



INTERNAL AUDIT

MEDWAY COUNCIL

CORPORATE GOVERNANCE 2003/2004

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Corporate Governance 2003/2004

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The assistance of staff who provided help and information during the course of the audit is gratefully acknowledged.

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MEDWAY COUNCIL

Corporate Governance

PART ONE – MANAGEMENT SUMMARY

Introduction

- 1 The Cipfa/Solace framework for Corporate Governance sets out the principles that should underpin the governance of each local authority as:
 - openness and inclusivity
 - integrity
 - accountability.
- 2 It advises local authorities to show that their systems and processes are:
 - monitored for their effectiveness in practice
 - subject to review on a continuing basis to ensure that they are up-to-date.
- 3 The framework states that the principles of good governance can only be adhered to if leadership is exercised through:
 - the local authority providing vision for its community and leading by example in its decision-making and other processes and actions
 - members and managers conducting themselves in accordance with high standards of conduct.
- 4 It also states that the principles of corporate governance should be reflected in all dimensions of a local authority's business. The dimensions are categorised as:
 - Community Focus
 - Service Delivery Arrangements
 - Structures and Processes
 - Risk Management and Internal Control
 - Standards of Conduct.

Background

- 5 An audit was undertaken last year of the extent to which Medway Council's corporate governance arrangements complied with the Cipfa/Solace framework and accompanying guidance. The result was an opinion of *satisfactory* in relation to requirements at that time (a standard definition of audit opinions is given in the appendix). However, a number of important changes were about to take place in local authority reporting requirements, and the audit made recommendations to prepare for these.
- 6 The guidance suggested that there should be an independent annual review of corporate governance. Responsibility has been assigned to Internal Audit to carry this out.

Audit Objective

- 7 The objective of the 2003/2004 annual review was to assess and provide an updated opinion on Medway's compliance with the Cipfa/Solace framework for corporate governance.

Findings

- 8 Part Two of this report sets out detailed findings following the format in the framework guidance. The main points are summarised below.

General Requirements

- 9 Medway's full council has now adopted the Cipfa/Solace framework as its own Code of Corporate Governance. It has been incorporated into the Constitution.
- 10 During 2003/2004 guidance was received from Cipfa and from Medway's external auditors as follows:

- The first Statement of Internal Control (SIC), covering financial and non-financial control, should be published with the 2003/2004 accounts. For the 2002/2003 accounts it was acceptable to produce a Statement of Internal Financial Control, and this is what was done in Medway.
- The first Corporate Governance Assurance Statement (CGAS) should be issued with the 2003/2004 accounting statements.
- The SIC and the CGAS should both be signed by the Chief Executive and the Leader of the Council.

- 11 The Accounts and Audit Regulations 2003 have since been received and confirm the requirement for the signed SIC. However, there is now uncertainty over the need for a separate, signed, CGAS and further advice is awaited. Meanwhile the Assistant Director Legal and Contract Services, in his capacity as Monitoring Officer, has agreed with Standards Committee that he will bring them an annual report on compliance with the Code of Corporate Governance.

The Dimensions

Community Focus

- 12 Cipfa/Solace guidelines are met. The council can demonstrate that it communicates a vision, engages with the community, exercises leadership and undertakes an ambassadorial role. It displays accountability through its Performance Plan and the Community Plan. Research and consultation methods have been reviewed during 2003/2004 and changes are being made to improve management of research projects, ensuring that consultation reaches the right target groups and that optimum use is made of information obtained.

Service Delivery Arrangements

- 13 Cipfa/Solace guidelines are met. There are consultations with stakeholders and service users, service delivery plans, procedures for setting standards, and various monitoring and reporting arrangements. Performance indicators are regularly reviewed.
- 14 The council now has an integrated budget and service planning procedure. This, together with its relationships and partnerships with other public, private and voluntary sector agencies, helps in trying to ensure the right provision of services locally.

Structures and Processes

- 15 The authority's political and managerial structures and processes are described in the Constitution and various associated documents. They have been made openly available and meet the Cipfa/Solace guidelines.

Risk Management and Internal Control

- 16 Medway's Financial Rules, Contract Rules, health and safety procedures and insurance functions are the cornerstones of its risk management system. Recruitment and training processes contribute by helping to ensure that services are delivered by trained and experienced people. Internal Audit monitors the effectiveness of internal financial control and has now expanded its remit to include operational control.
- 17 The Cipfa/Solace framework requires demonstration of "robust systems for identifying, profiling, controlling and monitoring all significant strategic and operational risks". This was a weak area at the time of the last audit.
- 18 During 2003/2004 a risk identification and evaluation system was introduced and embedded into the service planning process throughout the authority. This is good progress. The council now needs to develop the basic methodology and add a corporate analysis, review and updating procedure, so that the overall system fully supports the annual Statement of Internal Control. Recommendations have been made in a separate audit of Risk Management (Audit Report 03023).

Standards of Conduct

- 19 Cipfa/Solace guidelines are met. Medway has in place codes of conduct for members and employees, financial and contract rules, and registers of interests, gifts and hospitality, all of which help to ensure that members and employees are not influenced by prejudice, bias or conflicts of interest. Internal Audit carries out a separate annual audit of the overall arrangements to prevent corruption (Audit report 03009).

Audit Opinion and Management Action

- 20 In our opinion Medway's compliance with the Cipfa/Solace framework and guidance is **good**, although two recommendations have been made as shown on the following action plan.

MANAGEMENT ACTION PLAN

RECOMMENDATION	Ref	MANAGEMENT ACTION/RESPONSIBILITY	TARGET DATE
Continue to develop the risk management system in accordance with recommendations in Audit Report 03023.	4.4	This will be addressed through the management action plan in Audit Report on Risk Management.	See Audit Report 03023
Clarify procedure for objective overview of risk management and internal control, including Internal Audit, as required by the Cipfa/Solace Code and the Accounts and Audit Regulations 2003.	4.8	The Director of Finance and Corporate Services will take responsibility for the objective review.	In time for publication of the SIC with Medway's 2003/2004 accounting statements.

DEFINITIONS OF AUDIT OPINIONS

- Good** Controls are in place to ensure the achievement of service objectives, good financial management and to protect the Authority against loss. Compliance with the control process is considered to be good and no significant or material errors or omissions were found.
- Satisfactory** Key controls exist to enable the achievement of service objectives and obtain good financial management. However, occasional instances of failure to comply with the control process were identified and opportunities to strengthen the control system still exist.
- Adequate** Controls are in place and to varying degrees are complied with but there are gaps in the control process that weaken the system and losses could occur. There is, therefore, a need to introduce additional controls and improve compliance with Existing controls, to reduce the risk of loss to the Authority.
- Unsatisfactory** Controls are considered to be insufficient with the absence of at least one critical control mechanism. There is also a need to improve compliance with existing controls and errors and omissions have been detected. Failure to improve controls could lead to a decline in financial integrity and lead to an increased risk of major loss or embarrassment to the Authority.