

COMMITTEE: AUDIT AND GOVERNANCE

DATE: 25 JUNE 2008

SUBJECT: THE ANNUAL GOVERNANCE STATEMENT FOR 2007-08

REPORT BY: HEAD OF CORPORATE FINANCE

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IMPLICATIONS:

| | | | |
|------------|-------------------------------------|------------------|-------------------------------------|
| LEGAL | <input type="checkbox"/> | COMMUNITY SAFETY | <input type="checkbox"/> |
| EQUALITIES | <input type="checkbox"/> | ENVIRONMENT | <input type="checkbox"/> |
| FINANCIAL | <input checked="" type="checkbox"/> | CONSULTATIONS | <input type="checkbox"/> |
| STAFFING | <input type="checkbox"/> | RISK | <input checked="" type="checkbox"/> |

WARDS AFFECTED: NONE

PURPOSE

1. A committee of the Council is required to review and approve the Annual Governance Statement for 2007-08. Since the Statement is a part of the Council's Statement of Accounts, this function is the duty of the Audit and Governance Committee.

RECOMMENDATION(S)

2. The Audit and Governance Committee is recommended to:
 - (i) Critically review the Annual Governance Statement and the supporting documentation;
 - (ii) Consider whether any changes should be made to the Annual Governance Statement in the light of that review, prior to the Chief Executive and Leader of the Council signing the document;
 - (iii) Consider whether any changes should be made in the process for preparing the Annual Governance Statement in future years;
 - (iv) Approve the Annual Governance Statement, for signing by the Chief Executive and Leader of the Council.

REPORT

3. The Annual Governance Statement (AGS) is part of the Statement of Accounts, which is reported separately on this agenda. The Statement is on pages 60 to 73 of the Statement of Accounts.

4. One reason for this separate report is a requirement for the annual Use of Resources assessment of each council. This requires that the member committee responsible for approval considers the AGS separately from the Accounts.
5. The requirement for a critical review of the Statement also makes it sensible to have a separate report.
6. This is the first Annual Governance Statement produced for the Council. In previous years the committee has reviewed and approved a Statement of Internal Control (SIC). The Annual Governance Statement incorporates the Statement of Internal Control, but has a much wider focus, on the overall governance of the authority as a whole. This is reflected in the number of sub-sections, as well as in the size, of the Statement.
7. The Accounts and Audit Regulations require the Council to ensure that it has 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'. The Annual Governance Statement, and the process that has been put in place to produce it, is fundamental to that assurance process.
8. This report describes the evidence that has been used to put together the Annual Governance Statement, in order to give the committee assurance that it is robust. It also describes the evidence that is available to the committee, as appendices and elsewhere, to undertake a critical review of the Statement.
9. Appendix A is taken from the Finance Advisory Network's 'Rough Guide to the Annual Governance Statement' and shows the framework of assurance gathering that they recommend in the production of the statement. This is included, and the method followed compared with it, in order to give the committee confidence that the assurance offered is reasonable.
10. Appendix A shows the requirement for a framework of key documents and process guidelines, and a requirement for a series of assurances, relating to the effective operation of the framework. There is then an evaluation of those assurances by a corporate group with responsibility for drafting the Annual Governance Statement, and that group put the Statement to Committee for approval. The statement includes a report on the review of the effectiveness of the system of Internal Audit, and the Committee should also be able to receive verbal input from External Audit prior to approving the statement.
11. The corporate group referred to in the previous paragraph is the Risk and Internal Control Group (RIC), chaired by the Head of Corporate Finance, and comprising the Heads of Resources and Performance Review from each department, the Director of Scrutiny, the Head of Legal Services, the Exchequer Services Manager (who is the corporate officer lead on risk management) and the Head of Audit. The Group have also reported the draft Statement to the Corporate Improvement Board, whose membership includes all the corporate leadership management team plus a number of other officers.

12. Set out below are:
- a) the key documents/process guidelines referred to in Appendix A, together with brief notes on what has been done in relation to them in 2007/08;
 - b) the types of assurance referred to in Appendix A, with a brief note on each.

Key Documents/Process Guidelines

13. **Performance Management** – there are monthly reviews. Full quarterly reports are produced quarterly for Executive and Scrutiny, integrated with financial monitoring. The process for ensuring improvement plans are produced was strengthened during 2007-08.
14. **Business strategy and planning process** - Luton 2011 provides an overall framework. An addendum to the Corporate Plan for 2007-08 was produced during the year. 3 yearly service plans are produced by departments and services. Targets are linked to individual appraisal targets.
15. **Budget and budgetary control** – there is an annual budget process with a 5 year medium term financial plan and capital programme updated yearly, within a financial strategy. Monthly budgetary control uses actuals to date to make predictions for the year. Quarterly reports are made to members (see 13, above). The management of the prediction process was strengthened during the year.
16. **Code of corporate governance** – this was updated at the December 2007 Audit and Governance Committee. The 2008-09 action plan is elsewhere on this agenda.
17. **Project management/risk management/counter fraud policy.** The cohesiveness of project management was strengthened during year with the introduction of an officer major projects sub group. The risk management strategy was updated by Executive on 10 March 2008, a corporate risk register is reported quarterly to members, and risks are regularly reviewed by the RIC group and the lead officers for each risk. Departmental risk registers are maintained. The Counter Fraud Policy – this committee received an annual report on counter fraud from the Investigations Team at their September 2007 meeting.
18. **Ethical governance.** The Chief Executive is driving a policy to make the council a values-driven authority, not just an authority with values. The Standards Committee addresses the member issues, and the Standards Board for England recently reported on one investigation of a 2007-08 incident.
19. **Policies, procedures, codes of conduct.** Many substantial documents, including the constitution, are available on the intranet. A number of policies were introduced/refreshed during 2007-08, each being assessed in terms of its equality impact.

20. **Partnership protocol** – available on the intranet.
<http://hyperint.central.luton;/internal&action=buildframes.action&Parameter=1213012136975&ctx=eKS>

Assurances

21. Performance Management and Data Quality. This establishes current performance levels. Revenues performance has been identified as of major concern and this is reflected in the statement. Data quality was discussed at last committee meeting and issues for improvement are reflected in the statement
22. Risk management. The corporate risk register shows the major generic risks. The risk scores of some have reduced in the year. Risk management of major projects is an issue included in the statement.
23. Legal and regulatory assurance. The Monitoring Officer and Section 151 officer have both confirmed that there have been no notices issued regarding unlawful expenditure, or issues that might have given rise to unlawful expenditure or action. The legal and financial implications of each Executive report are checked by legal and financial staff prior to the reports being released.
24. Members' assurance. Provided via the reviews of this committee, Standards Board, and Scrutiny committees.
25. Assurances by Directors (including the Chief Executive) and Service Heads. Each has signed a statement of governance (SOG) after answering a series of questions about the governance and internal control of their services. For each question where they could not give a yes answer, an action plan is required which is to be incorporated into their service plan, and monitored.
26. Other sources of assurance (including third-party). The major assurance in this category is external inspections by independent inspectors. The committee is entitled to rely heavily on detailed, independent inspections, and in 2007/08 there were a number, set out in paragraphs 4.10 to 4.16 of the Statement. In particular, of course, the Corporate Assessment involved a detailed appraisal of the Council's overall governance.
27. Financial control assurance – although there were issues during the year with the bank reconciliation, due to staff vacancies (see Audit Report elsewhere on the agenda) it was brought up to date at the year end, and there were no underlying issues of concern relating to financial control.
28. Internal Audit. The service reports regularly to this committee, and as required in this process, it was subject to independent review (see paragraph 4.8 of the statement).
29. External Audit. The key review of control and governance by the external auditor is the annual audit letter, which did not reveal any significant concerns.

The External Auditor is due to be present at the meeting, and can comment further.

Background Evidence for the Annual Governance Statement

30. The Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives have set out, in their guidelines on Governance, the objectives that need to be met in order to prepare and/or review an Annual Governance Statement. These are set out in Appendix B. Against each objective is a description of the evidence that has been used to show how Luton Borough Council meets the objective.

The Annual Governance Statement

31. The AGS is in 5 parts, which are intended to address the following issues:
- The scope of the Council's responsibilities for good governance
 - The purpose of the governance framework
 - An outline of the framework (this section has 13 sub-sections)
 - A review of the effectiveness of governance during 2007-08
 - The significant governance and control issues that have arisen, that need to be addressed.
32. The effective operation of the governance and internal control system is fundamental to the Council's working. It is intended to focus the Council on achieving its aims in a proper and effective manner, minimising the chances of fraud and corruption.

Significant Governance and Internal Control Issues

33. There are 8 significant governance and control issues set out in paragraphs 5.1 to 5.8 of the Statement. The majority have been raised by external inspections during the year, and so will be familiar to many members from other reports. It is essential that the action plans are monitored during 2008-09, to ensure effective achievement of improvement.

FINANCIAL IMPLICATIONS

34. There are no specific financial implications arising directly from the creation of the Annual Governance Statement .

LEGAL IMPLICATIONS

35. There are no specific legal implications arising from this report, and this has been agreed with Richard Stevens, Head of Legal Services on June 2007.

RISK IMPLICATIONS

36. The Annual Governance Statement is a key document in the Council's risk management process. The significant governance and internal control issues raised need to be adequately addressed during 2008-09 in order to continue to improve the Council's risk management.

APPENDICES

- Appendix A - Annual Governance Statement Framework
- Appendix B - Preparing and Reviewing the Annual Governance Statement – Objectives and Assurance.
- Appendix C - 2007-08 Statement of Governance by Heads of Service
- Appendix D - 2007-08 Statement of Governance by Corporate Directors
- Appendix E - Review by Luton Borough Council's Chief Finance Officer on issues covered by statutory responsibilities
- Appendix F - Statement by Luton Borough Council's Monitoring Officer

LIST OF BACKGROUND PAPERS

LOCAL GOVERNMENT ACT 1972, SECTION 100D

2007-08 Statements of Governance, held by each Head of Service and Corporate Director.

FAN Rough Guide to the Annual Governance Statement, held by the Head of Audit, tel 01582 546077