

# **ANNUAL GOVERNANCE STATEMENT 2011/12**

## **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 responsible for putting 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 2011/12 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 three year Council Plan 2011 to 2014 was approved in February 2011 and reaffirmed in February 2012. The Plan identifies three key priorities and a fourth underpinning aim:

- 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

The broad, underpinning aim is to:

- Ensure that the Council is operating as effectively and efficiently as possible.

In terms of presentation, the Council Plan builds on previous innovations and incorporates 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 approved a full revision of its Constitution in November 2010, including changes to financial and contract procedures, and keeps the Constitution under review through the work of the Constitution Review Group. Changes to the Constitution are approved by Council.

- 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 approved a full revision of the Constitution in November 2010 and the Constitution Review Group ensures the Constitution is maintained and kept up to date. Corporate risks are reviewed by the Corporate Management Team and are 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 to the Audit and Assurance Committee progress 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 sought to emphasise the importance of governance and internal control throughout its programme of work. Concerns as regards corporate risk management and the increasing proportion of internal audit reports providing partial or limited assurance led the Committee to call a special meeting where the Chief Executive was invited to set out what the Council is doing to strengthen governance and internal controls. The Audit and Assurance Committee continues to consider and approve the Annual Governance Statement. It has received regular progress reports on action plans in relation to significant governance issues and an assessment of progress on the approved Governance and internal Control action plan is an important consideration in preparing this Annual Governance Statement.

With Councils approving audited accounts, rather than draft accounts and then audited accounts, the Committee took a keen interest in the preparation of the 2010/11 accounts and the impact of International Financial Reporting Standards and was pleased to see the generally positive messages from the Audit Commission's audit of the 2010/11 accounts. The Committee has continued to pay careful attention to the preparation of draft accounts for 2011/12, receiving formal update reports from the Assistant Director - Finance and with the Chair and Vice Chair attending regular briefings.

The Audit and Assurance Committee 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 its work on equality and diversity. In 2010/11 the Council retained its status as 'Achieving' under the Equality Framework. The Council is undertaking a self-assessment under the Equality Framework for Local Government and is putting in place plans to meet the criteria for 'Excellent' during 2012/13.

The Council's Strategy for Equality 'Equality for All' was agreed by Cabinet in April 2012, and sets out the Council's Equality Objectives for 2012-16. Key areas of focus include: narrowing the educational attainment gap between girls and boys; reducing the effects of domestic violence, hate

crimes and homophobic bullying in Cumbria; and ensuring that people from vulnerable groups can access help and support through joined up advocacy and advice services.

In September 2011 the Council implemented single status arrangements for pay and terms and conditions for all 'Green Book' staff which constitute the vast majority of its employees. A full equality impact assessment was undertaken and successful implementation of the new single status arrangements provides the Council with a robust defence against future equal pay claims.

- 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 as part of the revision to the Constitution and a further review has been carried out in light of recent anti bribery legislation and to ensure consistency in reporting 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's approach to Equality is closely related to the wider Council Plan objective of reducing poverty in all its forms, as well as making sure that resources are targeted to people who need them most.

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. Budget proposals for 2012/13 were all subject to an Equality Screening Process and three Equality Impact Assessments were identified Adult Social Care Subsidies, Community Swimming Pools and Parking Permits. 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. For this work the Council won the 2011 North West Employer Organisation Local Government award in the category of Equality.

## **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'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.
10. During the year there has been regular reporting of external audit reports, including the annual governance report, interim memoranda and the certification of grant claims. There has been a focus on ensuring that recommendations are effectively implemented, reflected for example in a grant claims report with no qualifications or recommendations, and improvement in financial management system electronic controls to support the Scheme of Delegation.

11. The Audit and Assurance Committee has also kept a close watch on developments in external audit, responding to the Government's consultation document on the Future of Local Public Audit and receiving regular updates from the Audit Commission on external audit arrangements.
12. The Audit and Assurance Committee has received progress updates on the Finance Unit and the ongoing work to ensure financial management systems are fully developed.
13. Internal Audit has effectively progressed its 2011/12 work programme. Audit days delivered were in line with those planned but there was a need to divert resources to urgent, unplanned work and pull in additional resources for these investigations. Hence, more limited progress was made in delivering the audits originally planned. In light of the need for urgent high priority work and detailed consideration of the timing of various audits, the audit plan was reviewed and some audits rescheduled for 2012/13. The rescheduled plan was delivered and has given sufficient coverage for providing an overall opinion on the effectiveness of internal control and meeting the requirements of all stakeholders.
14. The proportion of internal audit reports providing limited and partial assurances has increased, raising concerns about the overall effectiveness of internal control. In previous years some 20% of reports provided limited and partial assurances but the proportion increased to 40%. In addition these partial/limited assurance reports were in significant areas of the Council's activities, rather than being focused on individual establishments. Key areas included contract management, including waste management and concessionary fares, information governance and data quality, including Payment Card Industry Data Security Standard and carbon reduction, HR systems, partnerships, direct payments and payments to carers, and post project evaluation work. In addition the Council is having to engage in significant activity in relation to a major contractor, with internal audit contributing to investigatory work and analyses.
15. The Audit and Assurance Committee was concerned by the increasing proportion and significance of audit reports providing partial or limited assurance and of weaknesses in corporate risk management arrangements. Actions to improve governance and internal control were identified and reported by the Chief Executive to the Audit and Assurance Committee at its special meeting in April 2012. Progress in delivering the action plan has enabled Internal Audit to conclude overall that the risk management systems and internal controls now operated provide reasonable assurance. Going forward, there remains a

continuing need to strengthen internal controls in light of investigatory work in areas such as contract management and travel claims and to ensure greater consistency in the implementation of corporate risk management arrangements.

16. Internal Audit has updated the Council's Counter Fraud and Corruption and whistle blowing policies. The Annual Report highlights the relatively low incidence of fraud in the Council and also shows that work arising from the National Fraud Initiative has identified a number of overpayments where internal controls should be improved.
17. The substantial progress reported in recent years in ensuring timely responses to audit reports and implementation of audit recommendations has been sustained throughout 2011/12.
18. 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). Income is not always receipted and cross referenced to supporting documentation; timesheets are not being signed and/or authorised, especially on new electronic timesheet summaries; and annual school fund accounts are often not prepared, audited or presented to governors. There is a need to ensure these issues are consistently taken forward.
19. Full details of Internal Audit's activities and impact are included in Internal Audit's annual report for 2011/12. The annual assessment of Internal Audit's effectiveness is to be reported to the June 2012 Audit and Assurance Committee.
20. In December 2010 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 and 2011/12 saw the first full year of operation. The arrangements ensure the delivery of robust internal audit services across the participating organisations and deliver some savings.
21. Annual reviews are undertaken in respect of access to information, business continuity arrangements, and the use of surveillance. The access to information review is to be reported to the Audit and Assurance Committee in June 2012 with the other reports scheduled for September 2012.



22. The Corporate Management Team Programme Board has continued to oversee programmes and projects that are significant in terms of scale and complexity. In November 2011, the Board agreed to implement a new methodology for managing such programmes and projects. Since September, all programmes are managed through the following phases, and a single document is signed-off at each stage (gateway):

- Identification – Programme Initiation Document.
- Definition – Business Case Document.
- Delivery – BRAG Monitoring Report.
- Closure – Closure Report.

23. A full report on the new methodology was presented to the Audit and Assurance Committee in March 2012.

24. The Board has overseen the following programmes of work, using the new approach:

- Better for Business – PID.
- Health Transition – PID
- Facilities Management – PID
- Better for Transport – Closure
- HR ICT – Lessons Learned
- Highways Reprovision – Report following consideration of risk in BRAG report.
- Fire PFI – Gateway Report
- Customer Access – Closure (June 12)
- Better for Business – Business Case (June 12)
- Health Transition – Business Case (June 12)
- Children's Services – PID (June 12)
- Nuclear Programme – Redefined (June 12)

25. In addition, progress on the following programmes is monitored through use of BRAG reports: (these programmes were initiated prior to implementation of the new methodology).

- Adults Purchasing Plan
- Barrow Care Home
- Better Places for Work (BP4W)
- Better Programmes Overview
- Connecting Cumbria
- Cumbria Care Modernisation
- Furness Academy
- Highways works reshaping
- ICT Reprovision

- Nuclear Programme
- Waste Programme

26. As a direct result of the new monitoring arrangement, the Board has acknowledged that the level of assurance has increased around the delivery of major programmes and projects, with peer challenge evident at all phases on scheduling, risk, finance, stakeholder matters and benefits realisation. The Board has also acknowledged that there is room for improvement and work is underway to improve the identification, assessment and monitoring of programme risk and to improve the identification and scheduling of programme benefits.

27. The Corporate Programme Office continues to support the Board and individual Programme Managers to manage activity and deliver intended benefits. This included a recent workshop on the Health Transition programme (involving health and Council workstream leads) which was delivered to improve programme assurance on timelines, milestones and risk.

28. 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 Scrutiny Committee 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.

29. Working closely with corporate directors, scrutiny members have undertaken a broad range of Task & Finish work consisting of 18 separate reviews, including:

- Better Places for Work – a follow up piece of scrutiny work reviewing the development and implementation of the Council's Better Places for Work Programme.
- Swimming Pools – a scrutiny review was undertaken following a request from Cabinet / Council as part of the budget setting process. Scrutiny undertook a detailed review of those swimming pools the authority directly funded and explored the value for money this provides.
- Adult Education – a review into adult education exploring the future provision in geographical terms, and the type of courses to be provided.

- Other topics have included parking enforcement, household waste recycling centres, treasury management, future care of older people and the Allerdale care home consultation.
30. 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 Scrutiny Committee, and has focussed on a number of areas including:
- Examining the quality of the breast cancer service provision at Furness General Hospital,
  - A task group review on tackling obesity
  - A review of the fitness for purpose of Cumbria's Dementia Strategy
31. Over the year the Scrutiny Boards have also considered four Call-Ins on the following issues:
- Proposals regarding a school closure
  - School Transport issues
  - The fire control room
  - County Council attendance at Local Strategic Partnerships
32. The Standards Committee has met throughout 2011/12 and has considered in detail the provisions of the Localism Act 2011 relating to the new standards arrangements which the Council must put in place by 1 July 2012. As a result of this Act the standards regime will change significantly to that which has operated since 2001. From July 2012 the Standards Committee in its current statutory form will cease to exist but the Council is likely to establish a new Standards Committee which will continue to promote and maintain high standards of conduct by councillors but with more limited powers than at present to take action where a member has been found to have breached the Code. The Committee has made various recommendations to the June 2012 Council meeting regarding a new Code of Conduct, how complaints will be investigated and what powers the new Standards Committee will have.
33. In 2011/12 there was one complaint to the Standards Committee. This was referred to the Assessment Sub-Committee of the Standards Committee which met in May 2012. The Sub-Committee decided that no action should be taken in respect of the allegation that a County Councillor had breached the Member Code of Conduct.
34. The Cumbria Pensions Committee has met regularly throughout the year, and covered all matters involved in the operation of the Cumbria

Local Government Pension Scheme: governance of the fund; scheme policies update; knowledge and skills of Members and officers (including compliance with the Myners principles and the CIPFA Code of Conduct); fund risks including the mitigating actions in place; employee and employer administration matters; and fund performance monitoring at an overall level and by individual manager.

35. The Committee also met for a special meeting to further consider the Investment Strategy Review which was undertaken throughout 2011/12 and the work required to implement the outcomes of the review. The review has culminated in agreement by the Committee for fundamental changes to the strategic investment themes of the growth element of the portfolio to be implemented in 2012/13. The Committee also agreed to establish an Investment Sub Group to ensure investment matters can be considered in more detail and in a more timely manner so as to exploit any market opportunities. The detailed governance and operating framework for this Group is to be formalised shortly and will be agreed by the Committee prior to its establishment.
36. The governance framework has been operating at the Council for the year ended 31 March 2012 and up to the date of approval of the Annual Governance Statement.

### **Significant governance issues**

37. Previous Annual Governance Statements have highlighted a number of issues for further action and the Audit and Assurance Committee has received regular reports on progress against actions.
38. In light of concerns about the robustness of risk management arrangements and the increasing proportion of Internal Audit reports receiving partial or limited assurance, in April 2012, the Chief Executive was asked to attend a special meeting of the Audit and Assurance and present an action plan for strengthening governance and internal control. This action plan has been robustly progressed in recent weeks. Further work is required to strengthen and consolidate progress and the actions are therefore included as significant governance issues for 2012/13:
- Safeguarding
  - Risk management
  - Contract management
  - Direct payments/payments to carers
  - HR management
  - Information and data quality management
  - Awareness raising

39. An action plan for delivery in 2012/13 is set out at Annex A. The plan incorporates ongoing actions from previous Annual reviews and the governance and internal action plan presented to the Audit and Assurance Committee in April 2012.

40. 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. We will monitor their implementation and report progress to the Audit and Assurance Committee.

**Signed:** .....

Eddie Martin  
Leader of the Council

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Jill Stannard  
Chief Executive

on behalf of Cumbria County Council