Appendix 1

Meeting:	Audit Committee Overview and Scrutiny Committee
Date:	10 May 2005 26 April 2005
Subject:	Corporate Governance
Responsible Officer:	Director of Corporate Governance
Contact Officer:	Director of Financial and Business Strategy
Portfolio Holder:	Business Connections and Performance
Key Decision:	No
Status:	Part 1

Section 1: Summary

Decision Required

To note the position on Corporate Governance and the proposals for further work.

Reason for report

To update Members on Corporate Governance

Benefits

Clarity about the Council's governance arrangements

Cost of Proposals

None

Risks

None associated with noting the position.

Implications if recommendations rejected

None

Section 2: Report

Overview

1. This report sets out the current position on Corporate Governance and includes proposals for further work in this area. Over the coming months there will be wider consultation with officers and members about the scope of corporate governance and the key issues. This will inform a further report to Cabinet and Overview and Scrutiny in setting out the main areas for development in 2005/06 and beyond. The second report will also set the scene for the review of the constitution.

Brief History

2. The Terms of Reference of the Overview and Scrutiny Committee include the following:
    "to examine the Council's corporate governance framework and make recommendations for change as appropriate".

3. Towards the end of 2004 the Independent Commission on Good Governance in Public Services published "The Good Governance Standard for Public Services."

4. The newly appointed Director of Corporate Governance has been working with the Directors of Legal Services, Financial and Business Strategy, Organisational Performance, and HR and Organisational Effectiveness to outline the Council's governance arrangements in light of the new standard.

5. Effective governance will become increasingly important for Harrow as the Council is entering into increasingly diverse and complex partnerships and services are delivered using a variety of models. Developments such as the Business Transformation Partnership, joint working with the PCT on adult services, the establishment of Children's Trusts, area delivery and changes to schools funding arrangements will all require effective governance to ensure that service delivery is maximised.

6. This report aims to

- o Set out the Council's governance framework using the six core principles established in the new standard
- o Identify progress made in 2004/05
- o Explain the relationship between the framework and the Statement on Internal Control
- o Update the Committee on progress against areas identified in the 2003/04 Statement of Internal Control
- o Outline the proposals for future work

7. This report will be presented to the Audit Committee at their next meeting.

Options considered

The Council's Corporate Governance Framework

8. The Independent Commission on Good Governance in the Public Services was established by the Office for Public Management (OPM) and the Chartered Institute for Public Finance and Accountancy (CIPFA), in partnership with the Joseph Rowntree Foundation. The role of the commission was to develop a common code and set of principles for good governance across public services.

9. The Commission began work in early 2004 and conducted a series of meetings, invited written submissions and carried out extensive consultation. A draft standard was issued with further consultation conducted in the autumn of 2004. The final version of the standard was late in 2004.

10. The standard is intended to act as a guide to those concerned with the governance of public services, not only to help them understand and apply common principles of good governance but also to help them assess the strengths and weaknesses of current governance practice and improve it. Governance is dynamic: good governance encourages the public trust and participation that enables services to improve, bad governance fosters low morale and adversarial relationships that lead to poor performance or even, ultimately, to dysfunctional organisations.

11. The standard comprises six core principles of good governance:

- o Good governance means focusing on the organisation's purpose and on outcomes for citizens and service users
- o Good governance means performing effectively in clearly defined functions and roles
- o Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour
- o Good governance means taking informed, transparent decisions and managing risk
- o Good governance means developing the capacity and capability of the Council to be effective

> o Good governance means engaging stakeholders and making accountability real

12. Members will note that the standard is wide ranging and goes well beyond internal rules and regulations.

13. The schedule attached at Appendix 1 shows each of the six principles, each with a number of supporting principles, and the Council's governance arrangements under each heading. There is naturally some overlap between the headings, for instance seeking views from the public on services is relevant in several areas. However, for simplicity, the Council's consultation strategy is only included once, under section 6. Similarly the constitution and delegation of authority could be included in several sections but has only been included once.

14. The schedule demonstrates that considerable progress has been made on governance in 2004/05. Key achievements include:
    o Improvements to the medium term financial and service planning process
    o Publication of the community strategy
    o Development of the balanced scorecard approach to performance management
    o Introduction of new financial regulations and contract procedure rules
    o Introduction of purchasing cards
    o Middle Management Review
    o Achievement of Level 2 of the equality standard
    o Establishment of the Audit Committee
    o Successful implementation of the Freedom of Information Act
    o Initial work towards securing a business transformation partner
    o Review of the strategic risk register and development of Directorate risk registers
    o Phase 1 of the business portal
    o Strategic review of grants

15. The standard includes a number of questions that governors and governing bodies (the Council and Councillors) should ask themselves and these are attached at Appendix 2 for information. The standard also includes suggested questions that members of the public may wish to ask themselves or their representatives. As the Standard is designed to cover a range of public bodies not all the questions will be directly relevant to the local authority context.

The Statement of Internal Control

16. Regulation 4 of the Accounts and Audit Regulations 2003 requires that from 1 April 2003:

    "The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk."

    "The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices, with any statement of accounts it is obliged to publish."

17. The Statement of Internal Control is slightly more narrowly focused than the governance framework. However there is much common ground. The statement of internal control involves a more detailed review of financial management in the Council.

18. The statement sets out a description of the internal control environment, improvements made in the year, and any significant areas for development. The 2003/04 Statement of Internal Control is attached at Appendix 3. This was the first time the Council produced such a statement and it was transitional.

19. Progress against the areas for development outlined in the 2003/04 statement is shown in Appendix 4.

20. Due to some of the issues that have arisen in 2004/05 and the number of areas where further work is required, the statement for 2004/05 is unlikely to be one of full compliance.

21. The regulations require the Council to review the effectiveness of internal control. This report constitutes the bulk of that review for 2004/05. In relation to financial management there have been a number of threads:
    o Further Improvements have been made to the medium term planning process
    o New financial regulations and contract rules were approved in October 2004 and over 500 staff received financial management training
    o Member development sessions have been held on Local government finance
    o Improvements have been made to the financial system to enhance performance in the run up to the business transformation partnership
    o A new professional training scheme has been introduced in the Financial and Business Strategy Directorate

       ○   A number of key posts have been filled in the Financial and Business
          Strategy Directorate

22. In 2005/06 the financial management work will include:
    - Further training for staff and members
    - Self assessment using CIPFA's financial management model
    - The development of a comprehensive action plan which incorporates findings and recommendations from Internal Audit and External Audit work, the Annual Audit and Inspection Letter, the Auditor's scored judgement, follow up from training sessions, ideas from finance staff, the scrutiny review of the budget process, this governance review and other sources
    - A review of compliance in conjunction with a subgroup of the Budget Review Working Group and the Audit Committee
    - A review of financial regulations and contract rules in consultation with Members

Ongoing Arrangements

23. This report represents the starting point for a more detailed piece of work. The scope of governance and key issues for Harrow will be examined in more detail with officers and members. This will lead to a more detailed report to Cabinet and Overview and Scrutiny and set the scene for the review of the constitution. The second report will include a detailed action plan for 2005/06 and beyond.

24. The framework will be updated as required and the officer group chaired by the Director of Corporate Governance will continue to meet regularly to monitor progress. Part of the work of the group will involve using the internet and intranet as a source of information on governance.

25. From now on Overview and Scrutiny and the Audit Committee will be updated on progress on a six monthly basis.

26. The Audit Committee is responsible for reviewing the statement of internal control each year as part of the accounts. In practice this means that the Committee needs to be satisfied that
    - the Council has an appropriate control environment in place, which is operating effectively
    - there is a high level of compliance with procedures
    - the control environment has been adequately monitored and reviewed during the year
    - steps are being taken to resolve any significant issues

27. The work that Internal Audit carry out is a key part of the control environment. Therefore the Audit Committee needs to satisfy itself that internal audit work is properly planned and resourced, and that internal audit recommendations are implemented in a timely fashion (as per the terms of reference).

28. Officers and Members are developing the role of the Audit committee to ensure that it can fulfil these responsibilities.

Consultation

29. Consultation to date has been at officer level.

Financial Implications

30. None.

Legal Implications

31. None.

Equalities Impact

32. The Council's equalities policies and plans are a key part of the governance framework.

Section 3: Supporting Information/Background Documents

Appendices

    Appendix 1: Governance Framework
    Appendix 2: Questions for Councillors and Council
    Appendix 3: Statement on Internal Control

List information that is on deposit in Group Offices, can be viewed on the web and will be available for inspection at the meeting:

    NONE

List other background papers that are available on request:

    NONE

Core Principle 1: Focusing on the organisation's purpose and outcomes for citizens and service users			
Supporting Principle	**Governance arrangements**	**Responsible Officer**	**Comments/work carried out in 2004/05**
Being clear about the organisation's purpose and its intended outcomes for citizens and users	Corporate Plan and service plans	Director – Organisational Performance	BVPP published. New corporate planning framework established. New corporate priorities agreed. Guidance issued to Directorates. Corporate and Service plans being developed.
As above	Community Strategy	Director – Organisational Performance	Community strategy published Management Groups established 12 early priorities identified through vitality profiles.
As above	CMT and Strategy Directors Board	Various	Corporate priorities and community strategy agreed. Strategy and programme board established.
Making sure that users receive a high quality service	Performance management system	Director – Organisational Performance	Balance scorecard framework established for whole Council with strong focus on customer impact. Strategic Performance Report quarterly to Cabinet. Executive Directorate scorecards established.
Making sure that taxpayers receive value for money	CPA, Audit and Inspection regime	Director of Organisational Performance	Self assessment embedded in corporate and service planning. Including requirement to look at vfm.

As above	Scrutiny function	Director of Organisational Performance	Specifically this year review of budget process, NHP review and homecare review had strong vfm focus
As above	Best Value review programme	Director of Organisational Performance	Focused BV programme implemented – including review of legal services, culture and monitoring of procurement, and first contact.
As above	Effective financial management	Director of Financial and Business Strategy	New financial regulations and contract rules issued, training provided to 500 staff. Improvements to e-financials. Professional training scheme introduced in Financial and Business Strategy
As above	Effective procurement	Director of Financial and Business Strategy	Purchasing cards rolled out. New corporate contracts and billing arrangements implemented. Work with Directorates to ensure best value from contracts
As above	Working with schools	Director of Financial and Business Strategy Director of Learning and Community Development	Financial services and advice provided to schools to assist them in achieving value for money. Procurement support provided (eg, purchase of lap tops)

Core Principle 2: Performing Effectively in clearly defined functions and roles			
Supporting Principle	**Governance arrangements**	**Responsible Officer**	**Comments/work carried out in 2004/05**
Being clear about the functions of the Council	Constitution	Director of Corporate Governance	-
Being clear about the responsibilities of Councillors and Chief Officers; and making sure that those responsibilities are carried out	Chief Executive, Executive Director and Statutory officer roles	Director of Corporate Governance	-
As above	Role Profiles	Director of Human Resources and Organisational Effectiveness Director of Corporate Governance	Clear job descriptions and role profiles being defined. Objective setting embedded as part of appraisal system.
Being clear about relationships between Members and the public	Community engagement strategy	Director of Organisational Performance	See Core Principle 6

Core Principle 3: Promoting values for the whole organization and demonstrating the values of good governance through behaviour			
Supporting Principle	**Governance arrangements**	**Responsible Officer**	**Comments/work carried out in 2004/05**
Putting organisational values into practice	Employee and member codes of conduct	Director of Human Resources and Organisational Effectiveness; Director of Corporate Governance	-
As above	Employment policy	Director of Human Resources and Organisational Effectiveness	Intranet availability of employee policies and procedures
As above	Equalities policy and plans	Director of Human Resources and Organisational Effectiveness	Corporate Equalities Group and Directorate Groups established Level 2 of equality standard achieved. Impact assessments completed in line with RES
As above	Management competencies framework	Director of Human Resources and Organisational Effectiveness	New framework developed and implemented for middle management review. Leadership programme implemented.
Individual Councillors behaving in ways that uphold and exemplify good governance	Standards committee	Director of Corporate Governance; Director of Human Resources and Organisational Effectiveness	Training on development control work
As above	Audit Committee	Director of Financial and Business Strategy	New Committee established.

Core Principle 4: Taking informed, transparent decisions and managing risks			
Supporting Principle	**Governance arrangements**	**Responsible Officer**	**Comments/work carried out in 2004/05**
Being rigorous and transparent about how decisions are taken	Advance notice of key decisions, Public meetings	Director of Legal Services; Director of Corporate Governance	Improved publication of material on internet
As above	Format of reports	Director of Corporate Governance	Cabinet and committee reports restructured to ensure that all the key information is clear and easy to locate
As above	Register of interests (members and officers)	Director of Corporate Governance	Register maintained
As above	Declaration of related party transactions for the accounts	Director of Financial and Business Strategy	Exercise completed for 2003/04 accounts
As above	Communications strategy	Head of Communications	Strategy developed
As above	Freedom of information act	Director of Organisational Performance	Freedom of Information preparation successfully implemented with a strong focus on openness and delegation. Decision taken to minimize charges. Corporate procedure and policy in place.
As above	Records maintenance system	Director of Organisational Performance	

Having and using good quality information, advice and support	Well trained professional staff	Director of HR and Organisational Effectiveness	New Senior Professional roles developed
As above	External advisers and partners	Various	Procurement of Business Transformation Partner. HSP making policy for local area. Use of external advisers in areas of specialist expertise.
As above	Publications	Various	BVPP and Community strategy published
As above	Freedom of information act	Director of Organisational Performance	Information audits carried out in a number of areas. Agreement of records management policy, email policy, information strategy.
As above	Complaints procedure	Director of Corporate Governance	Implementation of corporate complaints system
Making sure that an effective risk management system is in operation	Risk Management framework	Director of Financial and Business Strategy	Risk management workshops rolled out across all directorates.
As above	Building risk into all processes such as budgeting, service planning, project management, partnership working, committee reports, etc	Director of Financial and Business Strategy	Risk assessment built into new service planning process.
As above	Emergency planning and business continuity	Director of Financial and Business Strategy	More detailed plans developed. Additional response officers recruited.

As above	External audit	Director of Financial and Business Strategy	External Audit work planned and reported in transparent way
As above	Internal Audit	Director of Financial and Business Strategy	Audit Committee established. Revised procedures introduced for escalation of reports to Executive Directors and CMT. Audit plan informed by risk registers.
As above	Health and Safety	Executive Director, Business Connections	Review completed
As above	Management assurance	Director of Financial and Business Strategy	Proposals agreed to a new management assurance system
As above	Anti-fraud and corruption policy	Director of Financial and Business Strategy	
As above	Whistleblowing arrangements	CE and Director of Corporate Governance	-

Core Principle 5: Developing the capacity and capability of the Council to be effective			
Supporting Principle	**Governance arrangements**	**Responsible Officer**	**Comments/work carried out in 2004/05**
Making sure that Councillors have the skills, knowledge and experience they need to perform well	Member induction and development programme	Director of HR and organisational effectiveness	Programme of member development delivered
As above	Support to members	Various	Support provided to members via a range of meetings and briefings to ensure that they are well informed
Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group	Leadership programme, training scheme for managers	Director of HR and organisational effectiveness	Leadership programme completed by Chief Exec, Executive Directors and Directors; Financial management training provided to 500 staff
As above	Recruitment and Selection, induction for staff, appraisal system, IIP	Director of HR and organisational effectiveness	
As above	Absence mangement	Director of HR and organisational effectiveness	New occupational health contract put in place

Employee Assistance Programme implemented on 1 year initial pilot |
| Striking a balance in membership of the Council between continuity and renewal | Not directly applicable to local authorities | | |

Core Principle 6: Engaging stakeholders and making accountability real			
Supporting Principle	**Governance arrangements**	**Responsible Officer**	**Comments/work carried out in 2004/05**
Understanding formal and informal accountability relationships	Constitution Community Strategy Partnership arrangements	Various	Community strategy agreed. HSP developed. HSP constitution in place.
Taking an active and planned approach to dialogue with and accountability to the public	Community Engagement strategy	Director – Organisational Performance	Community engagement strategy developed. Regular citizen satisfaction survey carried out. Public engaged in budget process.
Taking an active and planned approach to responsibility to staff (and others working with the council)	HR function, staff development strategy, terms and conditions	Director of HR and Organisational Effectiveness	Staff survey Restructured the HR function to provide improved services and coverage. Instituted improved Occ Health provider and EAP system
Taking an active and planned approach to responsibility to staff (and others working with the council)	Working with Unison and representative staff groups	Director of HR and Organisational Effectiveness	Multiple joint partnership ventures initiated including Joint Services Reviews
Engaging effectively with institutional stakeholders	Harrow Strategic Partnership	Director of Organisational Performance	HSP well established. Supporting Management Groups operational including voluntary & business sectors.
As above	Working with the Business Community	Director of Financial and Business Strategy Director of Strategy, Urban Living	Review of business engagement Phase 1 of Business Portal completed
As above	Working with the Voluntary sector	Director of Financial and Business Strategy	Strategic review of grants

<div align="right">**Appendix 2**</div>

Assessment questions for Councils and Councillors to ask themselves

1. **Good governance means focusing on the organisation's purpose and on outcomes for citizens and users**

   - How clear are we about what we are trying to achieve as an organisation? Do we always have this at the front of our minds when we are planning or taking decisions? How well are we doing in achieving our intended outcomes?

   - To what extent does the information that we have about the quality of service for users help us to make rigorous decisions about improving quality? Do we receive regular and comprehensive information on users' views of quality? How could this information be improved? How effectively do we sue this information when we are planning and taking decisions?

   - To what extent does the information that we have on costs and performance help us to make rigorous decisions about improving value for money? How effectively do we use this information when we are planning and taking decisions? How well do we understood how the value we provide compares with that of similar organisations?

2. **Good governance means performing effectively in clearly defined functions and roles**

   - Do we all know what we are supposed to be doing?

   - Is our approach to each of the Council's main functions clearly set our and understood by all in the Council and Chief Officers? What does the size and complexity of our organisation mean for the ways in which we approach each of the main functions of governance?

   - How clearly have we defined the respective roles and responsibilities of the Council and Chief Officers? Do all members of the Council taken collective responsibility for the Council's decisions?

   - How well does the organisation understand the views of the public and service users? Do we receive comprehensive and reliable information about these views and do we use it in decision making?

3. **Good governance means promoting values for the whole organisation and demonstrating the values of good governance through behaviour**

- What are the values that we expect the staff to demonstrate in their behaviour and actions? How well are these values reflected in our approach to decision making? What more should we do to ensure these values guide our actions and those of staff?

- In what ways does our behaviour, collectively as a Council and individually as Councillors, show that we take our responsibilities to the organisation and its stakeholders very seriously? Are there any ways in which our behaviour might weaken the organisation's aims and values?

4. **Good governance means taking informed, transparent decisions and managing risk**

- How well do our meetings work? What could we do to make them more productive and do our business more effectively?

- Have we formally agreed on the types of decisions that are delegated to Chief Officers and those that are reserved for the Council? Is this set out in a clear and up-to-date statement? How effective is this as a guide to action for the Council and the Chief Officers? How well do we explain the reasons for our decisions to all those who might be affected by them?

- Is the information we receive robust and objective? How could the information we receive be improved to help improve our decision making? Do we take professional advice to inform and support our decision making when it is sensible and appropriate to do so?

- How effective is the organisation's risk management system? How do we review whether this system is working effectively? Do we develop an action plan to correct any deficiencies in the systems? If so, do we publish this each year?

5.   **Good governance means developing the capacity and capability of the Council to be effective**

- What skills have we decided that Councillors must have to do their jobs effectively? How well does our recruitment process identify people with the necessary skills and reach people from a wide cross-section of society? What more could we do to make sure that becoming a Councillor is practical for as many people as possible?

- How effective are we at developing our skills and updating our knowledge? How effective are our arrangements for reviewing the performance of Councillors? Do we put into practice action plans for improving our performance as a Council?

- What is our approach to finding a balance between continuity of knowledge and renewal of thinking in the Council? What are our reasons for this approach? Do we need to review it?

6.   **Good governance means engaging stakeholders and making accountability real**

- Who are we accountable to and for what? How well does each of these accountability relationships work? Do we need to take steps to clarify or strengthen any relationships? Do we need to negotiate a shift in the balance between different accountability relationships?

- What is our policy on how the organisation should consult the public and service users? Does it explain clearly the sorts of issues on which it will consult which groups and how it will use the information it receives? Do we need to review this policy and its implementation?

- What is our policy on consulting and involving staff and their representatives in decision making? Is this communicated clearly to staff? How well do we follow this practice? How effective are systems within the organisation for protecting the rights of staff?

- Who are the institutional stakeholders that we need to have good relationships with? How do we organise ourselves to take the lead in developing relationships with other organisations at the most senior level?

Applying the good governance Standard

- To what extent does the *Good Governance Standard for Public Services* apply to our organisation, bearing in mind its type and size?

- Are we upholding and demonstrating the spirit and ethos of good governance that the Standard sets out to capture?

- Do we have the process for regularly reviewing our governance arrangements and practice against the Standard? What further improvements do we need to make?

- Are we making public the results of our reviews and our plans for future improvements and are we inviting feedback from stakeholders and service users?

Harrow Council

Statement on Internal Control 2003/04

1. SCOPE OF RESPONSIBILITY

Harrow 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. Harrow 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 the combination of effectiveness, efficiency and economy.

In discharging this overall responsibility the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it 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 risk to the achievement of the 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 effectively, efficiently and economically.

The main elements of the system of internal control described in section 3 of this statement were in place at Harrow Council for the year ended 31 March 2004 and up to the date of approval of the annual report and accounts. Action taken to review the effectiveness of the system of internal control during 2003/04 is outlined in section 4, and a number of areas have been identified that can be enhanced are outlined in section 5. An action plan is in place to deliver these improvements during 2004/05.

3. THE INTERNAL CONTROL ENVIRONMENT

The Council's internal control environment includes a wide variety of policies and procedures. The key elements of the internal control environment are described below.

a) **Establishing and monitoring achievement of the authority's objectives**
   Harrow Council's objectives are set out in the Corporate Plan and Community Strategy. The Harrow Strategic Partnership also has an approved workplan. Progress against the Council's improvement plan and other strategic documents is monitored regularly.

b) **Facilitation of policy and decision making**
   Harrow Council has adopted a constitution which sets out the arrangements for making decisions and roles and responsibilities. This is supported by a detailed scheme of delegation.

c) **Ensuring compliance with established policies, procedures, laws and regulations**
   The Council's senior managers are responsible for ensuring that the internal control environment is operating effectively and being complied with. Managers are supported in this role by the internal audit service which reviews the controls in place and tests compliance. The Council has an Anti-Fraud and Corruption Policy and a Whistle Blowing policy.

d) **Ensuring the effective, efficient and economical use of resources and securing continuous improvement**
   The Council is working to a best value review programme and carries out a range of consultation on its services. The scrutiny function alongside the External Audit and Inspection arrangements help to ensure there is continuous improvement.
   The Council has agreed its strategic risk management framework and strategic risk register. Community resilience and business continuity arrangements are also being developed.

e) **Financial management and the reporting of financial management**
   The Council approved a three year financial strategy in 2003/04.
   The Council's constitution includes financial regulations, financial standards and contract procedure rules. They are supported by detailed arrangements for budget preparation, budget monitoring and the closure of accounts.

f) **Performance management and the reporting of performance management**
   The Council publishes a best value performance plan each year and monitors performance throughout the year against a number of indicators and targets. There are policies in place for recruitment and selection, performance appraisal and training and development. All staff have clear job profiles and terms and conditions and are subject to a code of conduct.

The Council has an approved procedure for handling complaints.

4. REVIEW OF EFFECTIVENESS

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive mangers within the authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

During 2003/04 improvements have been made to a number of aspects of the internal control environment, however these have been made individually rather than as part of the comprehensive review.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control is summarised below.

a)   The Council
The Council is responsible for maintaining the constitution, approving the policy framework, approving the financial strategy and annual budget, regulatory functions, and approving the accounts. During 2003/04 the Council carried out these responsibilities and complied with statutory timetables. This included approving the Corporate Plan and starting to develop a new Community Strategy as well as monitoring the best value programme.

b)   The Executive
The Executive is responsible for those functions that are not the responsibility of the full Council. The Executive meets monthly to consider a wide range of business and received regular performance reports during the year. The Executive agreed the proposals for the middle management review.

c)   The Overview and Scrutiny Committee
During 2003/04 the Overview and Scrutiny Committee received the Internal and External audit plans and progress reports on Internal Audit activity. The Committee received the annual audit letter and noted that unqualified opinions were given by External Audit on both the accounts and the Best Value Performance Plan for 2002/03. The Committee also carried out a range of scrutinies.

d)   Internal Audit
During 2003/04 the Internal Audit service carried out the audits set out in the audit plan and worked effectively with the External Auditor. Internal Audit's year end report for 2003/04 showed that 98% of recommendations were agreed and 84% were implemented. Whilst overall performance was satisfactory on implementation, some key controls had not been implemented.

e) Other

During 2003/04 a new risk management framework was agreed by the Corporate Management Team and a strategic risk register was completed. A strategic review of the Council's emergency response procedures was also carried out.

A new complaints procedure was adopted in 2003/04.

5. SIGNIFICANT INTERNAL CONTROL ISSUES

Whilst the Council had a fairly comprehensive internal control environment in place during 2003/04, it is recognised that there are a number of internal control issues to address and that a more formal process of review and improvement is required.

The following action has commenced or is planned in 2004/05 to deal with significant internal control issues:

- Appointment of a new Director of Corporate Governance
- Regular review of the internal control environment and reports to Overview and Scrutiny Committee
- New escalation procedure for internal audit reports
- Introduction of procedure to provide assurance that controls are in place and operating effectively
- Integration of service and financial planning and introduction of a corporate standard for departmental service plans
- Development of an action plan for the Community Strategy
- Review and revision of the Scheme of Delegation
- Establishment of a new corporate fraud team
- Development of departmental risk registers
- Development of a business continuity plan
- Action to improve financial awareness and standards of financial management including launch of the new financial regulations and contract procedure rules, a financial management training programme, changes to the finance system and using the CIPFA financial management model to carry out a self-assessment
- Development of the corporate performance management system

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control by the Authority, the Executive and the Overview and Scrutiny Committee, and a plan to address weaknesses and ensure continuous improvement of systems is in place.

Signature: _____   _____

Date: _____   _____

Joyce Markham   Councillor Shah
Chief Executive   Leader

**STATEMENT ON INTERNAL CONTROL 2003/04 – ACTION PLAN
PROGRESS UPDATE – APRIL 2005**

The 2003/04 Statement on Internal Control identified a number of significant issues which needed to be addressed during 2004/05. A summary of these issues and the current position is set out below:

REF	ACTION	RESPONSIBLE OFFICER	CURRENT POSITION
1	Appointment of a new Director of Corporate Governance	Chief Executive	Appointment made in October 2004.
2	Regular review of the internal control environment and reports to Overview and Scrutiny Committee	Director of Financial and Business Strategy	First comprehensive report presented to O&S in April 2005 and subsequently to Audit Committee
3	Introduction of assurance letters from Directors to confirm that controls are in place and operating effectively.	Director of Financial and Business Strategy	Development and consultation on process by 31 March 2005. Implementation during 2005/06.
4	Integration of service and financial planning and introduction of a corporate standard for departmental service plans.	Director of Financial and Business Strategy and Director of Organisational Performance	New high level service planning process now in place and being used to inform the budget and corporate plan. Corporate Plan going to Cabinet, Council and O&S in April 2005.

5	Development of an action plan for the community strategy.	Director of Organisational Performance	Due to be presented to the Harrow Strategic Partnership Board in June 2005.
6	Review and revision of the scheme of delegation.	Director of Corporate Governance	New scheme of delegation in process of development. Scheduled for completion by June 2005. Part of the project has been superceded by the Business Transformation Partnership.
7	Establishment of a new corporate fraud team.	Director of Business Services	Structure and role of team in process of development, split of responsibilities between Internal audit and new anti-fraud team agree and arrangements for liaison with internal audit being established Seeking to appoint the Service Manager prior to handover of relevant internal audit activities.
8	Development of departmental risk registers.	Director of Financial and Business Strategy	Register in place for Urban Living, and Business Connections. People First and Organisational Development will be complete by the end of April. Axenaware system to be used for review of strategic risk register by end of April.
9	Development of a business continuity plan.	Director of Financial and Business Strategy	Initial project conducted December 2004 to February 2005 not successful. New business continuity officer to be appointed to progress the work.

10	Action to improve financial awareness and standards of financial management.	Director of Financial and Business Strategy	New financial regulations and contract procedure rules developed and launched in September 2004. Programme of financial management training for budget managers and other relevant staff took place in September/October 2004. Project underway with Cedar to enhance e-financials system. Scheduled for completion by 30 April 2005. Processes for self assessment using CIPFA Financial Management model to be piloted early in 2005/06.
11	Development of the corporate performance management system	Director of Organisational Performance	Strategic and directorate level scorecards developed and quarterly monitoring reports being produced for Cabinet. Staff trained in use of Corvu system. Awareness raised through training, workshops, newsletters and intranet site. Full implementation of scorecards and reporting facilities by 30 April 2005.