

APPENDIX 1



Internal Audit Report

FINAL

CORPORATE SERVICES DEPARTMENT

Review of Corporate Governance

December 2008

Prepared by: Charles M. Soane B.Com., C.A.

Reviewed by: Ian Nisbet MBA MSc ACMA MIIA

CONTENTS

	Page
1. CONTENTS	1
2. BACKGROUND	2
3. AUDIT SCOPE AND OBJECTIVES	2
4. AUDIT APPROACH	2
5. DETAILED FINDINGS	3
6. CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES	6
7. ACKNOWLEDGEMENTS	6
ACTION PLAN	APPENDIX 1
EXAMPLE TIMETABLE	APPENDIX 2

1. BACKGROUND

1.1 This report has been prepared as a result of the Internal Audit review of Corporate Governance as part of the 2008/2009 Internal Audit programme.

1.2 Governance in local government is currently defined by CIPFA/SOLACE and the Audit Commission as follows:

‘Governance is how local government bodies ensure that they are doing the right things, in the right way, for the right people in a timely inclusive, open, honest and accountable manner. It comprises the systems and processes for the direction and control of local authorities through which they account to, engage with and lead their communities.’

1.3 CIPFA and SOLACE published a revised Framework for ‘Delivering Good Governance in Local Government’ in 2007. The Framework was intended to define the principles that should underpin the governance of local authorities and provides a structure to assist authorities with their own approach to governance. The Framework has taken the six core principles, from the ‘Good Governance Standard for Public Services’ (2004), and adapted these principles for local government, identifying eighteen supporting principles.

1.4 Guidance notes covering England & Wales were issued in 2007 with the revised framework, but it wasn’t until May 2008 that a CIPFA/Solace guidance note for Scottish Local Authorities was published. This identified fifty four local code requirements underlying the principles.

1.5 The Local Government in Scotland Act 2003 placed a statutory duty of Best Value on local authorities. It has been suggested that Audit Scotland’s reports on Best Value audits of Local Authorities indicate that those authorities that have made limited progress with Best Value overall have important governance issues to address, and it is these issues which are limiting their ability to improve.

2. AUDIT SCOPE AND OBJECTIVES

The objective of this review is to:-

- Ascertain the council’s current arrangements for monitoring Corporate Governance, and
- Assess the impact of the new CIPFA Corporate Governance Framework and Guidance Note for Scottish Authorities on this Council

3. AUDIT APPROACH

3.1 The current arrangements for preparing the Statement on the System of Internal Financial Control in the Annual Financial Statements were reviewed

- 3.2 The current arrangements for Corporate Governance were reviewed in relation to:-
- the Framework for Delivering Good Governance in Local Government, and
 - the Guidance Note for Scottish Authorities
- 3.3 A draft report was compiled after issues identified from the review were discussed with the Governance & Risk Manager and the Head of Strategic Finance.
- 3.4 The framework is at an early stage of development and an Action Plan is included with this report highlighting some of the key issues that are currently being addressed.

4. DETAILED FINDINGS & RECOMMENDATIONS

4.1 Legislative Framework

Scottish authorities are required by the local authority Statement of Recommended Practice ('SORP') to include a statement of internal financial control with their Annual Accounts. However, the more recent CIPFA framework document Delivering Good Governance in Local Government recommends that the review of effectiveness of the system of internal control should be reported in an annual governance statement.

Audit Scotland have subsequently released a Technical Bulletin 2008/2 in June 2008 clarifying that authorities are encouraged (but not required) to include an annual governance statement with their accounts instead of the option to include a statement of internal control.

Recommendation:

Argyll & Bute have included a statement of internal financial control with their 2007/08 Annual Accounts, while certain Scottish authorities are already including an annual governance statement. In determining when the authority includes an annual governance statement with the accounts, consideration must be given to the existing governance arrangements and any necessary changes that would need to be made to fully comply with the new framework.

Refer to Action Plan No 1

4.2 Statement on System of Financial Control

The statement on the system of financial control in the accounts includes the other bodies whose activities are incorporated in the Group Accounts, i.e.

- Strathclyde Joint Police Board
- Strathclyde Fire and Rescue Board
- Dunbartonshire and Argyll & Bute Valuation Board

- Strathclyde Partnership for Transport
- Strathclyde Concessionary Travel Scheme Joint Committee
- Argyll, Bute & the Dunbartonshires' Criminal Justice Social Work Partnership

The review of the effectiveness of the system is carried out by the Head of Strategic Finance, placing reliance on:-

- the work of Directors and managers within the Council
- the work of Internal Audit within the Council and the above named bodies
- the work of the Audit Committee as set out in their Annual Report to the Council
- the External Audit annual audit letter and other reports
- the statements of Internal Control provided by the above named bodies

This is the first year that the Audit Committee have prepared a report to the Council, in response to a recommendation by External Audit, Grant Thornton UK LLP arising from a compliance review with the Code of Practice for Internal Audit in Local Government.

Within their report, the Audit Committee express an opinion that the Council has good arrangements for Corporate Governance and has adopted the principles of Good Governance. This is based on their work during the year together with a formal identification of the codes within the Council Constitution, reports and other documentation which support the following dimensions of the Council's business:

- Community Focus
- Service Delivery Arrangements
- Structures and Processes
- Risk Management and Internal Control
- Standards of Conduct

This report has been framed in terms of the CIPFA Template Code of Corporate Governance issued in 2002 and the Audit Committee's 2008/09 report will require to be updated to reflect the updated six core principles, and supporting principles identified in the Framework for Delivering Good Governance in Local Government.

Recommendation:

An annual review of the governance arrangements should be carried out by Internal Audit, in support of the opinion being expressed by the Audit Committee.

Refer to Action Plan No 2

4.3 **The Framework for Good Governance in Local Government**

The Framework document is intended to be followed as best practice for developing and maintaining a local code of governance and making adopted practices open and explicit. At present the Council does not have a formalised local code of governance although many of the constituent parts are included within the Council Constitution, the Corporate Plan 2007-2011 and beyond, and the Risk Management Strategy.

To achieve good governance the Council needs to demonstrate that it is complying with the core and supporting principles contained in the Framework. Progress has been made by the Corporate Governance & Risk Manager, with assistance from Internal Audit, in developing a local Corporate Governance Framework appropriate to the Council's circumstances. However, further work will be required to ensure that underlying documents that form part of the framework are current and being kept under regular review.

Recommendation

The framework should be completed within the timescales for the 2008/2009 Accounts, to support the statement of Internal Control prepared by the Audit Committee. See Appendix 2 where an example timetable is provided, listing key events/milestones. Responsible officers should be nominated, who have appropriate knowledge, expertise and levels of seniority to assist with the preparation and initial review of the framework. Thereafter, the framework must be maintained and updated on a regular basis. There is already a similar structure for risk management.

Refer to Action Plan No 3

4.4 **Self Assessment**

The Guidance for Scottish Local Authorities provides for self assessment of the Local Authority governance arrangements. The local Code developed by the Council should have examples of systems, processes and documentation to demonstrate compliance with the principles, along with a self evaluation, the results from which will form the basis of an improvement plan.

In addition, the Council will need to demonstrate, through documentary evidence and action, that its governance arrangements meet the criteria set out in the Framework. In order that this is not seen as a box ticking exercise, the guidance suggests scoring the authority's arrangements on a scale of 1 to 4.

Recommendation

The Council must determine an appropriate structure and assign responsibility for formally assessing the governance arrangements and preparing an improvement plan to accord with the principles of Best Value and the anticipated self assessment regime under the Single Outcome agreements. This is likely to involve the Section 95

Officer, the Monitoring Officer, and representatives from performance, audit and risk, with subsequent referral to the Executive and the Audit Committee.

Refer to Action Plan No 4

5. OVERALL CONCLUSION AND ASSESSMENT AGAINST OBJECTIVES

The Guidelines for Delivering Good Governance in Local Government have been published at a time of significant change within local government in Scotland. The introduction of proportional representation has resulted in many Scottish Councils having no overall control by one political party. In addition, the Single Outcome agreements concluded between the Scottish Government and each Council has enhanced the need for high standards of governance, to demonstrate that the principles of Best Value and Accountability have been adopted.

The Guidance Note for Scottish Authorities is aimed at assisting authorities in:

- considering how they might go about reviewing their governance arrangements
- developing and updating their own local code of governance
- demonstrating compliance with the principles of good governance.

The Council are progressing preparation of a local code but require to determine appropriate arrangements to review, maintain and update this on a regular basis. The framework should be reviewed on an annual basis by Internal Audit in support of the Audit Committee Annual Report and consideration should be given to replacing the Statement on the System of Internal Control with an Annual Governance Statement in the Annual Accounts for 2009/2010.

6. ACKNOWLEDGEMENTS

- 6.1 Thanks are due to the Governance & Risk Manager for his co-operation and assistance during the Audit and the preparation of the report.
- 6.2 Argyll & Bute Council's internal audit section has prepared this report. Our work was limited to the scope in section 2 of this report. We cannot be held responsible or liable if information material to our task was withheld or concealed from us, or misrepresented to us.
- 6.3 This report is private and confidential for the Council's information only and is solely for use in the provision of an internal audit service to the Council. The report is not to be copied, quoted or referred to, in whole or in part, without prior written consent.

APPENDIX 1 ACTION PLAN

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
1	In determining when the authority includes an annual governance statement with the accounts, consideration must be given to the existing governance arrangements and any necessary changes that would need to be made to fully comply with the new framework.	High	Following completion of the initial framework for the 2008/09 Accounts, the resultant action plan should be reviewed to determine the timescale for preparing an annual governance statement.	Head of Strategic Finance	June 2009
2	The framework should be completed within the timescales for the 2008/2009 Accounts, to support the statement of Internal Control prepared by the Audit Committee.	High	An outline plan for the development of the initial framework should be prepared determining appropriate resource requirements and key reporting dates.	Governance & Risk Manager	December 2008
3	Responsible officers should be nominated, who have appropriate knowledge, expertise and levels of seniority to review, maintain and update the framework on a regular basis. There is already a similar structure for risk management.	High	Arrangements for preparing and maintaining the framework should be formalised with the nominated responsible officers being reflected on the framework.	Governance & Risk Manager	January 2009

No.	FINDINGS	PRIORITY	RECOMMENDATION	RESPONSIBLE OFFICER	IMPLEMENTATION DATE
4	Responsibility must be assigned for formally assessing the governance arrangements and preparing an improvement plan to accord with the principles of Best Value and the anticipated self assessment regime under the Single Outcome agreements.	High	Proposed responsibility and arrangements for formally assessing the governance arrangements, together with the preparation of an improvement plan should be submitted to the SMT for approval.	Head of Strategic Finance	January 2009

APPENDIX 2

EXAMPLE TIMETABLE

Nov. 2008	Outline Framework Prepared
Dec. 2008	Meeting to determine Council requirements & responsibilities
January 2009	Report proposed arrangements to SMT
Dec.2008 – Mar.2009	Develop local code & framework
April 2009	Framework and Improvement Plan Report to SMT
May/June 2009	Framework and Improvement Plan Report to Executive & Audit Committee
June – Dec. 2009	Action improvement plan
Jan. 2010	Progress Report to SMT
Mar. 2010	Review and assess adequacy of Framework for Corporate Governance Statement in accounts
April 2010	Framework and Improvement Plan Report to SMT
May 2010	Framework and Improvement Plan Report to Audit Committee
May 2010	Governance Statement to Executive for Approval for signature