

COMMITTEE:	Cabinet
DATE:	5th December 2002
SUBJECT:	Corporate Governance And Financial Reporting Arrangements
REPORT OF:	Director Of Finance And Corporate Services
Ward(s):	All
Purpose:	<p>1) To bring to the attention of Cabinet a consultation document issued by the Office of the Deputy Prime Minister on amendments and consolidations to the Accounts and Audit Regulations.</p> <p>2) To recommend action in response to the proposed changes.</p> <p>3) To invite Cabinet to consider whether it wishes to respond to the consultation document.</p>
Contact:	Sue McHugh, Director of Finance and Corporate Services, Telephone No. 01323 415104 or internally on extension 5104.
Recommendations:	Members are asked to -
	<p>1) agree the actions in response to the proposed requirements, as set out in the Appendix</p>

		2) agree that a corporate governance review be started as early as possible in 2003
		3) determine whether or not to formally respond to the consultation document
1.0	<u>Introduction</u>	
1.1	The Office of the Deputy Prime Minister (ODPM) is consulting on proposals to amend the Accounts and Audit Regulations 1996. Responses are required by the end of Monday 9 th December 2002.	
1.2	At the same time as proposing new and amended regulations, OPDM is taking the opportunity to consolidate previous amendments made to the regulations in 1997 and 2001.	
1.3	It is proposed that the regulations will be effective from 1st April 2003. However, some proposals will apply to the accounts for the current financial year.	
2.0	<u>Why are these changes being introduced?</u>	

2.1	<p>OPDM is making these changes to:</p> <ul style="list-style-type: none"> · bring the regulations up to date with best professional practice in financial management · promote corporate responsibility · promote a more timely, open and transparent accounting process · improve corporate governance and accountability 	
2.2	Some of these proposals fulfil commitments made by Government in the Local Government White Paper "Strong Local Leadership, Quality Public Services" which was published in December 2001.	
3.0	<u>What are the implications?</u>	
3.1	As a statutory body, the Council will be bound to follow the new Accounts and Audit regulations. The External Auditor will assess our compliance with these new regulations as he does currently with the existing set. Any significant departure or non-compliance is likely to result in a qualified audit opinion of the annual accounts. This would have implications for our Comprehensive Performance Assessment (CPA).	
3.2	The new regulations have much wider cultural implications than the existing set. The emphasis is heavily on elected Members taking ownership of financial management and reporting. This is part of the developing Corporate Governance agenda for local authorities. A more detailed critique in this respect is set out in paragraph 5.	

3.3	The new regulations also include a number of technical changes, particularly as regards the consolidation of amendments to the existing 1996 regulations. There is nothing of significance to report on these changes.	
3.4	The Appendix at the foot of this report, is a précis of the significant issues within the regulations. These are the ones that I believe Members of the Council need to be aware of and act upon. The précis also contains a recommended action for each of these issues.	

4.0	<u>How do they fit with the Council's Corporate Plan?</u>	
4.1	Members will be aware that I am the lead officer within the corporate management team on the Corporate Plan - Council Values. These new regulations will fit very well with the Council's aims in this respect, in particular "conduct our business with integrity, impartiality and remain open and accountable", and will assist me in the successful delivery of this part of the Plan. Wherever possible, early adoption and integration of the new regulations will help with our CPA next year.	
4.2	I am particularly pleased that these new regulations will dovetail with elements of the Best Value Review of Finance completed earlier this calendar year. A number of the actions contained within the Best Value Improvement Plan were predictive of the changes to be introduced under the new regulations. Indeed, some of our own actions are more challenging in the setting of deadlines.	

4.3	<p>As a consequence, I am supportive of almost all of these new regulations. The exception is regulation 14 which relates to the public inspection of accounts. This proposes an increase in the right of electors to inspect the accounts and supporting records from 15 working days up to a whole year.</p> <p>Whilst accepting that an increase is perfectly valid and reasonable, and indeed consistent with the environment in which the Council wishes to engage with its electors, I believe that either an increase to six months or a phased increase up to a whole year would prove entirely adequate. I have no wish to frustrate the genuine right of electors in this respect, but I am concerned at the potential scope for protracted and time consuming investigations long after the accounts have been approved, audited and published. This is the only regulation upon which I would wish to respond adversely to ODPM.</p>	
5.0	<u>Corporate Governance</u>	
	5.1	<p>One of the key proposed requirements in the Regulations is for the relevant body to review annually its internal control systems and to make a statement on the adequacy of internal control. This requirement is now widely accepted as good practice. For example, the Hampel Committee on Corporate Governance recommended that the board of listed companies maintain a sound system of internal control and that the effectiveness of these controls be reviewed at least annually and be reported to shareholders. In the NHS, directors are required to include in the annual accounts a statement that sets out their responsibilities in respect of internal financial control.</p>

	5.2	Generally, there is an existing framework within the Council for maintaining internal control measures and this provides a foundation on which to build effective Corporate Governance arrangements. It is therefore recommended that a statement of assurance on the adequacy of internal control be published with the statement of accounts for the financial year ending 31 March 2003. The Leader and Chief Executive should sign the statement. The importance of this statement was identified during the Best Value Review of Finance and its inclusion in the statement of accounts was included in the subsequent Improvement Plan.	
	5.3	The statement will outline the responsibility of the Council to:	
		· Maintain an adequate system of internal control including measures designed to prevent and detect fraud and corruption;	
		· Act in accordance with its legal powers and relevant standards and codes of practice;	
		· Assess risks and take steps to manage them;	

		<ul style="list-style-type: none"> · Take appropriate action on all matters raised in both internal and external audit and inspection reports; 	
		<ul style="list-style-type: none"> · Maintain an adequate and effective system of Internal Audit. 	
	5.4	The Council has started to put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to internal control and Corporate Governance are both adequate and effective in practice. Evidence of this is set out in the following paragraphs.	
	5.4.1	The three fundamental principles identified by the Cadbury Committee – Integrity, Openness, Accountability - have been incorporated into the Council’s Corporate Plan and underpin its approach to corporate governance. For example, the first of the Council’s Values states that it will “conduct its business with integrity, impartiality and remain open and accountable.” Integrity is at the core of the Council’s decision making processes, the quality of its financial reporting and service delivery. Openness is essential to ensure that all stakeholders have:	

		<ul style="list-style-type: none"> · The opportunity to engage with the Council's decision making processes 	
		<ul style="list-style-type: none"> · Confidence in the management of the Council 	
		<ul style="list-style-type: none"> · Access to complete, accurate and clear information. 	
		<p>Accountability is key to decision making. A clear division of power and definition of roles and responsibilities for Members and senior managers has been established to prevent over-concentration of power and authority.</p>	
	5.4.2	<p>Cabinet is currently responsible for ensuring compliance with best practice, receiving external audit reports and providing a review of the work of internal audit. However, recent high profile corporate scandals have once again identified the need for a separate and independent audit committee with enhanced roles. A review of Council's current Audit Committee arrangements will be required as part of the wider Corporate Governance review which is recommended to be carried out early next year.</p>	

	5.4.3	A Scrutiny Committee has been appointed to review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions.	
	5.4.4	A Standards Committee has been appointed to promote and maintain high standards of conduct. In addition, it deals with any reports from case tribunals or interim case tribunals, and any reports from the Monitoring Officer.	
	5.4.5	The Council has a Member's induction scheme.	
	5.4.6	Within the management structure the three statutorily defined roles are:	
		· Head of Paid Service (Chief Executive)	
		· The Monitoring Officer (Head of Legal Services)	

		· The Chief Finance Officer (Director of Finance and Corporate Services)	
		The functions, roles and actions of these officers are vital to the governance arrangements in place at the Council. Heads of Service also have a formal responsibility to ensure that the overall management of the Council is satisfactory.	
	5.4.7	Internal Audit provides an independent appraisal of the control systems in operation. The primary duty of the Division is to ensure that the Council administers its affairs to the highest possible standards of ethics and probity. It does this by independently evaluating the Council's financial and management systems. The District Auditor places reliance on the work of Internal Audit when giving an opinion on the Council's accounts and the health of its finances. All Internal Audit reports are available to Members via the Council's computer network.	
	5.4.8	The Council has in place a library of Corporate Governance documents as follows.	

		<ul style="list-style-type: none"> · The Constitution sets out how the Council operates, how decisions are made, and the procedures to be followed to ensure efficient, transparent and accountable decision making; 	
		<ul style="list-style-type: none"> · The Financial Procedure Rules provide a framework of control, responsibility and accountability for the administration of financial affairs; 	
		<ul style="list-style-type: none"> · Contract Procedure Rules provide the framework for inviting tenders and entering into contracts with suppliers. The Financial and Contract Procedure Rules are now due for review and revision. A small working group of officers has been established and is charged with carrying out this work; 	
		<ul style="list-style-type: none"> · Members Code of Conduct; 	
		<ul style="list-style-type: none"> · Member and Officer relations protocol; 	
		<ul style="list-style-type: none"> · Personnel Standards incorporate Codes of Conduct and best practice; 	

		<ul style="list-style-type: none"> The revised Anti Fraud and Corruption Policy is designed to encourage prevention, promote detection, and identify a clear avenue for investigation. The Council also participates in the Audit Commission's National Fraud Initiative and is a member of the National Anti-Fraud Network; 	
		<ul style="list-style-type: none"> A Whistleblowing Guide (under the Public Interest Disclosure Act 1998) has been written to encourage staff and others with serious concerns about unlawful conduct, financial malpractice or dangers to employees, the public or the environment to come forward and voice those concerns; 	
		<ul style="list-style-type: none"> A Hospitality Spending Policy has been prepared to set out the formal process that must be followed when an offer of hospitality is to be made by the Council to a third party; 	
		<ul style="list-style-type: none"> Probity in Planning – A Local Code of Practice. 	
	5.4.9	Under the Best Value regime the Council carries out a programme of service assessments that:	
		<ul style="list-style-type: none"> Challenge why, how and who provides a service 	

		· Compare performance	
		· Consult with stakeholders	
		· Introduce competition wherever practical	
		This programme of service assessment is particularly important because the Council now operates in a society where customers increasingly demand quality services that are right the first time and available on demand. Better quality services lead to more satisfied customers and fewer complaints.	
	5.4.10	The Council has launched a Service and Financial Planning programme, which now includes a process of risk identification, evaluation and actions required reducing risks to an acceptable level. The programme also provides:	
		· Analysis of budget sustainability;	
		· The link from Council Vision to service action;	

		<ul style="list-style-type: none"> Members with an opportunity to indicate high priorities for growth and areas where they would like to see savings; 	
		<ul style="list-style-type: none"> A Management tool and evidence that services are planned; 	
		<ul style="list-style-type: none"> Direction for training and staff appraisal; 	
		<ul style="list-style-type: none"> A reference document for past performance, achievements etc. 	
	5.4.11	The Council is subject to a high degree of scrutiny of its affairs by a variety of external bodies such as the Local Government Ombudsman, Audit Commission and the District Auditor. In the latest Audit Letter the District Auditor commented that the Council has established adequate arrangements for the prevention and detection of fraud and corruption.	
	5.4.12	The Council has been successful in obtaining Investors in People accreditation. This demonstrates, for example, clear channels of communication within the organisation.	

	5.5	The Council is already complying with much of the guidance issued on good governance, however there is no room for complacency as a great deal of work is still required. Whilst a framework of control and monitoring has been developed over the years, the Council's approach has been ad hoc and in some areas patchy.	
	5.5.1	Effective risk management is needed to enable the Council to deliver its key business objectives and has a vital role to play in ensuring that the organisation is well run. Whilst work is still required in the area of strategic risk management, the Council will be able to enjoy the significant benefits that can be obtained from a sound system of business risk management as a direct result of the new Service and Financial Planning process.	

	5.5.2	<p>The Council has not carried out a formal review of its corporate governance arrangements and does not have a code of corporate governance practice or action plan. This review must now be a priority for the Council if it is to avoid criticism of its corporate governance arrangements. It should be noted that the CPA inspection of the Council will look at the effectiveness of corporate governance and the ability of the Council to achieve service improvements. The Audit Commission has used the framework for governance developed by CIPFA and SOLACE in its first year of corporate governance inspections. The Commission also draws upon the framework for governance established through external audit.</p>	
		<p>It is recommended that a corporate governance review be started as early as possible in 2003. The review will be based upon the CIPFA/SOLACE Guidance Note and Framework on Corporate Governance. It will need a sponsoring Director and support from a number of officers, most notably from Democratic Services, Legal and Strategic Development. It is further recommended that the review be lead by the Head of Audit because of his existing and complimentary roles in leading on internal audit and risk management, and because of his ability to beneficially network with other organisations across Sussex.</p>	

		<p>However, as a result of this significant piece of work, together with increasing corporate demands on audit time, it is likely that the 2002/03 Audit Plan will not be completed.</p> <p>Actions to mitigate against this risk will be set out in greater detail in the Finance and Corporate Services departmental Service and Financial Planning Risk Assessment Log.</p>	
	5.5.3	<p>There is a requirement to ensure that Internal Audit is following best practice. This will be demonstrated through “gap” analysis to establish the extent to which Internal Audit adheres to the CIPFA Code of Practice and the Institute of Internal Auditor’s Standards, and where the Code and Standards are not being followed. The District Auditor will also carry out a detailed assessment of compliance with professional standards.</p>	

	5.5.4	Under CPA, the Council will be required to demonstrate its capacity to direct resources and management capability to services that matter to the community. Work will therefore be required in reviewing the strategic documents in place within the Council and the corresponding performance monitoring systems. Additional work could include a mapping exercise of activity and related performance monitoring.	
	5.5.5	The Council does not at present have a Communication Strategy. However within the outline deliverables of the Best Value Review of Information Consultation and Communication, provision has been made for the production of this strategy.	
	5.5.6	Work must continue in putting in place proper arrangements designed to encourage individuals and groups from all sections of the community to engage with, contribute to, and participate in the work of the Council. An integral part of this ongoing work is to put in place appropriate monitoring processes to ensure that the arrangements continue to work in practice.	

6.0	<u>Consultations</u>	
6.1	Not relevant for this report.	
7.0	<u>Implications</u>	
7.1	There are no other relevant implications for this report.	
Sue McHugh Director of Finance and Corporate Services		
Background Papers: Consultation on the Accounts and Audit regulations 2003 - letter and enclosures from the Office of the Deputy Prime Minister dated 6 th September 2002		

APPENDIX

Regulation	Proposed requirement	Proposed action
4	The relevant body (the Council) to be explicitly responsible for its financial management and accounting control systems. The Council should review, at least once a year, its internal control systems and make a statement on the adequacy of its internal control.	To be incorporated within the Council's Financial Procedure Rules which are due for review in 2003. A statement to be included within the Council's accounts for 2002-2003 (in advance of the statutory requirement) signed by the Leader and the Chief Executive.
5	When responsible financial officers make determinations on the accounting records and controls, they do so on behalf of the relevant body.	To be incorporated within the Council's Financial Procedure Rules which are due for review in 2003.

6	<p>All authorities to follow best practice when carrying out their internal audit role.</p>	<p>This will be demonstrated through "gap" analysis to establish the extent to which Internal Audit adheres to the CIPFA Code of Practice and the Institute of Internal Auditor's Standards, and where the Code and Standards are not being followed. The District Auditor will also carry out a detailed assessment of compliance with professional standards.</p>
7	<p>All authorities to prepare accounts in accordance with proper practice, namely the CIPFA Code of Practice on Local Authority Accounting.</p> <p>All best value authorities to provide an explanation in the statement of accounts on any differences between the financial outturn shown in the accounts and the estimate for that year in the best value performance plan.</p> <p>A new requirement to provide information in the accounts on the salaries and allowances for named senior staff.</p> <p>This regulation will apply to the accounts for 2002-2003.</p>	<p>We will continue to comply with the CIPFA Code of Practice on Local Authority Accounting.</p> <p>This is likely to be incorporated within the above CIPFA Code.</p> <p>We will comply with this requirement which builds on the existing requirement to list all staff remunerated at £40,000 and above.</p>

10	<p>The Leader of the Council to sign the accounts following the Council's approval of the accounts.</p> <p>Approval of the accounts (currently end September) to be brought forward in a phased way as follows - end August for 2003-2004, end July for 2004-2005, and end June for 2005-2006 and beyond.</p>	<p>This requirement will apply to the accounts for the current financial year, 2002-2003.</p> <p>Implementation of the approved Best Value Improvement Plan will achieve compliance in advance of the statutory timetable.</p>
11	<p>Publication of the accounts (currently end December) to be brought forward in a phased way as follows - end November for 2003-2004, end October for 2004-2005 and end September for 2005-2006 and beyond.</p> <p>A new requirement to widen what is accepted as publication of the accounts, in addition to inclusion within Cabinet and Council papers. Separate guidance will be issued by ODPM on what it regards as acceptable.</p>	<p>Implementation of the approved Best Value Improvement Plan will achieve compliance in advance of the statutory timetable.</p> <p>In addition to publication within the Eastbourne Review, we will publish information on our web-site.</p> <p>We will need to respond to the guidance once it is issued.</p>
14	<p>An increase in the period of inspection of the accounts and supporting records from 15 working days to a whole year following approval.</p>	<p>We will need to be mindful of the potential resource implications of this extension.</p>