Report to the Audit and Governance Committee

Epping Forest District Council

Date of meeting: 24 November 2008.

Subject: **Business and Governance Assurance Framework.**

Responsible Officer: **Joe Akerman**   **(01992 564446).**

Democratic Services: **Gary Woodhall**   **(01992 564470).**

Recommendations/Decisions Required:

That the Audit and Governance Committee note and comment on the annual review of the Council's Business and Governance Assurance Framework for 2008/09.

Executive Summary:

1.   The purpose of the report is to bring to the attention of the Committee the second annual review of the Council's Business and Governance Assurance Framework. The Framework was originally approved by the Council during 2006/07 having regard to current best practice in governance arrangements, and the improvement areas identified by the Audit Commission in its 'Use of Resources' Key Lines of Enquiry (KLOE) relating to internal control and the management of significant business risks.

2.   The Business Assurance Framework should be subject to regular review, which falls within the remit of this committee.

Background:

3.   An assurance framework brings together a number of key internal controls into a set of policies, procedures and associated assurances to provide sufficient evidence that the Authority has sound governance processes in place. The Authority must report on the effectiveness of the Assurance Framework and Internal Control environment at least annually through the Annual Governance Statement (AGS).

4.   At the meeting in November 2007 this Committee considered the content of the Council's Business and Assurance Framework, and were advised of the linkages between the Framework, the local Code of Governance and the AGS. It was noted that the Council already had effective processes to deal with many elements of the control framework, including its Financial Regulations, Contract Standing Orders and Risk Management processes. This Committee has continuous involvement in the process via its consideration of the quarterly Internal Audit monitoring reports and the monitoring of actions taken to ensure compliance with the Council's core policies and procedures.

5.   To maintain this improvement the Framework should be subject to regular review, and updated to incorporate the wider implications of the new AGS, which was published for the first time with the Statutory Statement of Accounts for 2007/08 and reported to the June meeting of the Committee.

Use of Resources Assessment:

6.   The Use of Resources assessment focuses on financial management, but links to the wider strategic management of the Council. It looks at how financial management is integrated

with Council strategy and corporate management, supports Council priorities and delivers value for money. For district councils, Use of Resources assessments are carried out annually and will inform decisions about possible Comprehensive Area Assessment (CAA) categorisation.

7.   The Audit Commissions has updated its Use of Resources assessment model for the 2008/09 scored judgements, to assist in their evaluation of how well authorities manage their resources. The 4-point scale has been retained so that 'adequate performance' (at minimum requirements) will score 2 and 'performing well' will score 3. The Council improved its overall rating for the Internal Control category (including risk management) in the last review to level 3, but in the sub-category for systems of internal control scored only 2. One of the level 3 requirements in the sub-category, is for the Council to have…" put in place an assurance framework that maps the Council's strategic objectives to risks, controls and assurances", to support the statutory Annual Governance Statement (AGS). This has been achieved and the Framework was adopted in September 2006 and reviewed for the first time by this Committee in November 2007.

Code of Governance and Business Assurance Framework:

8.   The Committee will recall that the Council adopted a revised Code of Governance during 2007/08, which supported the development of the Governance Statement. The Code defines how the Council complies with the six principles of good governance laid down by the Independent Commission on Good Governance, adapted for local government purposes, namely:

- **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 informed and transparent decisions which are subject to effective scrutiny and managing risk;**

- **Developing the capacity of members and officers to be effective; and**

- **Engaging with local people and other stakeholders to ensure robust public accountability.**

9.   The Council already has effective processes dealing with many elements of the control framework, including its Financial Regulations, Contract Standing Orders and Risk Management arrangements. The main purpose of the assurance framework document is to bring these elements together to enable them to be evidenced in providing assurance that effective controls are in place.

10.   The Business Assurance Framework is attached at Appendix 1 and flowcharted at Appendix 2, and provides the mechanism for continuous review of the effectiveness of the Council's governance arrangements. It is supported by more detailed guidance produced by CIPFA, which sets out the main sources of evidence to support the Governance Statement. This guidance emphasises reliance on existing processes and documents.

11.   As part of the process the Authority needs to re-assure itself that any significant partnerships have sound governance arrangements in place. As well as being covered by the Directorate evidence gathering process (see paragraph 12 below), an independent review of this aspect of governance is being conducted by Internal Audit during 2008/09.

12.   An important part of the evidence gathering process is the self-assessment introduced for Directorates for the first AGS for 2007/08. This is designed to evaluate how well the governance framework is working in practice across the Council. It is proposed to continue the self-assessment by asking Directors to certify, and provide evidence if necessary, of how they comply with the framework in the following broad areas:

- Service planning and management;
- Compliance with legislation and policies;
- Decision making;
- Consultation with stakeholders;
- Performance management;
- Risk management;
- Finance including budget monitoring;
- Data quality and security; and
- Working in partnership.

Service Directors certify that they have reviewed the adequacy and effectiveness of the management controls within their area of responsibility, and identify any areas where actions are required to improve compliance with the framework.

Policies and Procedures:

13.   The key policies and procedures listed below comprise the core of this process. They are subject to ongoing or periodic review, and updated as appropriate. Each item contains a brief commentary on its current status and any proposed action.

The Council Constitution
 - *the constitution is under constant review and further reviews will be triggered by the enactment of the Local Government and Public Involvement in Health Bill.*

The Community Strategy
 - *drawn up by the local strategic partnership and reviewed regularly, current update in progress.*

The Council Plan
 - *monitored on a half yearly basis and reported to Finance and Performance Management Scrutiny Panel.*

Medium Term Financial Strategy
 - *updated annually at the start of the budget process.*

Standing Orders and Financial Regulations
 - *reviewed annually and reported to Council.*

Scheme of Officer Delegation
 - *reviewed annually and reported to Council.*

Local Code of Corporate Governance
 - *revised in 2007/08 in line with CIPFA guidance.*

Risk Management Strategy
 - *the strategy and policy statement are updated annually.*

Service Business Planning and Business Continuity Planning
 - *annual review of process; includes BCP.*

Performance Management Framework
 - *performance framework embedded in business planning process.*

Treasury Management Policy
 - *updated annually as part of the Council Tax setting report. Minor changes are made mid-year as part of the Treasury outturn report.*

Human Resources Policies
 - *reviewed in accordance with changes to legislation and case law.*

Members' Code of Conduct
 - *the revised Code of Conduct for Councillors has been adopted and training has been given, following a review by the Epping Forest District Standards Committee.*

Member/Officer Protocol
 - *this protocol was superseded by the adoption of an officer Code of Conduct. A protocol giving advice on the proper relationships between officers and political groups remains in place.*

Internal and External Audit planning and reporting
 - *established reporting systems are in place as set out in the Terms of Reference for Internal Audit.*

Anti-Fraud Policy and Confidential Reporting Policy
 - *policies updated in June 2008 and notified to all staff.*

Planning Protocol
 - *the Standards Committee has opened a review of the Protocol. Further training will be given once the Council has agreed any changes.*

Health and Safety Policy
 - *the policy is currently being reviewed and will be reported to Members via the Safety Forum and JCC.*

External Funding Strategy
 - *strategy agreed by Cabinet in March 2008, to ensure a more co-ordinated approach to the sourcing of external funding in assisting the achievement of the Council's objectives.*

Procurement Strategy
 - *Cabinet agreed the strategy in 2006 and a Procurement Strategy Group of senior officers is working on the implementation of the strategy.*

Staff Code of Conduct
 - *issued to all staff, includes declaration of interests.*

Value for Money Strategy
 - *review report submitted to Finance and Performance Management Scrutiny Panel in August 2008.*

Data Quality Strategy
 - *agreed in 2006 and provides clear data quality standards and accountabilities.*

Guidance to Councillors on Gifts and Hospitality
 - *updated to take account of the new Code.*

Internet and E-Mail Acceptable Usage Policies
- *provided to all staff, clarifies the guidelines on acceptable usage in personal time.*

Telephone Usage Policy
 - *provided to all staff, clarifies the guidelines on acceptable usage.*

Data Protection Policy
 - *the policy is due for review.*

Freedom of Information Act Scheme
 - *the policy and the publication scheme are being reviewed and any proposed revisions will be reported to Council later this financial year.*

Re-use of Public Sector Information Policy
 - *to be reviewed in 2009.*

Partnership Policies
 - *revisions to the protocol on partnerships and other external organisations were agreed during 2007/08.*

Guidance to Members and Officers when representing the Council on Outside Organisations
- *this protocol is under review by Constitution and Members Services Scrutiny Standing Panel.*

Guidance to Councillors on the use of Member services (including IT facilities)
- *The Epping Forest District Standards Committee has reviewed this protocol and made changes to bring the advice in line with the new Code of Conduct.*

Code on Local Authority Publicity
 - *no review has been undertaken as this is awaiting the publication of further guidance from Central Government, which is known to be consulting on changes.*

Complaints Procedure
 - *the procedure is reviewed each year; some minor changes were made in 2008.*

Corporate Communications and Consultation Strategy
 - *Strategy agreed in November 2007, promoting effective engagement with the community and other stakeholders.*

14.   These policies and procedures provide the evidence to demonstrate the robustness of the Council's governance arrangements. By regularly reviewing the controls and their consistent application across the Council on a day to day basis, it will be possible for the Council to demonstrate the effectiveness of its control environment and identify where further improvement is required.

Conclusion:

15. The Council is seeking continuous improvement in its governance arrangements, and to achieve as high a rating as possible under the external inspection arrangements. The Audit and Governance Committee has a responsibility to review the adequacy of the Council's control environment and as part of the review process is requested to comment on the Council's Business and Internal Control Assurance Framework.

Resource Implications:

These issues are normally dealt with from existing resources.

Legal and Governance Implications:

Governance comprises the systems, processes, culture and values, by which the Authority directs and controls its functions, and through which it accounts to, engages with and, where appropriate, leads the community. When combined with clear direction and ambition and effective performance management, good governance, as supported by the Authority's business assurance framework, is a key factor in the drive for sustained improvement in the quality of services.

Safer, Cleaner and Greener Implications:

No specific implications.

Consultation Undertaken:

Corporate Governance Group.

Background Papers:

EFDC Code of Governance.
Audit Commission's Use of Resources Audit Score Feedback.

Impact Assessments:

Good Governance requires that risk management is embedded within the culture of the Authority, with members and managers at all levels recognising that risk management is part of their job. At the highest level, risk management must be closely aligned to strategic objectives, ensuring that there is a clear focus at a senior level on those significant risks that would prevent the Council achieving its key business objectives. The review of the Council's governance framework provides a means of assessing the Council's risk management arrangements.

EPPING FOREST DISTRICT COUNCIL

BUSINESS AND GOVERNANCE ASSURANCE FRAMEWORK

1.1 **Introduction**

The Accounts and Audit Regulations require audited bodies to conduct a review at least once a year of the effectiveness of its system of internal control, and publish an Annual Governance Statement (AGS) each year with the authority's statutory financial statements.

The purpose of the Governance review process is to provide a continuous review of the effectiveness of an organisation's governance arrangements, so as to give assurance on their effectiveness and/or to produce a management action plan to address identified weaknesses in either process. It is intended that the process of preparing the Governance Statement adds value to the Council's corporate governance and internal control framework.

1.2 **Context**

The Audit Commissions has updated its Use of Resources assessment model for the 2008/09 scored judgements, to assist in their evaluation of how well authorities manage their financial resources. The 4-point scale has been retained so that 'adequate performance' (at minimum requirements) will score 2, and 'performing well' will score 3. The Council was assessed at level 3 for the Internal Control category in the last review. One of the level 3 requirements in the sub-category, is for the Council to have…" put in place an assurance framework that maps the Council's strategic objectives to risks, controls and assurances", to support the statutory Annual Governance Statement (AGS). This has been achieved and the Framework was adopted in September 2006 and reviewed for the first time by the Audit and Governance Committee in November 2007.

The Council already has effective processes dealing with the elements of the control framework, including its Financial Regulations, Contract Standing Orders and Risk Management processes. The main purpose of this assurance framework document is to bring these elements together to enable them to be evidenced in providing assurance that effective controls are in place.

1.3 **Corporate ownership**

In accordance with CIPFA's proper practice, the Chief Executive, as the most senior officer, and the Leader of the Council, as the most senior member will sign the Governance Statement each year. They will satisfy themselves that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about all corporate controls and is not confined to financial issues.

1.4 **Proper practice**

The Accounts and Audit [Amendment] [England] Regulations 2006 refer to the preparation of a statement of internal control in accordance with "proper practice". CIPFA has revised its guidance so that the preparation and publication of an Annual Governance Statement is necessary to meet the statutory requirement.

In order to review their current arrangements, authorities will need to:

- consider the extent to which the authority complies with the principles and requirements of good governance set out in the Framework.

- identify systems, processes and documentation that provide evidence of compliance.

- identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified.

- identify the issues that have not been addressed adequately in the authority and consider how they should be addressed.

- identify the individuals who would be responsible for undertaking the actions required and plan accordingly.

1.5   **Scope of Internal Control**

The scope of internal control spans the whole range of the Council's activities and includes those controls designed to ensure:

- the authority's policies are put into practice

- the Council's values are met

- laws and regulations are complied with

- required processes are adhered to

- financial statements and other published information are accurate and reliable

- human, financial and other resources are managed efficiently and effectively, and high quality services are delivered efficiently and effectively.

Having established the system of internal control, the Council has put in place processes to maintain it and keep it up to date. In practice, this process is closely aligned with the arrangements to review and keep up to date the Council's risk management arrangements, which featured strongly in the SIC process and will feed into the process annually for compiling the Annual Governance Statement.

1.6   **Assurance gathering process**

The Council already has effective processes dealing with aspects of the Governance Statement. The feature of process is to bring the elements together and <u>evidence</u> them.

This framework is supported by more detailed guidance produced by CIPFA, which sets out the main sources of evidence to support the Governance Statement. This emphasises reliance on existing processes and documents.

The task of producing the Statement involves the need to research and formally recognise things currently done across the authority and to record them. The co-
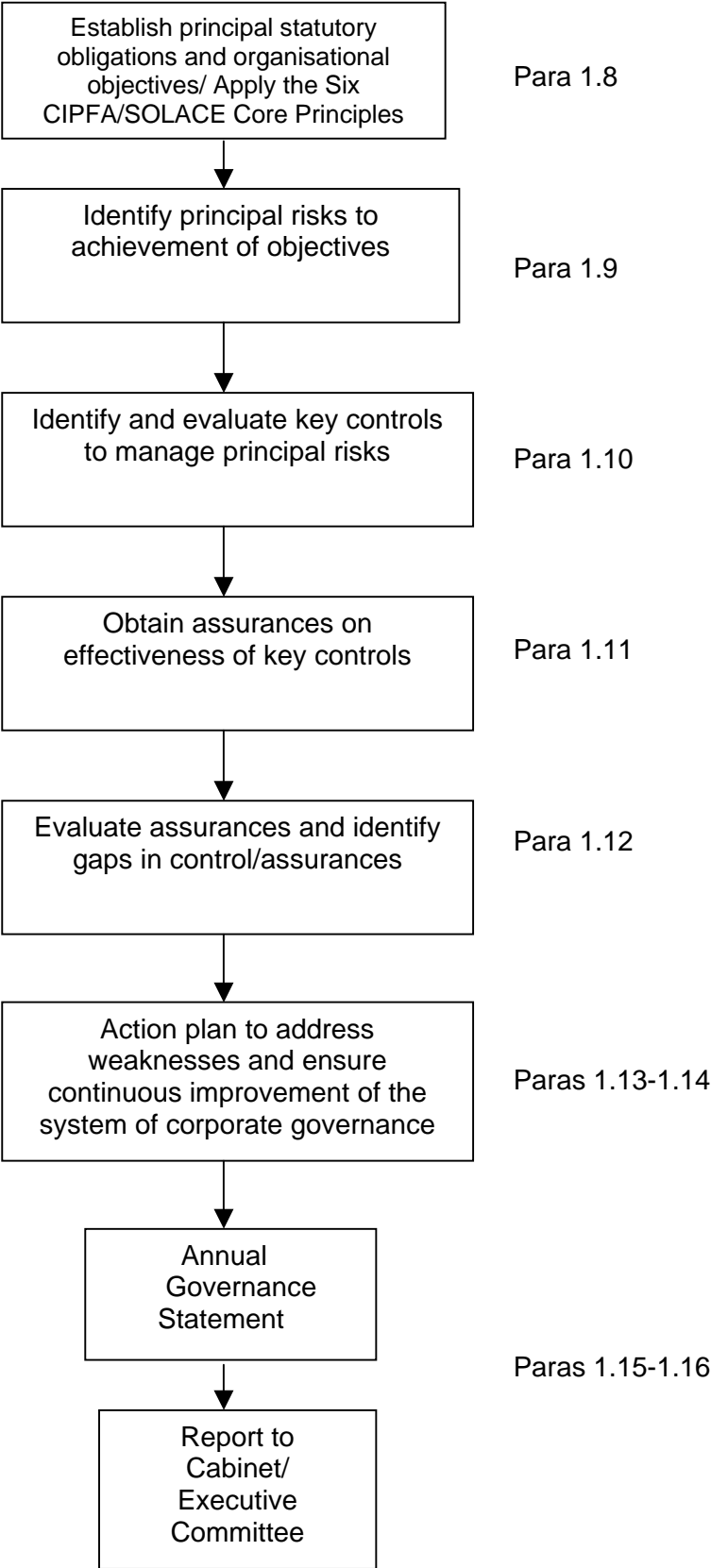
ordination of existing evidence should ensure consistency of approach across the Council, and promote corporate awareness of good practice.

1.7   **Compiling the Governance Statement - Flowchart**

The Council uses the flowchart at the heart of CIPFA's guidance (See Table 1) to relate the Governance review process back to the Council's statutory obligations and organisational objectives.

Each step on the flowchart is underpinned by "examples of assurance" - in turn supported by suggested sources of evidence that the Council can use to demonstrate delivery. There are many potential sources of evidence, some of which are set out in the Appendix. They are not definitive, but they give a flavour of what the Council will look for in compiling and evidencing the Governance Statement.

Table1: Review of Annual Governance Statement and Assurance Gathering Process

Establish principal statutory obligations and organisational objectives/ Apply the Six CIPFA/SOLACE Core Principles	Para 1.8
Identify principal risks to achievement of objectives	Para 1.9
Identify and evaluate key controls to manage principal risks	Para 1.10
Obtain assurances on effectiveness of key controls	Para 1.11
Evaluate assurances and identify gaps in control/assurances	Para 1.12
Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance	Paras 1.13-1.14
Annual Governance Statement	
Report to Cabinet/ Executive Committee	Paras 1.15-1.16

Establish Obligations and Objectives

1.8　　The multifunctional nature of local authorities means that there are a vast number of mandatory and discretionary requirements and powers. The Council will ensure that processes are in place to properly reflect these obligations in its aims and objectives and also to identify changes in these requirements. The Council will therefore ensure that all the main statutory requirements and the Council's key objectives are fully reflected in the Council Plan and Best Value Performance Plan.

Identify Principal Risks to Achievement of Objectives

1.9　　In order to ensure complete identification of risks, the Council considers risk from both a strategic and an operational perspective. Strategic risk includes those to service provision, reputation and political standing, whilst operational risk includes financial, physical and contractual risks. Risks are prioritised according to their likelihood and potential impact. Those risks that are both highly likely and of high impact are considered to be the principal risks to achievement of the objectives of the authority.

Identify and Evaluate Key Controls to Manage Principal Risks

1.10　　Having identified the principal risks, through this Framework, the Council will ensure that it has adequate controls to mitigate them. The nature and importance of these controls is formally recorded and communicated to those responsible for operating the control through the Action Plan attached to EFDC's Strategic Risk Register.

Obtain Assurance on Effectiveness of Key Controls

1.11　　The Accounts and Audit Regulations 2003 state that the "relevant body" is responsible for ensuring that the body (authority) has *"a sound system of internal control".* The Council's Corporate Governance Group is responsible for ensuring that procedures have been established to provide sufficient assurance to the Council's Finance and Performance Management Cabinet Committee and the Audit and Governance Committee that effective controls are in place.

Sources of Assurance

(a)　**Management**

Service Directors and managers assigned with the ownership of risks are responsible for routinely monitoring and reviewing the related internal controls as an integral part of the risk management process, and for regularly reporting to the Corporate Risk Management Group. Any other general concerns about the operation of internal controls are reported to the Director of Finance and ICT, Chief Internal Auditor, or to the Council's Corporate Executive Forum.

The Council recognises the importance of training on finance and internal controls, and a number of sessions of finance awareness training have been provided to groups of managers and other staff with financial responsibilities across the Council. Following the success of these courses the Council has embedded training on finance and internal control issues within its Corporate Training Programme.

(b)   **The Role of the Chief Financial Officer and the Monitoring Officer**

The statutory functions undertaken by these two officers provide a key source of assurance that the systems and procedures of internal control that are in operation are effective, efficient and are being complied with on a routine basis. As the Governance Statement will be read alongside financial statements, the Chief Financial Officer will ensure that he reviews it at an early stage.

(c)   **Internal Audit**

The statutory responsibility for maintaining and reviewing the system of internal control rests with the "relevant body" (the Council). In practice, however, the Council takes assurance from the work of Internal Audit. *The Code of Practice for Internal Audit in Local Government in the United Kingdom* (the Code) defines Internal Audit as:

"…an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment, comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources."

The Chief Internal Auditor is required to include in the annual Internal Audit report to the Council an opinion on the overall adequacy and effectiveness of the authority's internal control environment, providing details of any weaknesses that qualify this opinion and bringing to the attention of the authority any issues particularly relevant to the preparation of the Annual Governance Statement.

(d)   **External Audit**

Whilst External Audit is another potential source of assurance on the operation of internal controls, the Council takes into account that External Audit reports/management letters will not cover the full range of activities and risks and that external auditors are not required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

(e)   **Corporate Governance Group**

The Corporate Governance Group comprises the Chief Executive, Deputy Chief Executive, Assistant to the Chief Executive, Monitoring Officer, Chief Financial Officer and the Chief Internal Auditor. The Group reviews the arrangements to provide assurance on the adequacy and effectiveness of the Council's governance framework, including compliance with the Local Code of Governance.

(f)   **Other Review Agencies and Inspectorates**

The system of internal control covers the whole of the Authority's operations. Aspects of these operations, such as housing benefits and health and safety, are subject to independent external review and these reports also provide the Council with relevant assurance. Internal review agencies include the fraud investigation unit. Reports of the Local Government Ombudsman may also contribute to this assurance. However, the Council recognises that it, and not the external body, is responsible for satisfying itself as to the efficiency and effectiveness of internal control.

Evaluate Assurance

1.12   The Council reviews evidence of assurance from the various sources, and reviews this against risk documentation and the list of principal risks to objectives. Any gaps in the assurance over principal risks are recorded for inclusion in the Annual Governance Statement. The Council also reaches a conclusion as to the independence and objectivity of the various sources of assurance before coming to a conclusion.

Action Plan for Addressing Internal Control Issues

1.13   The Council will prepare an action plan (in the context of areas for improvement) to address significant governance issues, which it will disclose in the Annual Governance Statement, in order to deliver public assurance that these issues have been, or are being, addressed and that the Statement is a balanced reflection of the actual control position. In order to help the disclosure in relation to a significant governance issue a description of the weakness and its impact will be given to provide context for the actions taken.

1.14   A single definition of a 'significant governance issue' is not possible. The Council will exercise judgement in deciding whether or not a particular issue should be regarded as falling into this category. Factors to be considered when exercising this judgement will include:

- the issue has affected or prevented the achievement of a principal objective

- the issue has led to a material impact on the accounts

- the Audit and Governance Committee has expressed significant concerns

- the Chief Internal Auditor has reported on it as significant, for this purpose, in the annual opinion on the internal control environment

- the issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation

- the issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer

Governance Statement

1.15   The Council's Annual Governance Statement represents the end result of the review of processes of governance including internal control and risk management, which has been embedded across Council services. As such, production of the Statement is not conducted as an 'add-on' end-of-year activity, but explains the nature of control, and any material changes in control, exercised through the whole of the accounting period. Although published with the financial statements, the Governance Statement is a broad reflection of the whole governance of the Authority.

1.16   The Annual Governance Statement is approved at a meeting of the Audit and Governance Committee. The Statement must be published with the Statutory Financial Statements and so the publication timetable for the financial statements drives the approval timetable. In considering whether to approve the Governance Statement, the Council will satisfy itself that it has obtained relevant and reliable evidence to support the disclosures made, and will also consider the reviews of the Chief Financial Officer and the Monitoring Officer on issues covered by their statutory responsibilities.

EPPING FOREST DISTRICT COUNCIL
GOVERNANCE FRAMEWORK