

**STRATEGIC POLICY - 21 June 2005  
AUDIT SUB-COMMITTEE – 16 June 2005**

**CORPORATE GOVERNANCE AND THE LOCAL CODE – CHIEF INTERNAL AUDITORS  
ASSURANCE STATEMENTS**

**Report by the Director of Finance**

**ABSTRACT**

This report presents the Chief Internal Auditors independent assurance opinions in relation to both the overall corporate governance arrangements and internal financial controls for 2004-05.

**1. RECOMMENDATIONS**

It is recommended that the Committee note: -

- i. The Chief Internal Auditors opinion in relation to Corporate Governance and the Local Code
- ii. The Chief Internal Auditors Annual Internal Financial Control report and assurance statement
- iii. A full internal audit report in relation to 2004-05 Corporate Governance will be presented to both the Strategic Policy committee and the Audit Sub-Committee after the recess.

**2. BACKGROUND**

In 2001, CIPFA/SOLACE issued the document "Corporate Governance in Local Government: A Keystone for Community Governance – Framework". This document defined corporate governance as "the system by which local authorities direct and control their functions and relate to their communities". The document, together with related guidance notes, defined how the principles underpinning good governance (openness and inclusivity; integrity and accountability) should be reflected in the five dimensions of business i.e.

- a) Community Focus
- b) Service Delivery Arrangements
- c) Structures and Processes
- d) Risk Management and Internal Control
- e) Standards of Conduct

Angus Council on the 23 May 2002, agreed to adopt its own corporate governance framework, nominated the Chief Executive as the Accountable Officer with regard to the corporate governance framework, and agreed that this framework would be the subject of an annual review report as part of the corporate management arrangements within the council as a whole.

The chief internal auditor is tasked with providing an annual independent review of the local code of corporate governance to provide assurance on adequacy, effectiveness and compliance. A copy of the assurance statement for 2004-05 is attached as appendix 1 to this report.

Members are invited to note that progress has been made in a number of areas raised in the 2003-04 assurance statement including the establishment of departmental risk registers; drafting of a corporate performance management system and identification of a performance management IT system. Additional work has also been taken forward in developing management competencies. However, there still remain a number of areas to be addressed at 31 March 2005 to fully meet the requirements of the Local Code of Corporate Governance.

In addition to the overall corporate governance statement, the Chief Internal Auditor is also required to provide an independent opinion on the Council's internal financial controls. This annual report and opinion is provided at appendix II and indicates that while there is some slippage in the discharge of level 1 recommendations in audit reports and instances of non-compliance with financial guidance which is being addressed by the Audit Sub-Committee, the internal financial controls arrangements of the Council are sound.

### **3. FINANCIAL IMPLICATIONS**

There are no financial implications arising from this report.

### **4. CONSULTATIONS**

The Chief Executive and Director of Law & Administration have been consulted during the preparation of this report

### **5. HUMAN RIGHTS ISSUES**

There are no human rights implications arising from this report.

David S Sawers  
Director of Finance

Note: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing or exempt information) were relied upon to any material extent in preparing this report

JW  
30 May 2005

## Angus Council – Statement on Local Code of Corporate Governance 2004-05

### To the Members of Angus Council and the Chief Executive

As Chief Internal Auditor to Angus Council I am pleased to present my annual assurance statement on the Local Code of Corporate Governance. This statement covers the financial year 2004-05 and should be read in conjunction with my Internal Financial Control Statement for the same year.

### Respective responsibilities of management and internal audit in relation to the Local Code

The Council Local Code of Corporate Governance makes the Chief Executive responsible for the development, implementation and management of the Code. As part of this the Chief Executive is to review and report annually on compliance and effectiveness of the Code in practice. In addition, I am also required to review and report annually on compliance, efficiency and effectiveness of the Code.

### Limitations of Scope

Angus Council adopted the Local Code in May 2002. My second statement, covering the 2003-04 indicated that work still had to be done in some areas to ensure compliance with the Code. Progress has been made but a number of those areas still require completion. Given that there is still further work to be done, a full audit review of all elements of the code and assessment of overall efficiency and effectiveness has not been possible.

### Basis of Opinion

My opinion below is based on the results of my audit work both in this and past years and assurances received from Chief Officers for the 2004/05 year.

### Code Compliance 2004-05

As indicated above, progress has been made during 2004-05, although the Best Value Audit and some staffing difficulties have hampered intended progress and resulted in a lack of compliance in relation to publication of the Council's 2003-04 Annual Report and Assurance Statement. Additionally, work was delayed on the consolidation of the Corporate Risk Register which is now substantially out of date. Notwithstanding this, substantial development has been seen in areas supporting the principles of the Local Code, the more material of which include:-

- Drafting of the performance management framework
- Identification of an IT system for managing plans and elements of performance
- Development of the Responding to Change agenda and action plan
- Management development and the Competency Framework
- Development of departmental risk registers
- Detailed review and update of the Financial Regulations
- Agreement of a Best Value Improvement Plan with the Accounts Commission
- Programme of major corporate best value reviews taken forward
- Establishment of the Operational Risk Management Group with identification of risk initiative areas

In relation to compliance with the Local Code, there are a number of areas which still require further work at 31 March 2005. The more material of these areas are:-

- Finalisation of the Performance Management Framework and implementation throughout the Council
- Review of the structures for the delivery of embedded risk management to ensure fitness for purpose
- Embedding risk management including updating the Corporate Risk Register in accordance with the STORM process and developing management, reporting and review arrangements for both corporate and departmental registers
- Completion of service standards development and further development of the Balanced Scorecard arrangements, linked to the performance management framework
- Linking service plans to resource allocations
- Completion of the management competency framework and revised performance appraisal scheme
- Completion of the information and communications strategy

## **Opinion**

In relation to Code compliance, there are a number of areas which still require to be completed and, although substantial progress is acknowledged in a number of areas, some of the remaining elements still to be finalised have been carried forward from previous assurance statements.

I reported last year that the overall corporate governance arrangements were based upon a developed framework of a number of building blocks which underpin the arrangements of the Council, and this remains valid. It is therefore my opinion that the core governance arrangements within the Council remain sound.

**Janine Wilson**  
**Chief Internal Auditor**  
**30 May 2005**

**To the members of Angus Council, the Director of Finance and the Chief Executive**

As Chief Internal Auditor of Angus Council, I am pleased to present my annual statement on the adequacy and effectiveness of the internal financial control system of the Council for the year ended 31 March 2005.

**Respective responsibilities of management and internal auditors in relation to internal control**

It is the responsibility of the Council's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Internal Auditor to provide an annual overall assessment of the robustness of the internal financial control system.

**Sound internal controls**

The main objectives of the Council's internal financial control systems are:

- To ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- To safeguard assets;
- To ensure financial probity and guard against fraud
- To ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- To ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control.

**The work of internal audit**

Internal Audit is an independent appraisal function established by the Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

All internal audit reports identifying system weaknesses and/or non-compliance with expected controls are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to internal audit reports and that appropriate action is taken on audit recommendations. The internal auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action. Significant matters (including non-compliance with audit recommendations) arising from internal audit work are reported to the Director of Finance, Chief Executive and the Council's Audit Sub-Committee

**Limitation of scope**

In the financial year under review there were no limitations of scope placed upon Internal Audit.

## **Overview of 2004-05**

Internal audit work carried out in 2004-05 included audits of Corporate Governance; Statutory Performance Indicators; Budget Monitoring; Payroll; Creditors; Fleet Services; Asset Management and Health & Safety Arrangements; a number of follow up audits and departmental systems and regularity reviews. In total, 57 separate reviews were commenced in the year of which 6 related to core financial systems, 10 related to establishment audits, 14 were follow up audits, 3 specific contract audits, 9 related to areas of investigation and the remaining 15 related to other Council systems.

From the audit work conducted a number of more material (level 1) recommendations were made. These recommendations were agreed by management and contained in the overall SMART action plans. These, and the other less material actions, will be followed up in 2005-06 and 2006-07.

Assurances received from Departmental Directors, and reviews of issued audit reports indicate that there has been slippage in some departments in taking forward a number of level 1 recommendations for this and the previous year. Some of those areas relate to financial controls and implementation of Local Code requirements,

2004-05 audit work has again indicated some continuing issues in relation to strict compliance with financial instructions. Key controls remain sound, but there still remains some inconsistency in application. This matter is being progressed through the Audit Sub-Committee.

## **Performance, Quality Assurance and compliance with CIPFA Code**

Excepting reporting arrangements of the Chief Internal Auditor, Internal Audit operates in accordance with the Chartered Institute of Public Finance and Accountancy's Code of Practice for Internal Audit in Local Government in the United Kingdom (2003). The section undertakes an annual programme of work approved by the Audit Sub-Committee based on a formal risk assessment process, which is revised on an ongoing basis to reflect evolving risks and changes within the Council.

Quality assurance arrangements within the section are contained within the Audit Manual including documentation and review standards, report requirements and performance indicators. Currently performance indicators used are those utilised by the CIPFA Directors of Finance section and, for 2004-05, the efficiency indicator shows the section discharged 90.4% of planned productive hours as opposed to 99.3% in 2003-04, the reduction due to unplanned slippage in staff appointments.

## **Basis of Opinion**

My evaluation of the control environment is informed by a number of sources:-

- The audit work undertaken by internal audit during the year to 31 March 2005;
- The assessment of risk completed during the preparation of the audit plan;
- Reports issued by the Council's External Auditors, Audit Scotland, and other review agencies;
- My knowledge of the Council's governance, risk management and performance monitoring arrangements and
- Formal assurances received from the Council's Chief Officers

## **Opinion**

It is my opinion, based on the above, that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal financial control systems in the year to 31 March 2005.

**Janine Wilson**  
**Chief Internal Auditor**  
**30 May 2005**