



Report of the Chief Officer (Audit & Risk)

Corporate Governance and Audit Committee

Date: 30th June 2010

Subject: Assurance Framework

Electoral Wards Affected:

Ward Members consulted
(referred to in report)

Specific Implications For:

Equality and Diversity

Community Cohesion

Narrowing the Gap

1.0 Purpose Of This Report

1.1 This report will seek to explain the basis of the Internal Control Assurance Framework, the benefits of having such a framework, and the effect this may have on influencing the work programme of the Corporate Governance and Audit Committee (CGAC).

2.0 Background Information

2.1 Terms of reference for CGAC provide that the committee is authorised to discharge a number of functions. The key functions in respect of internal control and assurance require the committee to review the adequacy of the Council's corporate governance arrangements (including matters such as internal control and risk management) and review the adequacy of policies and practices to ensure compliance with statutory and other guidance.

2.2 In addition, the Accounts and Audit Regulations require authorities to review the effectiveness of their system of internal control at least once a year. The finding of that review must be considered by a committee of the Council and a statement on internal control published.

2.3 For clarity and ease of reference, a glossary has been included at appendix A to define some of the terms used in the report.

3.0 The Assurance Framework

3.1 To assist CGAC in determining a proportionate and risk-based response to the responsibilities of the committee (see para 2.1 above), an assurance framework has been developed and this is attached as appendix B.

- 3.2 The purpose of this framework is to provide a visual representation of the entire control environment (as far as this is possible) and indicate the assurances the committee can expect to be provided during the course of the year and culminating in evidence to enable the chair to approve a robust annual governance statement. When the assurance framework is operating fully, it will also provide an early warning mechanism to alert the committee to potential failures in the control environment and the impact of those potential failures.
- 3.3 As can be seen, the Committee has many sources from which assurances on the control environment can be drawn. The Corporate Governance Board (an officer group) and the proposed Internal Control Environment Board (also an officer group), will give timely assurances on the extent to which the key policies and procedures that drive the culture of the organisation are being effective. This will include assurances that policies and procedures are:
- up to date,
 - fit for purpose,
 - have been effectively communicated,
 - routinely complied with and
 - their efficacy appropriately monitored?
- 3.4 Given the current economic environment in which the Council operates particular emphasis should be placed on ensuring the Council has in place a robust anti-fraud culture alongside a comprehensive value for money strategy. It is suggested that specific assurance should be sought on these two key areas.
- 3.5 Clearly, any assessment or opinion provided as part of the assurance framework must be evidenced based. Any opinion should reference the work from which the opinion is derived. Subjective opinion is likely to be unreliable and not sufficiently robust.
- 3.6 The next sections include a brief commentary on the various elements of the assurance framework
- 3.7 The assurance framework includes cross cutting policies and procedures, such as HR policies and procedures and parts of the control environment that should be consistent across the Council, such as risk management arrangements. Members may determine to seek assurances in line with the five-point assessment from those officers with the corporate professional responsibility for each discipline. For example, the Chief Officer (Audit & Risk) should be required to provide an assurance on the Council's risk management arrangements, including an evidence based opinion on whether risk management arrangements are up to date, fit for purpose etc.
- 3.8 The assurance framework also includes independent assessments from Internal Audit, the Council's external auditors (KPMG) and inspectorates. Indeed, the Head of Internal Audit is required to give provide a written report to those charged with governance timed to support the Annual Governance Statement.

- 3.9 The Head of Internal Audit's annual report to the Council must:
- include an opinion on the overall adequacy and effectiveness of the Council's control environment
 - disclose any qualifications to that opinion, together with the reasons for the qualification
 - present a summary of the audit work from which the opinion is derived, including reliance placed on work by other assurance bodies
 - draw attention to any issues the Head of Internal Audit judges particularly relevant to the preparation of the Annual Governance Statement
 - compare the work actually undertaken with the work that was planned and summarise the performance of the internal audit function against its performance measures and criteria
 - comment on compliance with these standards and communicate the results of the internal audit quality assurance programme.
- 3.10 Internal Audit also provided assurance on the key financial systems to the Council statutory financial officer, giving an opinion on the control environment and compliance with the control environment. Ordinarily, and if this work is of a sufficiently high standard, the Council's external auditors rely on this work on the key financial systems as part of their review of financial statements. In this context, examples of key financial systems are the creditors system, the payroll system and the wider financial management procedures.
- 3.11 Fundamental to the assurance framework is a series of independent compliance checks undertaken by Internal Audit– are key policies and procedures being complied with in practice? The Internal Audit plan for 2010/11 includes an allocation of time to undertake such checks. On the scale planned, this is a departure from practice in previous years as 'system validation' reviews have consistently drawn the conclusion that systems are sound but there are example of non-compliance with established system controls.
- 3.12 The assurance framework could also include assurances from significant partners on the extent to which objectives outlined in the performance management framework have been achieved and the extent to which the Council's policies and procedures have been complied with in delivering the outcomes (assuming compliance with policies and procedures are included in the contract and/or performance management framework).
- 3.13 There is currently no framework in place for 'directorate assurances'; departmental assurance that objectives are being achieved and policies and procedures complied with at a departmental level. In the current economic climate the advantages of this type of assurance will have to be carefully weighed against the cost of control ie do the additional burdens bring benefits that outweigh the costs of introducing such controls. Directorate assurances may include, for example, determining whether objectives are aligned to Corporate Priorities, if risk registers are completed and monitored, and if appropriate performance indicators are monitored.
- 3.14 The assurance framework also includes cross cutting policies such as anti-fraud and corruption policy, whistle-blowing arrangements, the medium term financial plan (and arrangements to deal with diminishing financial resources) and the emerging corporate approach to ensuring the Council delivers value for money.

4.0 Benefits of the Assurance Framework

- 4.1 The framework demonstrates the complexity of the overall assurance framework and allows a systematic and risk based approach to the assurances needed to provide an early warning system, produce an annual governance statement that accurately reflects the current position in the Council and an improvement plan that will add value and help achieve objectives. Such a systematic approach with its evidenced based opinion gives greater assurance that the conclusions reached are valid and credible. Key to the success of the assurance framework is the improvement plan part of the annual governance statement.
- 4.2 An understanding and knowledge of the assurance framework should then be used to determine a strategy to gain the assurance necessary to give an evidence based opinion on the adequacy and effectiveness of the control environment. Every organisation needs an efficient and effective framework of assurance to satisfy itself the risk to its objectives, and the risks inherent in undertaking its work, have been properly identified and are being managed by controls that are adequately designed and effective in operation.
- 4.3 The current economic pressures facing the Council will undoubtedly focus attention on the cost of control. A mature assurance framework and an understanding of organisation risk will help ensure the right level of controls remain within the control environment.

5.0 Conclusions

- 5.1 Knowledge of the working definition of the Council's assurance framework should help produce a robust, timely and accurately Annual Governance Statement. The forward work programme for the Corporate Governance and Audit Committee should be informed by the assurances necessary to produce a fit for purpose Annual Governance Statement.

6.0 Recommendations

- 6.1 Officers are requested to bring forward a revised work programme for the committee based on the views expressed by Members in considering the working definition of the assurance framework.

Appendix A – Glossary of terms and definitions.

Control Environment

The control environment comprises the systems of governance, risk management and internal control. The key elements of the control environment include:

- establishing and monitoring the achievement of the organisation's objectives
- the facilitation of policy and decision-making ensuring compliance with established policies, procedures, laws and regulations – including how risk management is embedded in the activity of the organisation, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties
- ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness
- the financial management of the organisation and the reporting of financial management
- the performance management of the organisation and the reporting of performance management.

Corporate Governance

Corporate governance is the way in which the Council is directed and controls and relates to its communities

Risk Management

The term applied to a logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating the risks associated with any activity, function or process in a way that will enable the organisation to minimise losses and maximise opportunities.

System of Internal Audit

A term used in Regulation 6(3) of the Accounts and Audit Regulations, which requires an annual review of the effectiveness of the system of internal audit. Usually synonymous with 'Internal Audit', but embraces the infrequent situation where an organisation uses different agencies (internal or external) to deliver its internal audit responsibilities

Internal Controls

Ensure that the processing procedures operate in an orderly and efficient manner, statutory and management requirements are complied with, assets are safeguarded, completeness and accuracy of records are secured and identifies and corrects when something has gone wrong

GOVERNANCE ASSURANCE FRAMEWORK



