

Special Audit Committee – 13 July 2011

Statement of Accounts 2010/11 – Annual Governance Statement and Review of Effectiveness

Summary of report

This report contains the findings and recommendations of the review of the effectiveness of the annual governance framework, including the system of internal control for review by Audit Committee. It also contains the Annual Governance Statement (AGS) to go alongside the 2010/11 Statement of Accounts (SoA) for review and approval, in accordance with the Accounts and Audit Regulations, 2011.

Recommendations:

1. To receive, consider and approve the findings and recommendations arising from the annual governance effectiveness review, including the review of the system internal control.
2. To receive, consider and approve the Annual Governance Statement as set out in **Appendix 1**.



James T Walsh – Chief Financial Officer

4 July 2011

Background

The latest guidance, the Accounts and Audit (England) Regulations 2011 states that the council is responsible for ensuring that the financial management of the council is adequate and effective and that it has a sound system of governance, including internal and financial control, which facilitates the effective exercise of its functions and which includes arrangements for the management of risk. The council is required to obtain assurance that its governance framework and internal control system is operating effectively in all areas of corporate governance.

The council is further required to publish a statement formally acknowledging that it has maintained effective internal control, including effective internal financial control, during the course of the financial year. The statement should include financial management, arrangements for the management of risk, and include its corporate governance arrangements. In addition, the authority must conduct an annual review of the effectiveness of its system of internal control.

The findings of the review must be considered by the members of the body meeting as a whole or by a committee. This function is undertaken by the Audit Committee.

Following the review, the committee must approve an annual governance statement. The AGS must accompany the body's statement of accounts for that financial year.

Resource and Legal Considerations

Council's must produce annual accounts in line with the Accounts and Audit Regulations 2011 in a timely fashion and on an annual basis. The AGS accompanies the annual accounts. Any changes to the AGS as a result of review by Audit Committee will be accommodated in the final pre-audit accounts before they go on deposit for public scrutiny.

Performance Management and Risk Management Issues

Performance Management

Effective performance management is key to ensuring an effective system of internal control is maintained and promotes good service. Senior managers can support the framework and the assurance gathering process by ensuring that systems and processes are in place within each directorate, including ensuring directorate plans, project and individual risk registers, risk assessments and project registers are in place and regularly reviewed and service complaints are responded to and used to drive improvement. In addition, senior officers within each directorate should promptly implement agreed internal and external audit actions within the timescale planned.

Assurance statements were required from Executive and Assistant Directors; requiring them to provide assurance that controls were in place and operating during the financial year, and where weaknesses were identified, to confirm that actions are in place which are being actively managed. All statements have been returned and where control weaknesses identified, these have been included in the AGS.

Risk Management

The key aspect of the system of internal control is the identification of key risks to the organisation and key controls needed to mitigate these risks. The AGS is legally required to be signed by the Chief Executive and Lead Member. The Chief Finance Officer (CFO) also signs the AGS and has done so again this year as a significant proportion of the internal control framework falls within his remit and to reflect accountabilities. The requirement falls on the authority and not, as previously, on an individual officer (CFO).

Equality implications

None relating directly to this report.

Consultation

The report is prepared in consultation with the Chief Finance Officer (CFO), the Head of Internal Audit, the Monitoring Officer, the Leader of the Council, the Chief Executive and relevant managers.

Governance

The governance framework is an interrelated system that brings together an underlying set of legislative requirements, governance principles and management processes. The framework is intended to support council's in demonstrating good governance. The framework itself is not a statutory requirement, but rather a discretionary code offered to organisations as good practice. It is important to note that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the authority's activities, including in particular those designed to ensure that:

- The council's policies are implemented in practice
- Services are delivered efficiently and effectively
- The council's values and ethical standards are met
- Laws and regulations are complied with
- Required processes are adhered to
- Financial statements and other published performance information are accurate and reliable
- Human, financial, environmental and other resources are managed efficiently and effectively.

Review of Effectiveness of Governance Arrangements, including the System of Internal Control (SIC)

Process

The assurance gathering process is a well-established and structured link between the strategic objectives and statutory requirements of the authority and how these objectives are to be delivered. It requires the identification of key controls that are deemed critical to the delivery of these objectives and expects a formal review and risk assessment for the management and delivery of these key controls.

A review of the governance framework, including the internal control environment and its' effectiveness was undertaken by the Head of Finance (Deputy Chief Finance Officer), supported by the Head of Internal Audit and Monitoring Officer, and in liaison with other senior managers, the Chief Executive and Chief Finance Officer. The findings of this review are set out in section 4 of the AGS.

Findings of the Effectiveness Reviews

The AGS was drafted, assurances were evaluated and supporting evidence gathered. The outcome of this process was a conclusion that the effectiveness of the system of internal control is adequate overall. This is supported by external audit view that the council is operating at an adequate level in regards to its internal control framework. There are a number of control weaknesses which were identified and these are set out in section 4 of the AGS in more detail.

There have also been identified, reported and considered by Audit Committee in April 2011 when the Head of internal Audit produced her report into the "overall adequacies of the control environment"

The CFO signed off the AGS and the review of effectiveness prior to endorsement and sign off by the Chief Executive and Leader of the council.

The 2010/11 AGS (Appendix 1, section 5) identifies NO areas of significant internal control weakness. Those areas where there are controls which require improvement have identified action plans which are in place.

Background Papers

Local Code of Governance

Audit and Accounts Regulations 2011

Various external and internal audit and inspection reports

Chief Internal Auditor report on adequacies of the council's control environment

Various CIPFA Guidance

Various council documents and reports

Grant Thornton Annual Audit Letter and Interim Audit

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Annual Governance Statement 2010/11

1. Scope of responsibility

This statement is given in respect of the 2010/11 statement of accounts for Walsall Council. Walsall Council is responsible for ensuring that its business is conducted in accordance with the laws and proper standards, and that public money is safeguarded and properly accounted for, and used economically, effectively and efficiently. Walsall Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, Walsall Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and includes arrangements for the management of risk.

Walsall has approved and adopted a Code of Governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on our website or can be obtained from the Monitoring Officer or Chief Finance Officer. This statement explains how Walsall Council has complied with the Code and also meets the requirement of regulation 4(2) of the Accounts and Audit Regulations 2011.

2. The purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether these objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that 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 Walsall Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Walsall Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

3. The Governance Framework

The Council acknowledges its responsibilities in ensuring the following key elements of the governance arrangements including the system of internal control, are in place and this statement provides further information on how it achieves this, including:

- Identifying and communicating the authority's vision and intended outcomes for citizens and service users, reviewing the vision and its implications for the authority's governance arrangements
- Establishing and monitoring the achievement of the Authority's objectives, including measuring the quality of services for users and customers
- Establishing clear channels of communication with the community and stakeholders, ensuring accountability and open consultation
- The facilitation of policy and decision making
- Complying with established policies, procedures, laws and regulation, including how risk assessment is embedded in the activity of the Authority, 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;
- Complying with the Local Code of Governance
- Defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions of the council;
- Developing, communicating and embedding codes of conduct and defining standards of behaviour
- Undertaking the core functions of an Audit Committee
- Whistleblowing and receiving and investigating complaints from the public
- Identifying and supporting development needs of members and senior officers
- Financial management of the Authority and its reporting
- 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;
- Performance of the Authority and the reporting of performance management
- Programme and project management
- Incorporating good governance arrangements in respect of partnerships and other group working.

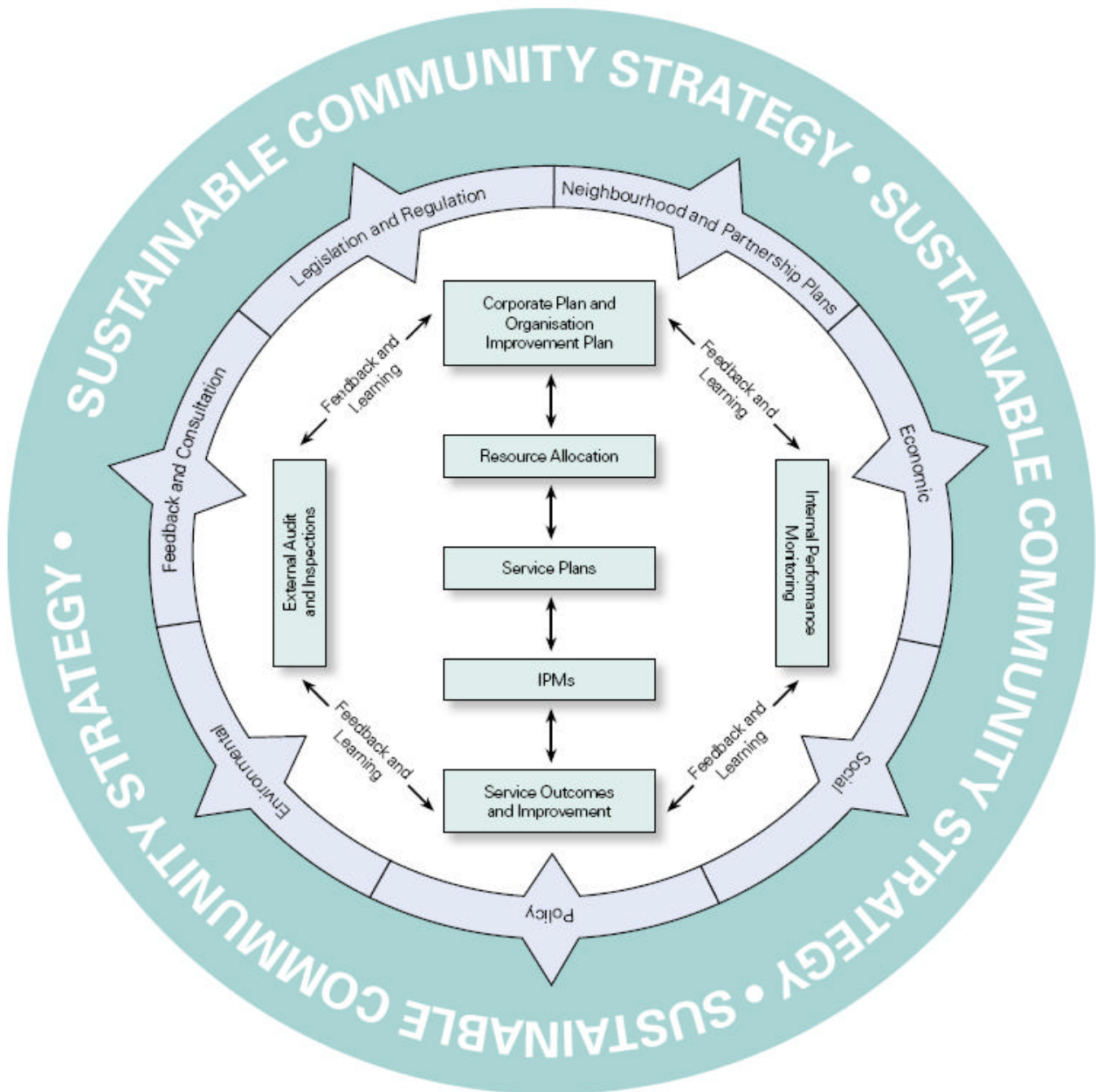
The internal control environment and governance framework is an integral part of the council's Walsall Performance Framework (WPF). The WPF (diagram 1 overleaf) sets out how the various planning processes interlink and jointly demonstrate how services and resources are managed. It is the framework within which the council operates and is underpinned by functional frameworks that provide guidance and protocols, comprising financial, performance, risk, communication and political management processes. The WPF exists to embed performance management and continuous improvement into our normal business activities and shows how services and activities are regularly measured and monitored to enable effective decision making, helping to ensure the council delivers efficient, customer focussed services that provide value for money.

It connects the following:

- Sustainable Community Strategy
- Corporate Plan, vision, pledges and values
- Service planning (of all levels) of the council and its partners
- Financial planning (of all levels)
- Local Area Plans
- Individual Employee performance assessment (EPA)

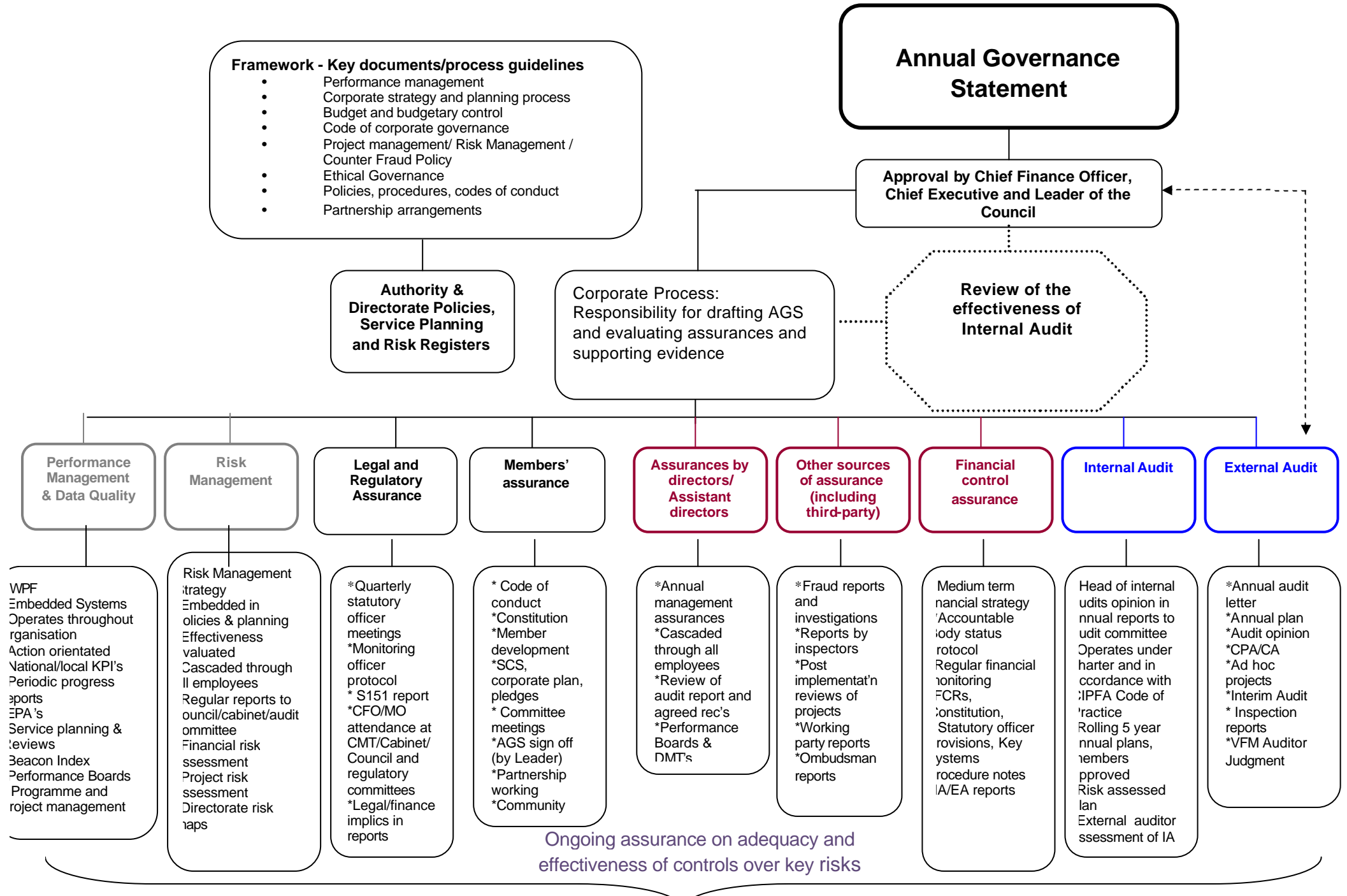
All of which take place in an environment of stakeholder influence, audit and inspection, internal control and monitoring in order to develop continuously improving services.

Diagram 1: The WPF



The governance framework consists of regular management information, financial and contract rules, established financial, budgetary, personnel and other procedures, a performance management framework, community and corporate planning, management supervision in accordance with the corporate employee performance assessment (EPA) framework, a comprehensive risk management strategy and process, project management methodology and a system of officer and member delegation and accountability and codes of conduct. Diagram 2 shows the overall governance framework which is discussed in more detail in this section.

Diagram 2: ANNUAL GOVERNANCE STATEMENT FRAMEWORK



The council acknowledges its responsibility for ensuring that effective governance arrangements, including an effective system of internal control (including financial control), are maintained and operated in connection with the resources concerned. Any system of internal control, including internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. Development and maintenance of the system is undertaken by managers within the council.

In particular, the system includes the following key elements:

- A sustainable community strategy, setting out ambition, objectives and priorities of the council and key partners, developed following extensive consultation with the community and stakeholders. – linked to corporate and service planning.
- A comprehensive risk management strategy and framework, operating at both strategic and operational levels;
- A comprehensive programme and project management approach;
- A risk assessed Internal Audit programme which is planned in advance to cover all major systems of internal control and which is based on a risk assessment of key systems and controls;
- A comprehensive financial strategy, including budget management and control framework, supported by financial procedures and guidelines underpinning sound financial management, reporting and standing;
- An approved Constitution, including financial and contract rules and a scheme of delegation and decision making processes of the council;
- Clear measures of financial and other performance through a comprehensive performance management framework, linked to service planning and the corporate plan;
- The preparation of regular performance and financial reports to managers, executive directors, Corporate Management Team (CMT) and elected members which indicate actual expenditure against budget and highlight remedial action, where required;
- Clearly defined capital expenditure strategy and guidelines;
- Project management principles adopted as the methodology for all projects, requiring all projects to be managed using the same underlying principles and regular reporting of progress to CMT and directorate boards;
- Continued use of an accountable body status protocol in relation to partnership working to ensure that activities are administered consistently and robustly across the council;
- Performance boards (in most directorates) which receive, consider and assess service planning and performance measures, financial planning and project management processes to influence and drive continuous improvement;
- Human resources and other policies and procedures, including codes of conduct (member and officer), whistle blowing policy and an anti-fraud and anti-corruption policy and strategy;
- Standards Committee, Audit Committee, scrutiny function and other regulatory committees;
- Member and officer development strategy and individual development planning processes;
- Statutory Monitoring and Chief Finance Officers ensuring the council operates within existing legislation and statutory guidance;

- Comprehensive communication and consultation arrangements both internally and externally;
- Lead member for risk management.

There are a number of key elements of the governance framework and internal control environment which ensures the council is able to monitor and manage the achievement of its objectives. These are included in the council's published overarching strategies and plans including; the sustainable community strategy; the corporate plan; medium term financial strategy, corporate budget plan, capital strategy, risk management strategy; treasury management strategy; programme and project management approach, and directorate strategy and planning documents.

These documents set out the council's priorities, vision and key pledges. They are supported by directorate, service and team plans, which contain measures designed to support the achievement of council objectives. A comprehensive performance management framework exists which operates throughout the council and performance is reported to senior management teams, CMT, Cabinet, and to relevant scrutiny and performance panels on a regular planned basis.

The council is committed to continuous improvement but recognises that it cannot achieve this without community and partner engagement. It is committed to working with partners through the Walsall Borough Strategic Partnership (our Local Strategic Partnership), and with the community and partners, through the Area Partnerships.

The council's constitution sets out how the authority operates and refers to required procedures to be followed to ensure all activity is transparent and accountable to the local community. This includes a scheme of delegation and contract and financial rules, which set out the control environment in which the council operates.

A key aspect of the system of internal control is the identification of key risks to the organisation and key controls needed to mitigate these risks. Comprehensive, embedded and effective performance and risk management arrangements are fundamental to demonstrating good governance.

The council has an established comprehensive risk management framework, designed to identify, evaluate, manage and where possible, mitigate, risks to the council in delivering its objectives. There is an ongoing programme of reporting and review of both strategic and operational risks, and this extends to an assessment of risks in service planning, financial planning and major projects and partnerships.

Strategic risks are identified, evaluated, incorporated into a corporate risk register and reported to senior management and CMT. This includes risk management action plans produced for each key strategic risk. Cabinet also receives reports on risk management. The risk management strategy is reviewed annually by Cabinet and is subject to examination by the Audit Committee as part of its established regulatory activities. Audit Committee have their own risk register and receive regular updates on this. In addition, in 2009/10, a review of the effectiveness of Audit Committee was undertaken by Grant Thornton and an action plan is in place to address their recommendations.

Each directorate has identified directorate risks and work continues to ensure that the management action plans arising from these take proper account of the balance of risk and resources to ensure that appropriate and proportionate action is put in place. Financial

risks are assessed regularly and as part of the annual budget process and regular reporting of the financial position. A corporate financial risk assessment informs the medium term financial strategy and the level and appropriateness of general and other reserves. Each directorate has a risk champion and all individual posts are risk assessed within the council and are subject to review. Risk workshops are held to ensure risk champions and those involved in the assessment and management of risk are appropriately trained. An elected member has lead responsibility for risk management.

Arrangements for the provision of Internal Audit are contained within the council's Constitution. The council, via its statutory Chief Finance Officer (CFO) must ensure that there is an adequate and effective Internal Audit of accounting records and of its systems of internal control as required by the Accounts and Audit Regulations 2011.

The Constitution states that:

- The Head of Internal Audit has the right to report directly to the Chief Executive, executive directors and elected members when this is appropriate, as well as routinely reporting to the CFO and operational managers;
- Internal Audit operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom under the day-to-day control of the Head of Internal Audit who acts independently;
- The Internal Audit service plans and prioritises its work through a combination of assessment and review of the council's service provision, corporate governance arrangements, risk management processes and key internal control systems, supplemented by a programme of fraud and irregularity/consultancy work and scheduled visits to council establishments;
- The annual work plan is endorsed by CMT and Audit Committee. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted promptly to executive directors, senior managers, school heads and chairs of governors as appropriate. Regular progress reports are submitted to the council's Audit Committee for review purposes;
- The Head of Internal Audit is required to report annually on his/her opinion in respect of the overall adequacy and effectiveness of the council's internal control environment.

A comprehensive system of performance monitoring and reporting is in place at service management, corporate (executive) management and member level. This includes regular reports to scrutiny and performance panels and Cabinet. Regular reports are also presented to senior management and CMT. A corrective action planning process is in place for all measures not achieving target and progress is continually monitored.

Executive and assistant directors are required to provide quarterly assurance statements that agreed audit actions are being implemented, and where control weaknesses are identified, to put in place remedial action in a timely manner, and as agreed with audit. They are also required to provide an annual assurance statement to acknowledge that internal controls were in place and operating effectively for the financial year; and that where weaknesses were in place, corrective action was being actively and effectively taken and managed.

The Audit Committee receives reports on the implementation of agreed internal and external audit recommendations / actions, and on risk management and seeks to ensure agreed recommendations are actioned and managed within directorates. The Committee

has a function in respect of the system of internal control and its effectiveness and the work of the Committee includes the review of the statement of internal control and its approval in September of each year.

4. Review of Effectiveness

Walsall council (via Audit Committee) 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 the effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is set out below.

Cabinet, CMT and senior officers monitor the effectiveness of the governance framework through receiving regular monitoring reports on performance management, financial management, programme and project management and risk management, including progress against key objectives and measures and corrective action planning; the overall financial position; updates on performance in relation to management of key risks to the organisation; and receive regular reports via Audit Committee on the internal control mechanisms in place and their effectiveness. In addition, CMT, the Leader and elected members, via the Audit Committee formally consider and approve the Annual Governance Statement (AGS) annually.

Head of Internal Audit Assessment of Governance and Internal Control Effectiveness during 2010/11

The review of the effectiveness of the system of internal control is informed by the work of the Head of Internal Audit and their annual report on the overall adequacies of the internal control environment. In respect of the 2010/11 financial year, the following opinion has been given by the Head of Internal Audit;

"In my opinion, formed solely on the basis of the work undertaken by internal audit and its partner organization in 2010/11, and the positive action taken, intended to be taken or confirmed as having been taken by managers to implement agreed audit report actions, Walsall council's overall system of internal control facilitates the effective provision of the council's functions and provides a satisfactory level of assurance regarding the effective, efficient and economic exercise of the council's functions.

Control weaknesses were identified during the 2010/11 financial year and were reported as such to relevant managers. The opinion as to the level of assurance that can be placed on the system of internal control is based on evidence provided by managers to auditors confirming that they had implemented or agreed to implement actions detailed within agreed audit report action plans in the areas for which they are responsible.

The system of internal control can only provide reasonable and not absolute assurance regarding the achievement of the council's policies, aims and objectives. The opinion is based on work in the approved operational audit plan, including irregularity, consultancy and advisory work carried out in 2010/11".

All audit work is subject to agreed terms of reference, objectives and resources allocated by the council for that purpose.

Executive Director Assurance

Executive directors each provide an assurance statement that, for AGS purposes, they are satisfied that appropriate action has been taken by managers to implement the agreed recommendations / actions arising from audits in 2010/11. In addition, they provide assurance that controls were in place and operating effectively.

One area was identified in the annual assurance statement from the Executive Director – Neighbourhood Services of control weakness. This relates to Walsall Lifelong Learning Alliance and was highlighted following an audit requested by the Principal of Walsall Adult and Community College (WACC). An Internal Audit report into this activity raised a number of concerns regarding governance arrangements, contract and financial management. An action plan is now in place and is actively being managed.

Statutory Officer Assurance

Both the Monitoring and Chief Finance officers provide assurance statements on the governance and internal control environment. Neither raised issues of concern.

Effectiveness Review of Internal Audit

The Accounts and Audit (Amendment) Regulations 2006, introduced in 2006/7 (amended in 2011), a new requirement for the council to conduct a review of the effectiveness of its Internal Audit function.

A self-assessment document was produced by the Head of Internal Audit in respect of the effectiveness of Internal Audit, assessed against the CIPFA Code of Internal Audit Practice and recent CIPFA guidance. The self-assessment was reviewed independently. The system of Internal Audit was assessed as satisfactory overall.

In addition, the council's external auditors, Grant Thornton has undertaken a review of internal audit. In their interim report dated May 2011, they concluded that the 'service continues to provide an independent and satisfactory service to the council and that they can take assurance from internal audit's work in contributing to an effective internal control environment at the council'.

Grant Thornton reviewed internal audit's overall arrangements against the 2006 CIPFA Internal Audit Standards. Grant Thornton concluded that the service itself is contributing positively to the internal control environment and overall governance arrangements within the council.

In assessing the effectiveness of internal audit work, Grant Thornton reviewed three internal audit files to ensure that:

- systems were adequately documented;
- key controls have been identified and evaluated;
- key controls have been tested; and
- weaknesses have been reported to management.

Grant Thornton concluded that they were pleased to note from these files that no significant issues were identified with internal audit's work.

Council Committees and Governance Arrangements

Audit Committee has a regulatory role in terms of receiving reports on the effectiveness of the system of internal control through receipt and consideration of Internal Audit quarterly reports. During 2010/11, Audit Committee undertook a new practice of receiving all internal audit reports which had been finalised during the period, receiving a 'no' or 'limited' assurance opinion; or in the case of schools, deemed to be non compliant. A sample of these reports was selected by Committee for further detailed review and scrutiny; and for accountable officers together with their Executive Directors to be called before the Audit Committee to provide necessary assurances. In addition, Internal Audit has a strategic risk assessed plan which has been endorsed by CMT and Audit Committee.

To support their assessment of the Council's use of resources, Grant Thornton completed a review of the Audit Committee in order to appraise it's effectiveness as an important part of the councils governance framework. Recommendations were made and an action plan drawn up and approved by the Committee on 25 October 2010. Implementation of this is ongoing.

The functions of the Standards Committee are determined by statute and the Constitution. Standards Committee have a role in ensuring and promoting good ethical conduct.

The Constitution clearly sets out the role of officers and members, including the three statutory posts of the chief finance officer (S151 officer), head of paid service and monitoring officer. In 2010/11, quarterly statutory officer's meetings were held to review and oversee and ensure statutory provisions are being adhered to.

The council recognised the need to formalise its arrangements with a variety of 'partner' bodies where it is classed as the 'accountable body'. Accountability agreements have been developed and were in operation during 2010/11, for a number of these, such as New Deal, tPCT, Walsall Town Centre Partnership and a Walsall Partnership Memorandum of Agreement. This ensures all parties to each arrangement are clear about their respective responsibilities so that services can be planned and delivered in a cost effective way which continues to ensure good governance arrangements.

Other Supporting Evidence

The effectiveness of the council's governance framework can further be evidenced by the:

- External auditors' annual Interim Audit which includes a review of the council's overarching entity level controls, with only one recommendation relating to the need to update the budget management and control manual. A number of improvements were highlighted and recommendations made which will be implemented;
- Quality assurance controls put in place by the Head of Internal Audit and managers, in managing and delivering the Internal Audit service in accordance with the CIPFA code of practice and including such areas as discussion/agreement of the risk based audit plan and each individual audit review;
- The role of the Audit Committee in endorsing Internal Audit's work plan and in their regular review and scrutiny of audit performance and;

- The regular review of Internal Audit work by the CFO including meetings with the Head of Internal Audit;
- A high performance and achievement level against targets, including a 98% delivery of the annual audit plan in 2010/11;

The review of effectiveness is also informed and evidenced by the following;

- The Interim Audit report from Grant Thornton contains an interim update on the annual value for money assessment. 4 out of 6 risk areas were assessed as Green (no cause for concern). 2 areas were assessed as Amber (potential risks and/or weaknesses in this area). No areas were assessed as Red (High risk area). The council is confident the 2 Ambers - key indicators of performance (liquidity and borrowing and sickness), and financial planning (MTFP publication) will move to Green once the final assessment has been made. We are expecting an unqualified VFM opinion.
- The work of the council's external auditors with the 2009/10 Annual Audit letter, published December 2010, including the provision of an unqualified opinion on both the 2009/10 accounts and the council's use of resources (value for money).

The council has introduced a Local Code of Governance which was approved by Audit Committee and Standards Committee in 2008/09. Review of the Code against the CIPFA/SOLACE framework highlighted some areas of omission (partnership protocol and need for awareness training). A partnership toolkit has now been produced along with a register. Further work is in train to review and embed this.

2009/10 Identified Control Weaknesses

The review of effectiveness also covered the work undertaken in 2010/11 to address the control weaknesses identified in the 2009/10 AGS including:

ERDF

The 2009/10 AGS identified areas of significant internal control weakness relating to the management of the European Structural Fund Objective 2 Action Plan, in respect of ERDF grant. Grant Thornton, the council's external auditors, were requested by Council to carry out an investigation into the management of the programme and the circumstances that led to decommitment /clawback of a significant amount of ERDF funds. The report was presented to a special Audit Committee on 24 March 2010.

The council's action plan to address the findings and recommendations of the Grant Thornton report was presented to Audit Committee on 14 June for their consideration, comment and approval. Progress on implementing actions was reported to Audit Committee in 2010/11.

Planned Audit work:

The assessment of the governance framework and planned audit work undertaken did identify that although in most audit assignments the processes examined were generally working satisfactorily, some non-significant system weaknesses were identified in some services. A number of high priority suggested improvements were made during the year to address control weaknesses and all were or are being agreed for implementation by managers. Specifically mentioned were:

- Information security management, received a limited assurance opinion. Areas for improvement noted in the report, including ensuring that a corporate-wide approach to information security management is promoted; that staff awareness of information security control requirements is required; that an update to the overarching information security protocol statement that governs the security of information assets is also required; and that information security control procedures are reviewed and updated. Follow ups have been undertaken and 1 out of 5 recommendations have been implemented. The remaining 4 are subject to agreed revised implementation dates.
- Payroll – receiving a limited assurance opinion from the internal audit service. The 2010/11 audit has now been completed and payroll received a borderline significant assurance. Further detail is provided below.
- Control weaknesses relating to the management of the Preventing Violent Extremism grant. An internal audit report was completed and the actions arising from this are being implemented by the Neighbourhood Services directorate. Follow up of the 26 actions agreed in the June 2010 report has identified that 25 have been implemented and 1 was partially implemented (as no further commissioning expenditure had been incurred it was not possible to demonstrate implementation of this action). An additional action plan was issued in March 2011 containing 4 suggested actions. Follow up has identified that 3 of these actions have been implemented and 1 is recorded as to be implemented.

2010/11 Identified Control Weaknesses

During 2010/11 internal audit reviews were undertaken of the fundamental financial systems, of which there are 12. Internal Audit has acknowledged that these key financial systems are operating satisfactorily, all receiving a significant assurance audit opinion. Payroll and capital programme / project management had a number of improvements highlighted in ensuring controls and processes are fully effective, for example, in the processing of new starters, variations to pay and leavers.

With regard to the ‘capital programme / project management’ review, the summary audit opinion states that a number of good practices were noted during the audit, however some areas for improvement have been identified, including, ensuring:

- project management policies & procedures are clear and are understood by all officers involved/responsible for project management;
- a consistent approach in the use of project documentation;
- key documentation is uploaded onto the Mantix system;
- officers are fully aware of the definition and requirements of a project;
- all projects are compliant with the Walsall Project Approach (WPA); and
- that risk assessments are completed on a regular basis.

In addition to fundamental financial systems, audits were undertaken of other financial and non financial systems and processes that contribute to the council's overall corporate governance arrangements. None of these cases were material in the context of the statement of internal control.

Internal audit's work identified that in most audit assignments the processes examined were generally working satisfactorily, however some system weaknesses were identified.

Overall 129 specific audit reviews were undertaken, excluding unplanned irregularity and consultancy work. Of these:

- 3 reviews (2%) received a full assurance opinion;
- 90 reviews (70%) received a significant assurance opinion;
- 22 reviews (17%) received a limited assurance opinion; and
- No reviews received a no assurance opinion.

For schools reviews:

- 12 reviews (9%) received a compliant opinion;
- 2 reviews (2%) received a non compliant opinion.

Overall, 81% of reviews (105 reviews) were given significant assurance / compliant, or above.

In addition, fraud and irregularity work was undertaken by the Internal Audit service during the year. A total of 92 unplanned jobs, including a small number of suspected frauds and irregularities, were undertaken by the service during the year, 1 being notified through the whistle blowing procedure. A contingency exists within the annual audit plan for this type of work, including consultancy. A lower than anticipated level of time was spent on this work during the year; from 771 planned days to 627 actual days, a reduction of 144 days. A summary of the audit inquiry work undertaken is reported quarterly to the Audit Committee. While most cases were not material in the context of the Annual Governance Statement, 3 cases in particular, have given cause for concern this year relating to 2 potential frauds / thefts and 1 creditor payment fraud. These have been investigated by the section and are currently subject to ongoing police and court proceedings. Controls within these areas have been subject to review and action taken as appropriate.

We have been advised on the implications of the result of the review of the effectiveness of the governance arrangement, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Actions plans are in place for all of these audits and all will be formally followed up during 2011/12.

5. Significant Governance Issues

The identification, analysis and management of risks for the delivery of its objectives are key to maintaining an effective system of internal control. It is also recognised that there remains a further need to fully embed the internal control procedures across the organisation.

The officers who drafted this AGS, evaluated assurances and supporting evidence, concluded the effectiveness of the governance framework, including the system of internal control is satisfactory overall and there are no significant governance issues to report. Areas of concern in relation to fraud and irregularity, whilst not material for the purposes of the Annual Governance Statement, have been identified and included within the previous section of this statement and action taken as appropriate.

.....
COUNCILLOR Mike BIRD
Leader of the Council
29 June 2011

In approving this statement, the views and assurances of the statutory officers and executive directors have been sought and appropriate evidence obtained to support it.

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PAUL SHEEHAN
Chief Executive
30 June 2011

In approving this statement, the views and assurances of the statutory officers and Executive Directors have been sought and appropriate evidence obtained to support it.

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JAMES T. WALSH, ACMA
Chief Finance Officer
29 June 2011

In approving this statement, the views and assurances of the statutory officers and executive directors have been sought and appropriate evidence obtained to support it.