

# INTERNAL AUDIT REPORT

**TO:** Deputy Chief Executive (AJ)      **SUBJECT:** Corporate Governance  
**CC** Chief Executive  
Head of Finance  
Audit and Risk Manager      **MY REF:** JK/CG/JB  
**FROM:** Senior Internal Auditor (JK)      **DATE:** 28 June 2013

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## 1 INTRODUCTION

- 1.1 As part of the 2013/2014 Audit Plan, an examination of the council's corporate governance arrangements has recently been completed.
- 1.2 The purpose of this report is to outline the approach to the work and to present the findings and conclusions arising.

## 2 SCOPE AND OBJECTIVES OF THE AUDIT

- 2.1 In the absence of any requests to examine specific aspects of corporate governance the approach taken was fairly general with the exception of considering the effectiveness of the Annual Service Assurance Statements.
- 2.2 Accordingly the examination comprised:
- a) A general overview of the council's corporate governance arrangements.
  - b) Compliance with the latest CIPFA/SOLACE guidelines.
  - c) An examination of the council's Code of Corporate Governance and the requirements within it.
  - d) Reference back to the last audit report on corporate governance and any issues arising.
  - e) An assessment of the completion of the annual Service Assurance Statements (SAS).

## 3 APPROACH

- 3.1 The work involved some brief discussion with relevant officers but mainly comprised examination of all appropriate publications and statements.

## **4 BACKGROUND**

### **4.1 Delivering Good Governance**

- 4.1.1 Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk. All authorities should aim to meet the governance standards of the best; governance arrangements should not only be sound but also be seen to be sound.
- 4.1.2 Governance arrangements in the public services are keenly observed and sometimes criticised. Significant governance failings attract immense attention as they should; and one significant failing can taint the whole organisation.
- 4.1.3 Although the term “corporate governance” has been around for a long time it did not come into common use in the UK until 1992 following publication of the Cadbury report. The report was a response to the concerns relating to financial reporting and accountability heightened by events at BCCI and Maxwell Communications.
- 4.1.4 The local government response was enshrined in a 2001 publication produced jointly by CIPFA and SOLACE and called “Corporate Governance in Local Government – A Keystone for Community Governance”. It is commonly known as the CIPFA/SOLACE Framework and identifies best practice in demonstrating good governance. In support of the Framework, CIPFA/SOLACE have also issued guidance notes, to assist authorities in considering how they might go about reviewing their governance arrangements.
- 4.1.5 The Framework defines the principles that should underpin governance. Authorities should:
- Review their existing governance arrangements against the Framework.
  - Develop and maintain an up to date local code of governance, including arrangements for ensuring its ongoing application and effectiveness.
  - Prepare a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period.
- 4.1.6 The Framework identifies six core principles that are taken from The Good Governance Standard for Public Services (2004). This was developed by the Independent Commission on Good Governance in Public Services with support from the Office for Public Management and CIPFA and the principles have been adopted for local government purposes.
- 4.1.7 Each principle is supported by a number of supporting principles, each in turn translating into a range of specific requirements that should be reflected in authorities’ local codes.

4.1.8 The six core principles identified in the Framework are:

- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
- Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informal and transparent decisions that are subject to effective scrutiny and managing risk.
- Developing the capacity and capability of members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust accountability.

4.1.9 To achieve good governance, each authority should be able to demonstrate that it is complying with the core and supporting principles contained in the Framework and should therefore develop and maintain a local code of governance appropriate to its circumstances comprising the requirements for best practice identified within the Framework and the additional guidance. The Framework remains discretionary but is acknowledged as being best practice.

4.1.10 The council responded by reviewing its position in the checklist in the framework guidance note and actions to address the gaps were included in various improvement plans. It was not until 2008 that the council produced and adopted a Code of Corporate Governance.

## 4.2 **Annual Governance Statement**

4.2.1 The production of an Annual Governance Statement (AGS) is a statutory requirement for local authorities.

4.2.2 Regulation 4 of the Accounts and Audit (England) Regulations 2011 requires that "...the body or committee must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control."

4.2.3 The CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 provided until 31 March 2013 the "proper practices" referred to in Regulation 4.

4.2.4 The CIPFA Code of Practice required the council to designate a committee to consider or approve the AGS. The council has designated the Standards Committee for this task.

4.2.5 The format of the AGS is included in the CIPFA/SOLACE Framework and CIPFA have produced The Annual Governance Statement Rough Guide for Practitioners that offers advice on the completion of the AGS.

4.2.6 The AGS should include the following information:

- Scope of Responsibility
- The purpose of the governance framework

- A description of the governance framework and the key elements of the systems and processes that comprise the authority's governance arrangements
- Review of effectiveness
- Significant governance issues – including an outline of the actions taken, or proposed, to deal with any significant governance issues identified.

4.2.7 The AGS should be signed off jointly by the Leader of the Council and Chief Executive.

## **5 FINDINGS**

5.1 In respect of the areas listed at 2.2 the findings are as follows:

### **5.2 The council's corporate governance arrangements**

5.2.1 A number of publications and guidance notes have followed the initial framework and the current "rules" are contained in "Delivering Good Governance in Local Government: Framework" and an accompanying guidance note that were published in 2007. An addendum was published in December 2012. The framework has been given "proper practices" status by the DCLG and so is, in effect, statutory.

5.2.2 As expected, given the relatively high profile nature of corporate governance within local government, the council is complying with the relevant requirements. The short time available for the audit did not permit an in-depth assessment of compliance but some assurance was gained from the Audit Commission Annual Governance report 2011/2012 which states: "I have reviewed the Annual Governance Statement and can confirm that it complies with the CIPFA/SOLACE Framework"; the AGS is prepared by an AGS working party and is presented to Standards Committee for approval prior to inclusion in the statement of accounts.

5.2.4 A Grant Thornton report published in February 2013 criticised local authorities for sticking too rigidly to the example format for an AGS included in the CIPFA/SOLACE guidance. They were suggesting more of an individual or personal approach reflecting an authority's own priorities and achievements. Certain aspects of the report have been supported and will be pursued but for several reasons sticking with the established format of the AGS will continue for the foreseeable future.

5.2.5 As already mentioned the council does have its own Code of Corporate Governance that was approved in 2008.

### **5.3 Compliance with latest CIPFA/SOLACE guidelines**

5.3.1 The 2007 framework is still the main source of guidance and information on corporate governance. In December 2012 an addendum to it was issued and it includes an update on the example AGS previously issued to give an increased emphasis on a strategic approach. The AGS presented to Standards Committee in June 2013 follows the latest format as outlined in the addendum.

- 5.3.2 The addendum also includes a table listing the key elements of the typical systems and processes that comprise an authority's governance arrangements. It also states that an authority's review of the effectiveness of its governance arrangements will need to make appropriate reference to these elements.
- 5.3.3 Most of the elements listed are referred to specifically in the AGS. A very brief consideration of all of the elements listed would suggest that the council is complying with them. In three areas the council is not fully compliant and they are all included as significant governance issues (SGIs) in this year's AGS.

#### 5.4 **Code of Corporate Governance**

- 5.4.1 The council's code, approved in 2008, does contain at least two aspirations that are not being met i.e. whistleblowing arrangements for council contractors and publishing an annual report on the council's vision, achievements, etc. That does not necessarily mean that it is not still relevant.
- 5.4.2 Six years, however, is a long time in today's local government environment and the way that the council operates now is very different to 2008 so on that basis a complete review of the Code is due. The AGS has identified this as a significant governance issue.
- 5.4.3 The AGS implies that the Code has not been reviewed since 2008 but merely reaffirmed by Standards Committee as part of the AGS process. The Code itself does state that the Code will be reviewed annually by Standards Committee together with the communications strategy for governance.

#### 5.5 **Issues from last report on corporate governance**

- 5.5.1 The last report issued by Internal Audit on corporate governance was in January 2012 and it concerned progress being made on the actions to address the SGIs identified in the 2010/2011 AGS.
- 5.5.2 The findings were that progress was being made but there was nothing by way of monitoring and reporting of progress.
- 5.5.3 That position has now changed significantly in that a report on progress against the actions is submitted regularly to SMT.
- 5.5.4 It is worth noting that the SGIs included in the last three AGS have a familiar ring to them. This would indicate a lack of progress on some of them and no doubt the difficulty faced by the AGS working party in coming up with new SGIs.
- 5.5.5 The Grant Thornton report analysed 153 AGS and found that 28 Councils reported no significant governance issues in 2011/2012, down from 45 in 2010/2011.

#### 5.6 **Service Assurance Statements**

- 5.6.1 As part of the process of producing the AGS the working group require Heads of Service to complete a Service Assurance Statement (SAS) annually in order to provide evidence to support the AGS and to help identify SGIs. The SAS has been developed in recent years into a document covering nine aspects of internal

control. Previously it was merely one sentence on a piece of paper that could be signed without a second thought.

- 5.6.2 The statements to support this year's AGS were issued on 19 February 2013 for completion by 21 March 2013. All were completed and returned.
- 5.6.3 However, the standard of completion and the apparent commitment to the task varied significantly between Heads of Service. Some of them were long on words but lacking in substance and virtually all of the actions required for improvement were either relatively trivial or inappropriate and therefore not worthy of inclusion in the SGIs. In short the SAS did not have the desired effect.
- 5.6.4 Possible reasons for the disappointing content may be a basic lack of appreciation of the purpose of the SAS that could be addressed by some form of training supplemented by examples of well completed statements from other authorities.
- 5.6.5 Heads of Service would no doubt cite a lack of time at the year end preventing them from a greater commitment to the task.

## **6 CONCLUSION**

- 6.1 Based on a fairly limited examination of the areas detailed in this report the examination concluded that the council is performing its corporate governance duties and responsibilities well. Some aspects are in need of improvement but they are not considered to be significant.
- 6.2 The "audit" can therefore give a **SUBSTANTIAL** level of assurance that the procedures in place are appropriate and effective.

**John King**  
**Senior Internal Auditor**