ANNUAL GOVERNANCE STATEMENT 2007/08

Scope Of Responsibility

1   Stevenage Borough 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 regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

2   Stevenage Borough Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE Framework - Delivering Good Governance in Local Government. A copy of the code is on the Council's website or can be obtained from the Council Offices.

3   This Statement explains how the Council has complied with the code and also meets the statutory requirements 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an Annual Governance Statement.

4   The Council has in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is both adequate and effective in practice.   The CIPFA/SOLACE guidance for implementing the framework, recommended that the local authorities Chief Financial Officer (S151 Officer) and Monitoring Officer are responsible for ensuring that the framework and subsequent statement are completed with adherence to the local code. The Strategic Management Board agreed to this recommendation and therefore the Strategic Director (Resources) and the Borough Solicitor together with a corporate governance team, have been given this responsibility.

5   In discharging this overall responsibility, Stevenage Borough Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which include arrangements for the management of risk.

The Purpose Of The Governance Framework

6   The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities 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.

7   The system of internal control is a significant part of the framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they materialise and to manage them efficiently, effectively and economically.

8   The governance framework has been in place at the Council for the year ended 31 March 2008 and up to the date of approval of the Statement of Accounts.

9   In respect of Stevenage Homes Ltd (SHL) controls, they often replicate similar procedures to those of the Council. However they have their own Financial Regulations and Internal Controls, all of which have been approved by the Council. SHL also have an Audit Committee that ensures that risk management, internal audit reports and budgets are adequately monitored and controlled. SHL's Annual Governance Statement is attached as Appendix 3.

The Governance Framework

10   The key elements of the systems and processes that comprise the Council's governance arrangements are summarised below:-

Establishing And Monitoring The Achievement Of Objectives

11   In June 2007 the Council published its Best Value Performance Plan 2007/08 setting out the Council's vision for the town, its values and its strategic ambitions and priorities. The Plan links with the Stevenage Community Strategy, which is produced in liaison with the Council's strategic partners through the Local Strategic Partnership (LSP).   The Plan is supported by a series of other strategies and plans including Service Plans and has been placed at the centre of the Council's policy and financial planning framework to inform service priorities and budget decisions. Each ambition has an associated programme of work with projects to deliver the priorities. Programme Management Board (PMB) review each programme on a bi-monthly cycle. At member level the programmes are reported to the Performance, Priorities and Improvement Group (PPIG). The PPIG ensures that performance monitoring focuses on priorities and outcomes whilst enabling members and officers to understand the reasons for variations in performance against targets with corrective action taken where necessary. Communication and Consultation strategies are in place, together with an Equality and Diversity Strategy which helps to ensure that all groups in the community have a voice, can be heard and are suitably consulted.

12   The effectiveness of the overall arrangements to monitor performance is informed by:

- The work of managers within the Council
- The roles performed by the Monitoring Officer and Chief Financial Officer
- The work of the Internal Audit Service
- The Annual Audit and Inspection Letter
- Reports by other review agencies and inspectorates
- Performance Management arrangements and related regular reporting.

The Council's Data Quality Report 2007, compiled by the Council's external auditor considered the Council's performance management arrangement to be performing well in this area.

The Facilitation Of Policy And Decision-Making

13   The Council has an approved Constitution which details how the Council operates, how decisions are made and the procedures, which are to be followed to ensure that these are efficient, transparent and accountable to local people. The majority of the Council's functions are vested in the Executive. Therefore, most decisions are taken by the Executive, Committees of the Executive, or by relevant individual Portfolio Holders. Those Council functions which are not vested in the Executive (mainly planning and development and licensing functions) are taken by various regulatory committees appointed by the Council. Under the Council's Constitution, the Executive meets on a monthly basis and comprises the Leader of the Council, an Opposition Member and eight other Councillors from the Majority Group who have a specific area of responsibility, as Portfolio. The Portfolio areas are:-

- Housing and Health
- Community and Culture
- Economic Regeneration
- The Environment and E-Government
- Resources
- Equalities and Human Resources
- Community Safety
- Performance and Improvement

14   The Council appoints the Leader and agrees the extent of the eight individual portfolios of executive functions. Major and 'key' decisions are required to be published in advance on the Council's website as part of the Executive's four month 'Forward Plan/Rolling Programme' and will generally be discussed in a meeting open to the public. All decisions must be made within the parameters of the overall policy and budgetary framework, which has been set by full Council. Any decision the Executive wishes to take outside the budgeting or policy framework must be referred to full Council for approval. All Committee reports are produced on a standard template to facilitate understanding and all reports are supported by comprehensive assessment of the legal, financial and other implications of the proposed recommendations. The Strategic Director (Chief Financial Officer) briefs the Resources Portfolio-Holder on a monthly basis with regard to financial, legal and other resource issues. There is a Scrutiny

Overview Committee which forms "topic groups", as necessary, to scrutinise specific issues and thereby supports and monitors the work of the Executive and also monitors other decisions such as Portfolio-Holder decisions and service performance. A "call-in" procedure allows the Scrutiny Committee/relevant Panel to scrutinise decisions taken by the Executive or individual Portfolio Holder before they are implemented, thus preventing challenge and the opportunity for a decision to be reconsidered by the decision taker. The Council in 2006, established an Audit Committee. The Constitution itself is subject to periodic review.

Compliance With Policies, Procedures, Laws And Regulations

15   The Council has structured its Executive and Scrutiny Committee/Panels plus other Committees such as the regulatory ones, to minimise the risk of it acting in contravention of its own policies and external laws and regulations. It also appoints officers, qualified to undertake statutory responsibilities such as contained within Section 151 of the Local Government Act 1972, Section 114 of the Local Government Finance Act 1988 (Chief Financial Officer). The Monitoring Officer, who is the Borough Solicitor, and, as such is the Council's senior legal advisor, is responsible for reporting to the Council on any act or proposed act by the Executive, or by any Committee, or individual Member or Officer that could give rise to a contravention of the law, a code of practice or maladministration. He is also available to provide professional legal advice to Members and Officers of the Council.

16   The Council has a duty to ensure that it acts in accordance with the relevant legislation in the performance of its functions. It has developed policies and procedures for its officers to ensure that, as far as possible, all officers understand their responsibilities both to the Council and to the public. Two key documents are the Financial Regulations and the Contract Standing Orders, which are available to all members and officers on the Council's Intranet as well as available to the public as part of the Constitution. The Financial Regulations and Contract Standing Orders are reviewed at least annually and any proposed amendments are put forward to Council for approval. Heads of Service and senior management carry responsibility for ensuring that legislation and policy relating to service delivery and health and safety are implemented in practice.

17   To assist in developing a corporate governance framework, key policies and procedures have been brought together to form the corporate backbone of the Council's governance and management control arrangements. Key documents in the Council's corporate backbone include:-

-       the Constitution
-       code of conduct for officers
-       protocol and Members/Officer relations
-       members register of interests
-       financial regulations
-       budget and policy framework
-       risk management strategy and strategic/operational risk register
-       communications strategy
-       whistle blowing policy
-       corporate procurement strategy

- performance management framework
- contract standing orders
- business continuity policy.

During the year, the Corporate Governance Team of Heads of Service has further developed the assurance framework around the corporate governance arrangements. This year, Service Based Governance Statements have been compiled which further enhances overall assurance for the 2007/08 Annual Governance Statement (see appendix 4).

Receiving And Investigating Complaints From The Public

18   The Council has adopted a robust complaints procedure, which is publicised to the public via the Council's website and in Council buildings. Complaints are either received directly by the service or the Council's Customer Service Centre who deal with complaints corporately.

The Council's Customer Relationship Management system allows for greater consistency across services when dealing with and reporting on complaints and allows for a demonstrable audit trail and how complaints are dealt with.

Within the Service Based Governance Statements, services can demonstrate action taken in relation to upheld complaints.

Establishing Clear Channels Of Communication With All Sections Of The Community And Other Stakeholders, Ensuring Accountability And Encouraging Open Consultation

19   The Council regards communication as key to its work and essential in meeting its corporate ambition and framework of values. It supports the decision-making process and helps to improve service quality and foster good relationships between staff, Members and stakeholders.

The Communication Strategy considers effective communications as central to good management practice and crucial to building and maintaining public confidence in the Council and in local government in general.

Some of the key principles adopted by Stevenage Borough Council for communication are:-

- to put effective communication at the heart of everything we do
- to encourage open, honest, accountable, constructive two-way dialogue with the Council to inform, influence, engage, listen to, hear and consult with all internal and external stakeholders
- to raise awareness of the Council's community leadership role and build confidence in the Council
- to ensure all information is communicated in a honest, professional, accurate, targeted and timely manner to both internal and external audiences

- to ensure the Council promotes a consistent corporate identify in every communication medium

Incorporating Good Governance Arrangements In Respect Of Partnerships And Reflecting These In The Council's Overall Governance Arrangements

20   Partnerships are a key component for service provision. The Council is improving governance arrangements of key partnerships. The Local Strategic Partnership includes a governance statement including risk and performance management arrangements.

However, it is recognised that more needs to be done to improve the Council's approach to Partnership Governance. As such, a toolkit is being developed which will provide guidance on assessing risk, performance management and how it relates to the Council's corporate priorities.

The Council has two major partnerships: Stevenage Leisure Ltd and Stevenage Homes Ltd, an arms length management organisation that became operational in October 2006. The governance arrangements for both are underpinned by detailed management agreements.

Risk Management

21   The Council has an approved Risk Management Strategy and Strategic and Operational Risk Registers. Both the Strategic and Operational Risk Registers require risks to be scored (eg likelihood and impact) and require the risk owner to list a mitigation strategy including date of implementation. All risks are subject to quarterly reviews as per the Strategy. During 2007/08 each service has identified both Strategic and Operational risks as part of the service planning process. The Strategic Risk Register is monitored, on a quarterly basis, by the Council's Programme Management Board (PMB). The Operational Risks Registers are monitored by the relevant Heads of Service and reported to PMB on an exception basis. The Council also requires project risks to be identified for major projects and capital schemes before approval. Some work was undertaken in 2007/08 to seek to identify any risks associated with our major partnership arrangements and this is ongoing.

22   Various facilitator risk management awareness and training workshops have been held for relevant staff and Members. These sessions were attended by a number of senior managers and explained the revised Risk Management Strategy which was updated during the year. All Strategic Risks are cross-referenced to the Council's ambitions and priorities, list the risk and mitigation owners and explain the potential consequences if a risk were to materialise. The outturn plans are periodically reported to PMB. A full training programme in risk management is to be established for Members and Officers who are yet to receive the training. Risk Management processes are reported to the Audit Committee and there is now a regular update report on the Strategic Risk Register which is submitted to every meeting.

23   The Council's processes in relation to risk management are subject to a review by the Council's Insurance - Risk Management Consultants, which may lead to a further strengthening of the overall processes and help to ensure that they are

embedded within the way the organisation operates on a day to day basis. As part of the effort to embed a risk management approach the Resources Portfolio-Holder is the Council nominated member Risk Management Champion.

Developing, Communicating and Embedding Codes Of Conduct Detailing the Standards of Behaviour for Members and Officers

24   The standards of conduct and personal behaviour expected of members and officers of the Council, its partners and the community are defined and communicated through codes of conduct and protocols. These include:

-      Members Register of Interests
-      Officers Code of Conduct
-      Member/Officer Protocols
-      Anti-Fraud and Corruption Policy
-      Regular performance meetings for staff linked to corporate and service objectives
-      Standards Committee with an independent Chairman.

Internal Audit Arrangements

25   Up to April 2007, Internal Audit had been delivered in partnership with Uttlesford District Council, an arrangement that has satisfied the statutory regulation for internal audit set out in Section 151 of the Local Government Act 1972 and Section 114 of the Local Government Finance Act 1988.   In April 2007 Uttlesford gave notice of their intention to withdraw from the partnership. Stevenage Borough Council felt that the Audit Partnership arrangements had served the Council well over the previous four years and pursued the opportunity to re-establish a new audit partnership, on a pilot basis with North Herts DC. Unfortunately for various reasons, principally because of considerable audit plan slippage due to the significant audit work requested by SHL, this pilot partnership has not been as successful and was terminated with effect from 31 March 2008. The Council has recruited its own Chief Internal Auditor who started duties on 1 May 2008. Annual audit coverage is linked to an approved strategic work plan and ensures that all services are reviewed on a cyclical basis. The frequency with which services are audited within the cycle is determined by risk assessment. By reviewing the Council's systems of internal control in accordance with an approved Audit Plan, Internal Audit contribute to the Council's corporate governance framework. Internal Audit operate to defined standards (CIPFA/IIA). The Chief Internal Auditor reports to the Council's Head of Finance (Deputy Section 151 Officer) and Strategic Director (Chief Financial Officer/Section 151 Officer) and provides updates on internal audit progress and issues at regular Section 151 meetings. The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control. From 2006/07 this report has been submitted on a yearly basis to the Audit Committee. The main responsibility of the Internal Audit Team is to provide assurance and advice on the internal control systems of the Council to SMB and Members. Internal Audit review and appraises the adequacy, reliability and effectiveness of internal control within systems and recommends improvement where necessary. It also supports management in developing systems, providing advice on matters pertaining to risk and control.

26   The Chief Internal Auditor's Report on Internal Audit was reviewed by SMB and reported to the Audit Committee in June 2008. The Chief Internal Auditor's opinion is that for 2007/08, despite the slippage in the Audit Plan, the risks identified by Internal Audit are largely adequately controlled.

Audit Committee

27   An Audit Committee was established in May 2006 and its duties include advising and commenting on:-

-        Internal Audit matters including:
        - the Annual Internal Audit Plan
        - the adequacy of management response to Internal Audit reports and recommendations
        - the Chief Internal Auditor's Annual Report and opinion
        - summaries of specific internal audit reports

-        External Audit matters including:
        - the External Auditor's plans for auditing and inspecting the Council
        - the annual Audit and Inspection Letter from the external auditor

-        Anti-Fraud and corruption issues including the Council's policies on anti-fraud and corruption

-        The Council's Constitution in respect of Contract Standing Orders and Financial Regulations

-        The Council's risk management arrangements

-        The Council's arrangements for delivering value for money

-        The Council's Statement of Accounts and Annual Governance Statement

28   The Audit Committee is an advisory committee of the Council. It has been constituted in line with best practice recommendations of CIPFA guidance. In 2007/08 the Audit Committee comprised five appropriately skilled Council Members, including only one Executive member, one member from an opposition group and one member from the Scrutiny Overview Committee. The Committee is further supported by an independent representative who, in addition to independence also brings further financial/accounting professional skills. The Chair of the Audit Committee is neither a member of the Executive nor a member who serves as a Scrutiny Member. The Committee has received specific training including some provided by the Audit Commission.

29   The operation of the Audit Committee has been particularly effective. As such it has, in itself significantly contributed to further strengthening the Council's overall systems of Internal Control.

Ensuring Economic, Efficient and Effective Use of Resources

30   The Council continues to review and develop its budgetary monitoring and

control processes to ensure that financial resources are used to their best advantage. Financial Planning is underpinned by Service Planning with increased expenditure in any service being justified to SMB and where necessary, approval by the Executive. Key to the service planning process is a requirement to demonstrate planning for continuous improvement over several years. The Service Planning process is cascaded throughout the organisation with plans being prioritised through to front line service provision in the Council's Performance Development Management (PDM) Scheme, and as part of the management review processes for all members of staff. The effectiveness of these processes is recognised in the Council's achievement of Investors in People (IiP) status. Effective Workplace Planning also forms a key part of the Council's processes to seek to ensure effective use of resources. PMB is tasked with prioritising resources to ensure that priorities within the Best Value Performance Plan are supported by the individual service plans and that improvements are in line with the Council's corporate priorities. Economic and effective use of resources is subject to review through the work of both Internal and External Audit.

31   Consultation exercises are used to inform decisions about strategies and policies and therefore influence the service planning process. A variety of approaches to consultation are used in line with a Consultation Strategy and Programme. For example, in 2007/08 the Council held a Community Conference, which sought the views of members of the public on relative priorities and levels of service provision and budgetary implications. In addition further communication and consultation has been conducted using surveys, interviews etc, reflecting the Council's ongoing commitment to public consultation.

32   The Council continues to be strongly committed to the principles of Best Value (BV) and continuous improvement. The BV methodology takes into account the requirements of the Gershon efficiency and collaboration agendas. An essential part of Internal Audit's role is to make recommendations where appropriate through Management Action Plans to ensure measures are taken to improve and strengthen the efficiency and effectiveness of the Council's Services.

33   In support of the Council's commitment to efficient and effective use of its resources, work has been undertaken during 2007/08 on radically reviewing budgets in the context of the Council's priorities. A Leaders' Service Priority Group was formed together with an Officer team to review budgets in consultation with relevant Head of Services. Consultation with external groups also took place. This exercise followed benchmarking service unit costs of services against similar Councils. This whole process will assist the Council in seeking to ensure continuous improvement in its achievement of Value for Money.

Financial Management

34   Ensuring that an effective system of internal financial control is maintained and operated is the responsibility of the S151 Officer. The systems of internal financial control provide reasonable but not absolute assurance that must be safeguarded, that transactions are authorised and properly recorded, so that material errors or irregularities are either prevented or would be detected within a timely period.

35   Internal financial control is based on a framework of management information, financial regulations and administrative procedures, which include the separation of duties, management supervision, appropriate staffing structure including appropriately skilled, trained or qualified staff and a system of delegation and accountability. Ongoing development and maintenance of the various processes may be the responsibility of other managers within the Council. In particular, the Council's processes in 2007/08 include the following:-

- comprehensive processes to review priorities in the formation of the Council's annual Forward Planning and Savings exercises;
- the setting of detailed annual budgets, the Council Tax and Housing Rents;
- monitoring of actual income and expenditure against the annual budgets;
- specific detailed monitoring of the Council's salaries budget;
- availability of financial information at all times online 'live' within the Council's Financial Information system (Integra);
- production of monthly reports for budget managers and publication of these on the Council Intranet;
- the detailed use of Commitment Accounting processes;
- a mid year review of the annual budget;
- monthly budget reviews to estimate likely outturn figures;
- production of monthly Key Budget Information (KBI) reports to SMB;
- periodic reporting of the Council's financial position to Members;
- already defined capital expenditure guidelines as outlined in the Capital Strategy;
- detailed monitoring of the Council's Capital Schemes through the Corporate Capital Review Group (CCRG) and reported onto PMB;
- the monitoring of finances against the Medium Term Plans;
- continuous reviews, updating and reporting of the Council's Medium Term Revenue and Capital Strategies;
- provision of financial training for non-financial managers and members to equip them to perform their expertise roles in respect of financial management responsibilities.

36   The controls created by management are evaluated to ensure:

Council objectives are being achieved;

- economic and efficient use of resources;
- compliance with policies, procedures, laws and regulations;
- the safeguarding of Council assets;
- the integrity and reliability of information and data.

The Council's financial management arrangement consists of a number of interlocking strands:

Financial Regulations – The regulations provide the framework for managing the Council's financial affairs. They identify the financial responsibilities of the Executive, Portfolio Holders and Officers. They also set out the procedures that the Council has adopted for financial planning, budgeting, risk management, auditing, treasury management and procurement of goods and services including standing orders for contracts.

Medium Term Financial Planning – The Council publishes in its Budget Book revenue and capital projections for the next few years. The projections are reviewed and updated on at least an annual basis. Additionally, to inform the capital planning process the Council has developed a Capital Strategy to prioritise targets and measure the performance of its capital sources. The Strategy has been developed in consultation with stakeholders and partners and is co-ordinated by the Corporate Capital Review Group.

Budget Preparation – The Council has a robust budgeting process driven by the objectives outlined in its Best Value Performance Plan. In 2007/08, the Council has sought to strengthen the links between the budget and the Plan by continuing to develop a process to prioritise the allocation of resources in line with the objectives of the Plan.

Budget Management – A protocol is in place for the management of budget over and under spends and the Council's financial reserves that is designed to manage areas of known budget risk, the planning for predictable budget peaks and change management issues. Further work is taking place to identify reasons for underspends and implement systems to avoid material variances. The process to approve the carry forward of budget underspends from one year to the next has been consistently strengthened in recent years. The responsibility for all earmarked reserves is assigned to individual officers.

Budgeting, Monitoring and Reporting – Officers are provided with information enabling them to manage their budgets. All budgets are assigned to responsible officers. Additionally, key budget control information in produced on a monthly basis for SMB and periodically to Members. In 2007/08 the monitoring process was strengthened to reinforce budgeting responsibility by reporting monthly through the Heads of Service Group.   From April 2009, more responsibility for budget management and monitoring has been delegated to Heads of Service.

Performance Management

37   The Council has had a performance management process for several years based on a range of local and national performance indicators. Performance data is reported quarterly to SMB and to meetings of the PPIG. Areas where performance is below target are highlighted and responsible officers are required to provide a Performance Improvement Plan for these items. Following each quarterly analysis and reporting, Performance Clinics (BVPI Clinics) are scheduled with a focus on exception reporting and with relevant officers required to attend. The Council uses benchmarking figures to compare itself with other Councils and is working on re-engineering processes as a key step to improving performance. During 2007/08 SMB reviewed high risk or below target BVPIs on

a regular basis, discussing issues in detail with relevant officers to seek to drive improvements in service.

Stevenage Homes Ltd

38   On I October 2006, the Council established an Arms Length Management Organisation (ALMO), Stevenage Homes Ltd (SHL), to manage and maintain the Council's Housing Stock. The Board of SHL have overall responsibility for the Company and the provision of Housing Services for the Council's tenants. SHL, as a Company, has its own External Auditors and reports on its own systems of internal control in line with its governance arrangements. A copy of SHL's Annual Governance Statement is attached at Appendix 3. However, the Company has significant inter-relationships with the Council and is required to be included within the Council's 'Group Accounts' for publication of accounts reporting purposes. The effect of the establishment of SHL and the Council's system of internal control is considered to be managed in the following ways:-

- the Council invested appropriate resources and expertise into the establishment of SHL in the period prior to 'go-live' on 1 October 2006
- part of the rationale for establishing SHL was that concentrated management focus on the Housing Service should bring about overall improvement in the Service and its associated controls
- relevant Housing staff and management and appropriate support staff (including Finance and Human Resources staff) were transferred to SHL under TUPE arrangements. As such the organisation was established with experienced and appropriately qualified expertise to deliver the Service and maintain internal control.
- the constitutional and procedural relationships between the Council and SHL are detailed in the Management Agreement
- SHL has established appropriate constitutional and governance arrangements, including its own Audit Committee
- SHL's responsibilities for the Housing Service, the objectives and priorities, are detailed in the published Service Delivery Plan
- monitoring arrangements between the Council and SHL have been established and reviewed on an ongoing basis
- upon establishment, SHL adopted in the first instance many of the Council's policies and procedures and subsequent review of these is generally subject to consultation with the Council. Policies and procedures adopted include:
  - Financial Regulations and Contract Standing Orders
  - Housing Services policies and procedures
  - Performance management arrangements
  - Risk management approach
- SHL's main financial processes continue to be provided in liaison with the Council through Service Level Agreements (SLAs). As such, the Council's internal controls continue to apply and economies of scale have been maintained
- The Council's Internal Audit Service provides Internal Audit to SHL through a SLA. The Chief Internal Auditor reports directly to SHL's Audit Committee, as appropriate, and produces joint reports to the Council and SHL for audits in respect of shared systems

- SHL adopted the Council's financial systems and financial planning, budget setting, monitoring procedures. SHL finances have been subject to regular monitoring between the Council and SHL.

As such it is considered that, although the establishment of SHL was a major structural change for the Council, sufficient mechanisms are in place to ensure that the Council's overall systems of Internal Control have been maintained.

Review Of Effectiveness Of Systems Of Internal Audit

39   The Accounts and Audit (Amendment) (England) Regulations 2006 place a new requirement on Local Authorities that as part of considering its systems of internal control and governance arrangements, they should also review and report to Members on the effectiveness of Internal Audit. This review has been undertaken by the Interim Head of Finance, reviewed by the subsequent Head of Finance and the Council's Strategic Director (Section 151 Officer), SMB and reported to the 10 June Audit Committee. The review has to be considered against the Department for Communities and Local Government (DCLG) guidance and concluded that the Internal Audit Service in 2007/08 is judged to have provided satisfactory assurance, having considered the following factors:-

- assessment of the Service against the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit indicated substantial compliance with the Code
- the Chief Internal Auditor's Report on Internal Audit 2007/08 indicated that in his opinion risks within the Council as identified by Internal Audit are largely adequately controlled
- the work undertaken by Internal Audit is assessed to have been undertaken in an effective manner resulting in effective outcomes
- processes are in place for the Section 151 and Deputy Section 151 Officers to review the work of Internal Audit throughout the year
- the establishment of the Audit Committee has significantly enhanced the overall system of Internal Audit
- the Audit Commission has to date been able to place reliance on the work of Internal Audit
- the Audit Commission's Use of Resources Statement issued in March 2008 gave a score of 3 for Internal Control (performing well). The findings recognised the establishment of an Audit Committee and that Internal Audit continued to operate in accordance with the CIPFA Code of Practice
- satisfaction with the internal audit service amongst auditees is reasonable although there was slippage in SHL's plan which led to adverse comments.
- the Audit Commission report on the Review of Internal Audit Management arrangements had the following main conclusions:-
    - Internal Audit's corporate arrangements broadly meet the required CIPFA Code standards. However it noted areas where further improvements can be made. These mainly relate to improving the way in which Internal Audit engages with and reports to the Audit Committee
    - Internal Audit capacity was insufficient to complete the agreed programme of work for 2007/08. Action has been taken to re-prioritise the work programme and to recruit a full time manager.

- The staff/partnership changes plus others factors such as a high level of special audit investigations and a very significant under-estimate of the SHL audit workload has resulted in slippage of several audits into 2008/09. However with the recruitment of a full time dedicated Chief Internal Auditor and some temporary additional resources to clear the backlog, audit work should be completed to plan in 2008/09. Progress against the 2008/09 plan will be closely monitored by the Chief Internal Auditor and regular updates will be provided to the Audit Committee.

Review Of Effectiveness

40 Stevenage Borough Council has responsibility for conducting, at least annually, a 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 managers within the Council who have responsibility for the development and maintenance of the governance environment; the Chief Internal Auditor's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

41 The processes for maintaining and reviewing the effectiveness of the governance framework within the Council are:-

- annual reviews by Internal Audit of the Council's key financial systems and the internal controls in operation within each service area against known and emerging risks
- annual service planning to align service development against strategic goals
- ongoing review by the monitoring officer of the business and decisions taken which include an assurance that the Council has acted lawfully and that agreed standards have been met
- ongoing review and action identified by the Corporate Governance Team and officers assigned with responsibility for co-ordinating Corporate Governance arrangements
- ongoing review of the effectiveness of the Council's Overview and Scrutiny function in monitoring and challenging provision of Council services
- meetings of the Audit Committee to consider the work of and recommendations made by the internal and external auditors and other review bodies
- annual reviews of the Council's Statement of Accounts and supporting systems by the external auditors leading to their opinion as published in the Statements
- annual reviews and updates of the Council's financial procedures
- ongoing review of strategic, operational and project risks and the actions required to mitigate any risks
- annual review of the Local Code of Corporate Governance and evaluation of performance against its aims

- service based governance statements, incorporating action plans where necessary.

42   We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Strategic Management Board, relevant Officers and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant Governance Issues For Improvement

43   The following significant internal control and governance issues have been identified arising from the review of effectiveness to deliver further improvement:-

Issue	Action	Target Date
Internal Audit and Audit Committee	• Strengthen the management and effectiveness of Internal Audit to ensure timely delivery of the agreed Internal Audit programme in future years	July 2008
	• Review the Audit Committee's Terms of Reference and update in accordance with the CIPFA guidance	September 2008
	• Present Executive summaries for each audit undertaken, or produce a report to summarise the key findings from each of the audits completed	September 2008
Value for Money (VFM) Investigations	• Continue the improvements made in Unit costing and benchmarking and ensure they are embedded as an integral part of Service Reviews	September 2008
	• Continue identifying efficiency savings to assist in balancing the budget	September 2008
	• In partnership with SHL, robustly review the SLAs currently in place between the two organisations	December 2008
Risk Management	• Ensure all reports to SMB and the Executive contain a summary of Risk implications and controls required to reduce risk level	September 2008
	• Develop a consistent risk management approach to partnership working including introducing a toolkit	September 2008
	• Introduce a Risk Management Group and ensure terms of reference also cover corporate governance issues	September 2008
	• Ensure annual review of Local Code of Corporate Governance	December 2008

	and Framework	
	• Enable SHL to meet the 'two star' standard at next inspection	March 2009
Financial Management	• Develop the medium term financial strategy and achieve the necessary savings in order to set a balanced budget in future years and build up reserves	September 2008
	• Embed the development and introduction of delegated financial management responsibility to Heads of Service	September 2008
Financial Reporting	• Improve the quality of the accounts, working papers and capital accounting to ensure that the accounts are complied in accordance with the new accounting requirements in future years	June 2008
	• Enhance external reporting of summary accounts to stakeholders	September 2008
Ethics and Probity	• Monitor compliance with officer code of conduct and develop Member code	September 2008
	• Within Service based Governance Statements, develop and monitor completion of action plans	December 2008
	• Promote and develop new enhanced role for Standards Committee	December 2008

44   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 …………………………………   Signed …………………………………
Date ……………………………………   Date …………………………………..

Cllr Sharon Taylor   Peter Ollis
Leader of Stevenage Borough Council   Chief Executive of Stevenage
                                      Borough Council