

# **ANNUAL GOVERNANCE STATEMENT 2010/11**

## **Scope of responsibility**

1. Cumbria County 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 full regard to value for money.
2. In discharging this overall responsibility, the Council is required to put in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.
3. The Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government.
4. The Annual Governance Statement for 2010/11 explains how the Council has complied with the code and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2011 in relation to the publication of a statement on internal control which must accompany the statutory accounts.

## **The purpose of the governance framework**

5. The governance framework comprises the systems and processes, cultures and values by which the Council directs and controls its policies and activities and through which it accounts to, engages with, and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. Internal controls cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. Rather, internal controls help identify and prioritise the risks to the achievement of the Council's policies, aims and objectives that require particular management. The Council evaluates

the likelihood of those risks being realised and the impact should they be realised, and how the risks should be managed effectively.

### **The governance framework**

7. The key elements of the systems and processes that comprise the Council's governance arrangements include arrangements for:

*a) Identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users*

The Council Plan has been revised for 2011/12, particularly in light of the significant financial constraints affecting the public sector. The Plan identifies three key priorities:

- Challenge poverty in all its forms;
- Ensure that the most vulnerable people in our communities receive the support they need; and
- Improve the chances in life of the most disadvantaged in Cumbria

In terms of presentation, it has built on the innovations from last year, incorporating interactive elements focusing on key outcomes.

*b) Reviewing the Council's vision and its implications for the Council's governance arrangements*

The Council Plan sets out a clear vision for Cumbria with governance arrangements put in place to ensure achievement of outcomes from public sector and other partners.

*c) Measuring the quality of services for users, for ensuring they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources*

The Council actively manages its performance, participating in benchmarking and seeking to improve value for money.

*d) Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication*

The Council has reviewed its Constitution and in November 2010 approved a full revision, including changes to financial and contract procedures.

*e) Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff*

Codes of Conduct for Members and staff are set out in the Constitution and the Council Plan endorses the Council's ethics and behaviours. The Corporate Management Team has emphasised the importance of these behaviours and the importance of senior managers living the values and acting as role models. The Council has in recent years undertaken a survey of members and senior managers on public sector ethics.

- f) Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks*

The Council has revised the Constitution and has adopted new arrangements for risk management which should facilitate benchmarking. Corporate risks are reviewed by the Corporate Management Team and have been regularly reported to the Audit and Assurance Committee.

- g) Ensuring the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)*

The Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). The Council has strengthened its finance capacity through the leadership of the Corporate Director - Resources and the Assistant Director - Finance and the establishment of the finance senior management team. The Assistant Director - Finance has regularly reported on progress to the Audit and Assurance Committee on the restructure within the Finance Unit and the arrangements for strengthening the finance function and financial management systems.

- h) Ensuring the Council undertakes the core functions of an audit committee as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities through the annual work programme of the Audit and Assurance Committee*

The Audit and Assurance Committee is well established and has expanded its remit, taking on responsibility for approving the Annual Accounts from the Statement of Accounts Committee as well as approving the Annual Governance Statement. It has provided a forum for internal and external audit work, and has emphasised the independence and role of audit in giving assurance and making recommendations for improvements. The effectiveness of the Audit and Assurance Committee and internal audit is reviewed annually.

- i) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful*

The Council ensures that full weight is given to legal and financial comments with all reports for Cabinet and Council including the views of the Monitoring Officer and the Section 151 Officer. The Council has continued to take forward its work on equality and diversity. In 2010/11 the Council retained its status as 'Achieving' under the Equality Framework and significant progress has been made towards implementing single status.

- j) Ensuring there are effective whistle blowing arrangements for employees and for receiving and investigating complaints from the public*

The Council's counter fraud and corruption and whistle blowing policies were reviewed and incorporated in the revision to the Constitution. Whistle blowing arrangements are recognised as working effectively with Internal Audit undertaking a number of investigations following the use of whistle blowing arrangements.

- k) Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training*

The Council has supported individual development training for all members and has taken forward a programme of management development for senior managers, including 360 degree feedback.

- l) Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation*

The Council encourages open consultation with stakeholders, with particular attention being paid to development of budget proposals. Given the scale of public sector funding reductions, the Council undertook a comprehensive programme of public and stakeholder consultation on its priorities and proposals for budget reductions as part of 'Have your say'. The quality of the Council's work was recognised nationally when its consultation on budget options won gold in the May 2011 Local Government Communications awards. The Council addressed equality within the budget setting process for 2011/12 and has taken a number of actions to mitigate the impact of reductions in budget on vulnerable groups. The Council supports use of petitions and Councillor Call for Action.

*m) Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the Council's overall governance arrangements*

The Council has developed partnership governance arrangements in line with best practice. An example is the operation of effective joint scrutiny arrangements with Cumbrian local authorities and health partners. In addition the Council supported all six District Councils to reach the Achieving Level of the Equality Framework enabling Cumbria to be the first two tier authority area where all local authorities have reached this standard.

### **Review of effectiveness**

8. The Council conducts an annual review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, Internal Audit's annual report, risk management arrangements and by reports made by the external auditors and other review agencies and inspectorates. In completing the review an analysis of how the Council's governance arrangements comply with the CIPFA/SOLACE principles has been undertaken.
9. The Council has reviewed the Constitution, approving a full revision in November 2010, including revised changes to responsibility for functions, its financial regulations and contract procedure rules.
10. The Council's Audit and Assurance Committee has delivered its annual work programme, championing the work of external and internal audit. Each year the Committee reviews its own effectiveness against best practice criteria for effective audit committees.
11. During the year there has been regular reporting of external audit reports, including the annual governance report, interim memoranda and specific reports on the certification of grant claims, income from fees and charges and e5 follow up review. There has been a focus on ensuring that recommendations are effectively implemented, including improvements made to processes relating to grant claims and enhancements to control arrangements in respect of the Council's systems of internal control.
12. The Audit and Assurance Committee has received progress updates on the establishment of the new structure for the Finance Unit and the ongoing work to ensure financial management systems are fully developed.

13. Internal Audit has made significant progress in delivering its work programme, delivering more than 90% of its high risk work. Internal Audit has concluded that overall the risk management systems and internal controls operated provide reasonable assurance during 2010/11. However, there remains a continuing need to strengthen internal controls in light of investigatory work in areas such as changes to supplier bank details and travel claims.
14. Internal Audit has undertaken urgent high risk work, providing hot assurance in areas such as payroll and single status. It has contributed to the revision of the Council's Constitution including Counter Fraud and Corruption and whistle blowing policy and carried out investigations in response to whistle blowing incidents. The Annual Report highlights ongoing work arising from whistle blowing and other investigations.
15. Internal Audit reported on the lessons learned from the significant CAW waste management fraud. The report was considered in detail by the Audit and Assurance Committee in September 2010 and all members were given opportunity to consider the findings following January 2011 Council. The CAW lessons learned and other contract management reviews underline the importance of strengthening contract management arrangements and data quality. On the latter point, when reviewing achievement of stretch targets, partial assurance only was provided in respect of district council waste recycling data. The importance of accurate and reliable data is also illustrated by work on single status and transition arrangements following the ending of the Capita contract.
16. Following previous concerns about the time taken to respond to some audit reports and implement audit recommendations, attention has focused on clearing internal audit reports and ensuring there is timely progress in implementing recommendations, enhancing Internal Audit's impact. At the end of 2009/10 substantial progress was reported: all Directorate reports and Grade 1 recommendations had been actioned, although a handful of schools reports and Grade 1 recommendations remained outstanding. This progress has been maintained throughout 2010/11 with no significant delays.
17. The programme of schools audits has resulted in a number of generic issues being identified: governance arrangements (clarity of financial delegations and declaration of business interests); and budget management (reporting budget position and projected outturn and maintaining local records). There is a need to ensure these issues are consistently taken forward and that all schools provide timely responses to audit reports and implement recommendations.

18. Full details of Internal Audit's activities and impact are included in Internal Audit's annual report for 2010/11. The annual assessment of Internal Audit's effectiveness was reported to the June Audit and Assurance Committee.
19. In 2010/11 Internal Audit established a shared internal audit service with two district councils – Carlisle City Council and Copeland Borough Council. As the Council already provides internal audit services to the Police and the Lake District National Park, the shared service covers five Cumbria-wide public sector client organisations. The arrangements ensure the delivery of robust internal audit services across the participating organisations and deliver some savings.
20. During the course of 2010/11 corporate risks have been regularly reported to the Audit and Assurance Committee, and arrangements have been enhanced to promote wider use of benchmarking. Annual reviews have also been concluded in respect of business continuity arrangements, the use of surveillance and access to information.
21. The Corporate Management Team Programme Board has continued to oversee programmes and projects that are significant in terms of scale and complexity and there has been a step change in the level of rigour applied at each phase in the management process (Identification, Definition, Delivery and Closure). The Board performs a critical gateway function, with ultimate authority for allowing programmes and projects to pass through each of the four phases above. This has improved the quality and breadth of information presented, enabling for example financial viability and benefits realisation to be challenged and improved (for example Accessible Cumbria, ICT re-provision, Single Status and Carbon Reduction).
22. During 2010/11 the Board strengthened its governance arrangements at delivery phase, and introduced a monitoring system to track scheduling of programmes and projects, risk, finance, stakeholder issues and benefits realisation. Recently, and as a direct result of the impact of the new monitoring arrangement, the Board has acknowledged that the level of assurance has increased around the delivery of major programmes and projects. The Board has acknowledged that there remains room for improvement and has agreed an action plan which will further strengthen governance and internal control.
23. The Board has considered 'lessons learned' from the Cumbria Northern Development Route Project and the Better Places for Work pilot project in Whitehaven, and others are scheduled for consideration during 2011/12. Project management skills remain at a premium in light of the range of initiatives on which the Council is embarked, including single

status, ICT re-provision and Highways arrangements, and the Council's ambitious programme of savings. In addition there is a need to ensure that post project evaluations are robust and timely.

24. Over the past twelve months overview and scrutiny has continued to focus on key priority topics which underpin the Council Plan and the Council's outcomes and service delivery. Four thematic Scrutiny Boards plus the Cumbria Joint Health & Wellbeing Scrutiny Board have developed a single integrated work programme under the direction of a strengthened Scrutiny Management Board, providing challenge, policy guidance and support on these topics.
25. Working closely with corporate directors, scrutiny members have undertaken a broad range of Task & Finish work, including:
  - Carbon Reduction in Schools - a scrutiny which considered the County Council's preparedness to assist schools in meeting their carbon reduction targets for 2012.
  - Transforming Community Equipment Services and Fair Access to Care for Equipment - pre-scrutiny work looking at the proposed changes to this service.
  - Utility Companies Reinstatement Work - a review of past and current contractual and financial arrangements associated with the reinstatement of highways by statutory undertakers.
  - Better Places for Work - a joint initiative with the districts to enable the authorities to become modern, high performing and fit for purpose
  - Other topics have included Together We Can, School Transport, The Future of Library Services and Obesity.
26. This work has involved consultation with a wide range of stakeholder groups and community representatives involving non-executive members drawn from across the Council. Joint Scrutiny with all District Councils has been driven by the County Council's Health & Wellbeing Scrutiny Committee, and has largely focused on aspects of NHS reconfiguration of service - ensuring that local people and service users have been adequately consulted and represented.
27. The final year of a two year programme of work for the Cumbria Joint Scrutiny Committee (which included representatives from all Districts and the Lake District National Park), concluded with a scrutiny review on Funding of Community Safety Partners. Jointly funded by the County

Council and District authorities this Scrutiny Committee is managed by a Senior Scrutiny officer. From 1 April 2011 all authorities have agreed that joint scrutiny will continue on a less formal topic-led basis and a new joint scrutiny protocol is being developed.

28. The Standards Committee has met throughout 2010/11 and arranged training on "Dual-hatted members and the Code of Conduct" in October 2010. The Committee is monitoring the proposals proceeding through Parliament in respect of changes to the standards regime.
29. In 2010/11 there was one complaint to the Standards Committee. This was referred to the Assessment Sub-Committee of the Standards Committee. The complainant was dissatisfied with the Sub-Committee's decision and asked for a review. The decision was reviewed and the decision of the Review Committee was to take no further action
30. The Cumbria Pensions Committee has met regularly throughout the year, and reviewed its Statement of Investment Principles, Governance Policy Statement, the Pension Fund risks and as part of the Annual Report, compliance with the Myners Principles.
31. The governance framework has been operating at the Council for the year ended 31 March 2011 and up to the date of approval of the Annual Governance Statement.

### **Significant governance issues**

32. Previous Annual Governance Statements have highlighted a number of issues for further action and in March 2011 a report on progress against these action plans was considered by the Audit and Assurance Committee (see attached link Item 16).

[http://modern.gov.ccc/Published/C00000181/M00004814/\\$\\$ADocPackPublic.pdf](http://modern.gov.ccc/Published/C00000181/M00004814/$$ADocPackPublic.pdf)

33. In preparing the 2010/11 Annual Governance Statement, the following areas for attention are highlighted as a result of the work undertaken. The action plan also incorporates ongoing actions from previous Annual reviews:
  - Ensuring that audit reports continue to be cleared promptly and recommendations implemented
  - Ensuring the good practice principles highlighted in reviews of procurement and contracting arrangements and the CAW lessons learned report are embedded in Council practices

- Ensuring systems controls operate effectively when:
  - Authorising changes to supplier records
  - Authorising payments, including travel claims
  - Undertaking reconciliations
  - Updating the scheme of delegation
- Ensuring project management is effective
- Ensuring data are complete and of appropriate quality
- Completion of the restructuring of the Finance Unit
- Ensuring generic issues on governance arrangements and budget management arising from schools audits are consistently actioned
- Ensuring corporate procedures in respect of recording and monitoring requests received under Freedom of Information and the data protection act are followed

An action plan for delivery in 2011/12 is set out at Annex A.

34. We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Signed:** .....

Eddie Martin  
Leader of the Council

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Jill Stannard  
Chief Executive

on behalf of Cumbria County Council

## ANNEX A

### PLANNED ACTION ON ISSUES IDENTIFIED IN 2010/11 STATEMENT

	Issue	Responsibility	Progress where issue flagged up previously	Proposed action in 2011/12
1	Ensuring that audit reports continue to be cleared promptly and recommendations implemented	CMT and Assistant Directors  Senior Manager – Audit  Assistant Director - Finance	Quarterly Internal Audit monitoring reports from Senior Manager - Audit show good progress generally in receiving action plans and finalising audit reports and confirming that Grade 1 recommendations are implemented	Ensure action plans are returned promptly and recommendations implemented  Monitor progress to ensure that significant progress in respect of internal audit reports is continued  Monitor and report progress to Audit and Assurance Committee to ensure that external audit recommendations are implemented
2	Ensuring the good practice principles highlighted in reviews of procurement and contracting arrangements and the CAW lessons learned report are embedded in Council practices	Assistant Director - Improvement, Senior Manager - Procurement	Continuing action to highlight good practice principles. The CAW lessons learned report was well publicised, with a briefing for all Members after January 2011 Council. The Chief Executive highlighted the lessons at a forum for all senior managers	The good practice identified will continue to be rolled out through implementation of the Sustainable Procurement Strategy and revised Contract Procedure Rules. In addition the use of electronic tools including our portal/e-tendering system and e-procurement purchase-to- lay systems will be embedded across all Directorates. The Procurement Unit will also play a leading role in major projects and programmes.
3	Ensuring systems controls operate effectively when:  Authorising changes to supplier records  Authorising payments, including travel claims	<ul style="list-style-type: none"> <li>• AD - Finance, Senior Manager - Accountancy, AP Manager</li> <li>• CMT and ADs</li> <li>• Interim Manager - HR</li> <li>• AD - Finance, Finance Managers and ADs, Managers authorising claims</li> </ul>	Continuing attention is paid to the importance of internal controls. This remains an issue in light of a recent fraud where a supplier's bank details were changed and the review of travel arrangements	New controls in place to check validity of requests for changes in bank details  Ensure forms authorised Ensure compliance with HR processes Produce consolidated authorised signatory list

	<b>Issue</b>	<b>Responsibility</b>	<b>Progress where issue flagged up previously</b>	<b>Proposed action in 2011/12</b>
	Undertaking reconciliations  Updating scheme of delegation	<ul style="list-style-type: none"> <li>• AD - Finance</li> <li>• AD – Finance</li> <li>• ADs</li> <li>• Finance Managers</li> </ul>		<p>Regular reporting Monitoring to ensure that reconciliations completed in accordance with system documentation Follow up non-compliance</p> <p>Review of scheme of delegation</p>
4	Ensuring project management is effective	Assistant Directors		CMT Programme Board review Project management resourcing Project management training
5	Ensuring data are complete and of appropriate quality	Assistant Directors		CMT Programme Board review Data quality audits
6	Completion of the restructuring of the Finance Unit	Assistant Director - Finance	Finance restructure nearing completion following formal consultation	Restructure expected to be completed by September 2011 with progress reviews to be submitted to Audit and Assurance Committee
7	Ensuring generic issues on governance arrangements and budget management arising from schools audits are consistently actioned	Assistant Director Schools and Learning with  Finance Manager – Children’s Services	Arrangements are in place to ensure schools respond to audit reports. The arrangements include escalation where Governors are copied into correspondence and the escalation processes have worked to date	<p>The County will write to the Chairman and Vice Chairman of Governors where a school has failed to respond to an audit report</p> <p>Support will be given to schools with weak/limited assurance to enable them to understand how to address these weaknesses</p> <p>Common governance issues will be incorporated into regular training done for schools governors and bursars.</p>
8	Ensuring corporate procedures in respect of recording and monitoring requests received under Freedom of Information and the Data Protection Act are followed	Assistant Director – Policy & Performance  Assistant Director – Improvement	The County Council established a County Information Governance Group chaired by the Assistant Director - Improvement. The group includes representatives from all Directorates and Legal Services. The aim has been to ensure a consistent approach to information.	A review of the role and function of the County Information Governance Group will be undertaken to ensure that the group continues to promote a consistent and workable approach to information, including FOI and DPA, and develops good working practises from within our own organisation, our strategic neighbours, and further afield