding the operation of the internal control framework and financial reporting arrangements
 - External audit recommendations have been implemented in the preparation of the 2008/09 financial statements and will be evaluated in their audit of accounts review. Any further recommendations made following this review will be considered.
 - Work will continue to develop the link between financial and operational performance.

2. Address internal control issues highlighted in Internal Audit's Annual Report, namely:
 - Maintenance of up to date authorised signatory lists
 - Appropriate response to internal audit recommendations in respect of IT controls including monitoring the implementation of Government Connect requirements.

3. Implement corporate governance review recommendations including reporting and monitoring of inspection report recommendations.

Certification

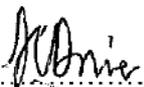
We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

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: 

22nd June 2009

Leader of North Lincolnshire Council

Signed 

22nd June 2009

Chief Executive