



# **INTERNAL AUDIT**

**MEDWAY COUNCIL**

**CORPORATE GOVERNANCE 2004/2005**



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**Corporate Governance 2004/2005**

**REPORT PREPARATION**

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

**REPORT DISTRIBUTION**

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## **MEDWAY COUNCIL**

### **Corporate Governance 2004/2005**

#### **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 Annual audits are undertaken of the extent to which Medway Council's corporate governance arrangements comply with the Cipfa/Solace framework and accompanying guidance. The result for 2003/2004 was an opinion of good.
- 6 During 2004, the Independent Commission on Good Governance in Public Services issued new guidance on Corporate Governance, and the Audit Commission commenced a consultation exercise on proposals to update its criteria for CPA assessments. Either or both of these could ultimately lead to greater prescription of the controls that councils will be expected to have in place for corporate governance. Cipfa and Solace are proposing to review their framework and guidance.

7 In the meantime, we have assessed Medway's control during the year 2004/2005 against current guidance and the existing Cipfa/Solace framework.

### **Audit Objective**

8 The objective of the 2004/2005 annual review was to provide an updated opinion on Medway's compliance with the Cipfa/Solace framework.

### **Findings**

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

#### General Requirements

10 The requirements are met that the Authority should have a Code of Corporate Governance and designated responsibilities for monitoring it in operation.

11 The Cipfa/Solace framework forms the basis of Medway's Code, which is incorporated into the Constitution. The Director of Finance and Corporate Resources, with support from Internal Audit, is responsible for ensuring the monitoring.

#### The Dimensions

##### *1. 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.

13 During 2004/2005 work has progressed on standardising and improving Medway's consultation procedures by means of:

- upgrading the search facilities on the consultation database
- publishing a new quarterly bulletin on the Intranet for the purpose of sharing research information

14 Plans are currently being drawn up for the development of consultation guidance for managers, the use of electronic papers, automated updating of the database, and a new consultation website on the Intranet.

##### *2. Service Delivery Arrangements*

15 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.

16 The council 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.



### *3. Structures and Processes*

- 17 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.

### *4. Risk Management and Internal Control*

- 18 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 and operational control.
- 19 The Cipfa/Solace framework requires "robust systems for identifying, profiling, controlling and monitoring all significant strategic and operational risks". A separate audit of Risk Management has been undertaken in 2004/2005 to assess the extent to which Medway's systems meet this requirement (Audit Report 04032). The results indicate that systems exist and are embedded into the council's procedures, but they are not operating well enough to produce a robust system. Recommendations have been made in the Risk Management report to rectify the weaknesses found.

### *5. Standards of Conduct*

- 20 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 has carried out a separate audit of the overall arrangements to prevent corruption (Audit report 04023), which indicates that they are reasonably satisfactory.

### **Audit Opinion and Management Action**

- 21 In our opinion Medway's compliance with the Cipfa/Solace framework and guidance was **satisfactory** during 2004/2005. This opinion takes into account that:
- the risk management system is not yet robust (dimension 4)
  - minor improvements have to be made in the arrangements to prevent corruption (dimension 5).
- 22 No management action plan is considered necessary in this report, as it would be a duplication of the plans agreed in Audit Reports 04032 and 04023. However, the next audit of corporate governance will examine progress on those plans.



## 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.