

**REPORT FOR: GOVERNANCE, AUDIT &
RISK MANAGEMENT
COMMITTEE**

Date of Meeting: 6th September 2011

Subject: **Annual Governance Statement
2010/11**

Responsible Officer: Tom Whiting, Assistant Chief Executive

Exempt: No

Enclosures: Appendix 1 - Draft 2010/11 Annual
Governance Statement
Appendix 2 - Draft 2010/11 AGS Action
Plan
Appendix 3 – 2010/11 AGS Assurance &
Evidence Table
Appendix 4 - 2009/10 AGS Action Plan –
Year End Update
Appendix 5 - Updated Code of Corporate
Governance

Section 1 – Summary and Recommendations

This report sets out the Council's Annual Governance Statement (AGS) for 2010/11 required to meet the requirements of the Accounts and Audit Regulations 2011.

Recommendations:

The Committee is requested to:

- 1) Critically review the 2010/11 AGS, the 2010/11 AGS Action Plan and the 2010/11 AGS Evidence Table (Appendix 1, 2 and 3);

- 2) Make recommendations as appropriate to enhance the statement or improve the annual review process;
- 3) Note the progress made on the 2009/10 AGS Action Plan;
- 4) Approve the minor amendments recommended by the Corporate Governance Group to the Code of Governance;
- 5) Note the final Internal Audit opinion on the overall control environment.

Reason: (For recommendations)

To confirm the Council's approach to Corporate Governance and demonstrate our commitment to uphold the highest standards of integrity, openness and accountability. To comply with the requirements of the CIPFA/SOLACE guidance which constitutes 'proper practice' under the Accounts and Audit Regulations 2011.

Section 2 – Report

Introduction

- 2.1 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. 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.
- 2.2 In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 2.3 The Council has approved and adopted a corporate governance framework and a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. The Annual Governance Statement explains how the Council has complied with the framework/code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement of internal control (Annual governance Statement).

Annual Governance Statement

- 2.4 Each year the Council undertakes a review of its governance arrangements to ensure the delivery of good governance within a local government framework and current good practice. The purpose of the review is to provide assurance that governance arrangements are adequate and operating effectively and to identify action required to ensure effective governance in the future (AGS Appendix 1, 2010/11 Action Plan Appendix 2).
- 2.5 The Corporate Governance Working Group co-ordinated the annual review compiling an evidence/sources of assurance table (Appendix 3) which was used as a basis for the preparation of the AGS. This was reviewed and ratified on 09/08/11 by the Corporate Governance Group, who have ultimate responsibility for drafting the AGS, evaluating assurances and the supporting evidence.
- 2.6 The Annual Governance Statement is prepared on behalf of the Leader of the Council and Chief Executive. It is submitted to the Governance, Audit and Risk Management (GARM) Committee for consideration and review with the annual accounts to meet the statutory requirement of the Accounts and Audit Regulations 2011 which requires authorities to “conduct a review at least once in a year of the effectiveness of its system of internal control”
- 2.7 It is recognised that the Council is going into a much higher risk environment due to the financial constraints and all the proposed changes in the public sector and that good governance and assurance will be even more important than ever before. It is further recognised that in an organisation that is under considerable pressure with limited resources, it is a challenge to maintain high standards of governance across all areas all of the time. Governance can and does break down on occasions and, when it does, the Council will investigate and learn lessons for the future. Where appropriate, reports on such issues will be presented to the GARM Committee.

2009/10 AGS Action Plan Year End Update

- 2.8 The year end update of the 2009/10 AGS Action Plan shows that the governance gaps identified in 2009/10 were closed fully or partially in 2010/11 for only 55% of gaps identified. Seven actions from 2009/10 have been carried forward to the 2010/11 AGS Action Plan attached to this statement one of which relates to IT Disaster Recovery which was recognised as a significant governance gap in the 2008/09 Annual Governance Statement and remained a gap throughout 2009/10 and 2010/11. Six new gaps have been identified through the annual review of governance process, although none are considered significant by CGG, actions have been agreed to address these and are shown in 2010/11 AGS Action Plan.

Code of Governance Review

2.9 An original Code of Corporate Governance was agreed by the GARM committee in September 2008 with agreement for it to be reviewed annually. The Code was incorporated into the Council Constitution in February 2010. The annual review by the Corporate Governance Group took place in August 2011 and some minor amendments are recommended and shown in blue in Appendix 5 to this report for the GARM Committee's approval.

Internal Audit Opinion on the Overall Control Environment

2.10 An interim opinion was reported to GARM Committee in June 2011 as part of the 2010/11 Internal Audit Year End report and this has now been finalised and the interim assessment confirmed. The adequacy and effectiveness of the organisation's control environment for the 2010/11 financial year has been assessed as "adequate - good" based on the following:

- 59% of the traffic lighted systems reviewed during 2010/11 were given an amber, an amber/green or a green assurance rating;
- 95% of recommendations made during 2010/11 were agreed for implementation;
- 100% of schools assessed passed the Financial Management Standard in schools within the financial year;
- 58% of recommendations followed-up have been implemented, 39% are in progress or are planned at the time of follow-up thus it is expected that in due course 97% will be implemented. 89% of follow-ups resulted in an improved assurance rating.
- 22 suspected financial irregularities were reported to Internal Audit during 2010/11, the majority of irregularities investigated by Internal Audit were either caused by a breakdown/lack of control or where fraud was involved this was a contributing factor. In 18 (82%) cases there was no loss or the loss has been recouped (e.g. from banks, insurance or individuals); in 1 (4%) case there was a loss of over £2000 and in 3 (14%) cases work is ongoing to establish whether a loss has occurred and/or the level.
- An investigation was undertaken by PWC and a specialist consultant into capital expenditure on a small number of schools that identified significant weaknesses in the design and operation of system controls in place resulting in an overspend on the agreed capital programme. A considerable amount of work has been undertaken to improve the controls within the systems for financial control and monitoring of capital projects.
- The management assurance exercise confirmed that 77% of the areas of assurance covered by the self-assessment process are working well across the Council i.e. above the assurance level set of 80% for each area, and have been given a green assurance rating.
- 95% of controls reviewed within the Council's core financial systems were either operating fully or substantially, with the remaining 5% operating partially.

Financial Implications

2.11 Financial implications have been addressed, where relevant, in the main body of the report.

Risk Management Implications

2.12 The work of internal audit supports the management of risks across the council.

Corporate Priorities

2.13 Internal Audit contributes to all the corporate priorities by enhancing the robustness of the control environment and governance mechanisms that directly or indirectly support these priorities.

Section 3 - Statutory Officer Clearance

Name: Julie Alderson	<input checked="" type="checkbox"/>	Chief Financial Officer
Date: 19 August 2011		
Name: Hugh Peart	<input checked="" type="checkbox"/>	Monitoring Officer
Date: 17 August 2011		

Section 4 - Contact Details and Background Papers

Contact: Susan Dixson, Service Manager, Internal Audit,
Tel:0208 424 1420

Background Papers: None.