



**ORKNEY**  
ISLANDS COUNCIL

## INTERNAL AUDIT

**Corporate Governance**

**Audit Report**

**Annual Self-Assessment 2013/14**

**Draft Report Issue Date :** 29 January 2015

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**Distribution :**

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**EXECUTIVE SUMMARY**

- Elected members collectively, and senior officers individually, are responsible for putting in place proper arrangements for the governance of the Council's affairs. Complying with the CIPFA/SOLACE Good Governance Framework enables the Council to review its own effectiveness and to identify continuing improvements in its governance arrangements.
- During May and June 2014 the Council utilised the six core principles contained in the Good Governance Framework and the approved Local Code of Governance, to self-assess its governance arrangements. Our audit found that the self-assessment process followed was comprehensive, generally reflected an accurate picture, and due to there being a well-defined process in place, was completed within the required deadlines.
- The Annual Governance Statement was issued on time, was structured in accordance with the issued guidance, and although it did not contain many of the weaknesses arising from the self-assessment process, it did include the major issues identified by senior managers including those from internal and external audits and other investigative work.
- The report includes recommendations which have arisen from the audit. The numbers of recommendations are set out in the table below under each of the priority headings. The priority headings assist management in assessing the significance of the issues raised. The report includes 1 recommendation which has been made to address the medium priority issue identified. There were no high priorities identified.
- Responsible officers will be required to update progress on these agreed actions via Aspireview.

<b>Total</b>	<b>High</b>	<b>Medium</b>
<b>1</b>	<b>0</b>	<b>1</b>

- The assistance provided by officers contacted during the course of the audit is gratefully acknowledged.

## **INTRODUCTION**

CIPFA/SOLACE published “Delivering Good Governance in Local Government – Framework” (the Framework) in 2007. The Framework sets out that “Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk. All authorities should aim to meet the standards of the best and governance arrangements should not only be sound but also be seen to be sound.”

The Framework sets out best practice and defines the principles that should underpin the governance of local authorities. There are six core principles which are:-

**Principle 1:** Focussing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.

**Principle 2:** Members and officers working together to achieve a common purpose with clearly designed functions and roles.

**Principle 3:** Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.

**Principle 4:** Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.

**Principle 5:** Developing the capacity and capabilities of members and officers to be effective.

**Principle 6:** Engaging with local people and other stakeholders to ensure robust public accountability.

In compliance with the Framework the Council approved the current Local Code of Corporate Governance on 12 July 2012.

The Local Code sets out a requirement for an annual self-assessment of compliance with the Code. The self-assessment process was completed in June 2014. The results of the self-assessment were then used in the preparation of the Council’s Annual Governance Statement, signed 25 September 2014.

In July 2014 an International Framework: Good Governance in the Public Sector was developed jointly by CIPFA and IFAC. The aim of this framework is to encourage better service delivery and improved accountability by establishing a benchmark for aspects of good governance in the public sector. It is intended to apply to all entities that comprise the public sector.

The framework is not intended to replace national and sectoral governance codes. Instead, it is anticipated that those who develop and set governance codes for the public sector will refer to the framework in updating and reviewing their own codes. Officers involved in setting the local code and the annual self-assessment process should therefore familiarise themselves with this framework.

## **AUDIT SCOPE**

The purpose of the audit was to review the following:

- The Council's arrangements relating to the six core principles contained in the Good Governance Framework;
- The annual self-assessment process completed in June 2014 for the financial year 2013/14, to determine whether the assessment was comprehensive and responses recorded were accurate and reflected the actual position;
- The Annual Governance Statement 2013/14 to confirm that the statement is reflective of the findings resulting from the self-assessment process. Also that it reflects findings from external and internal audit reports plus any other relevant external inspection reports.
- The progress made in implementing agreed actions following the internal audit review of the self-assessment process completed for the financial year 2012/13.
- The audit testing focused on the Corporate Governance Framework process carried out by the Council in May/June 2014 for the financial year 2013/14.

**Update on Audit Recommendations Issued on 17 June 2014**

- 1.0 An internal audit report was issued on 17 June 2014 based on the 2012/13 self-assessment. The report included an action plan containing 8 recommendations which was agreed with relevant officers. The status of the action plan was reviewed during this audit and testing confirmed that 5 recommendations have been implemented and progress is being made with the remaining 3 which are being monitored through Aspireview.

**Audit Findings: High and Medium Priority**

**2.0 Action Plan**

- 2.1 The Improvement Action Plans address each of the key identified weaknesses from the self-assessments. However it was found that the significant governance issues from the 2013/14 governance statement had not been included in the Improvement Action Plan.
- 2.2 A verbal report was given at the November 2014 meeting of the Monitoring and Audit (M&A) Committee where the Corporate Governance Improvement Plan was considered that a further report would be brought to the next meeting to update Members on progress with the issues reported. A report has now been prepared for the February 2015 meeting of the M&A Committee with the significant governance issues included in an Improvement Action Plan as an appendix to the report.

**3.0 Corporate Governance Statement**

- 3.1 Three guidance documents relating to good governance in local government have been issued. In 2007, CIPFA/SOLACE issued "Delivering Good Governance in Local Government: Framework". In March 2010 a document titled "Application Note to delivering Good Governance in Local Government: a Framework" was published. In December 2012 the document "Delivering Good Governance in Local Government: Framework Addendum" was published to ensure the Framework remained fit for purpose. This addendum replaces the Application Note to Delivering Good Governance in Local Government: Framework.
- 3.2 Each document contains an example of an Annual Governance Statement. Audit testing showed that the Council's 2013/14 statement reflected the requirements of the 2007 and 2010 documents. It did not completely follow the requirements of the 2012 example which updated the statement to give an increased emphasis to a strategic approach.
- 3.3 The Council should ensure that it is following the most recent guidelines.
- 3.4 Officers should take into account the full requirements of the December 2012 document "Delivering Good Governance in Local Government: Framework Addendum" when compiling the 2014/15 Annual Governance Statement.

***Recommendation 1***

	<b>Recommendation</b>	<b>Responsible Officer</b>	<b>Management Comments</b>	<b>Agreed Completion Date</b>
	<b>Corporate Governance Statement</b>			
1	Officers should take into account the full requirements of the December 2012 document "Delivering Good Governance in Local Government: Framework Addendum" when compiling the 2014/15 Annual Governance Statement.  <b>Medium Priority</b>	Head of Finance	Agreed, the "Delivering Good Governance in Local Government: Framework Addendum" will be referred to in preparation of Annual Governance Statement. A copy of the Addendum has been passed to the officers who will be preparing the Annual Governance Statement.	30 June 2015

<b>Priority</b>	<b>Assessment</b>
<b>High</b>	<ul style="list-style-type: none"> <li>• Key control absent or inadequate;</li> <li>• Serious breach of regulations;</li> <li>• Significantly impairs overall system of internal control;</li> <li>• No progress made on implementing control;</li> <li>• Requires urgent management attention.</li> </ul>
<b>Medium</b>	<ul style="list-style-type: none"> <li>• Element of control is missing or only partial in nature;</li> <li>• Weakness does not impair overall reliability of the system;</li> <li>• Recommendation considered important in contributing towards improvement in internal controls;</li> <li>• Management action required within a reasonable timescale.</li> </ul>

**Note:**

**It should be recognised that where recommendations in the action plan are not implemented there may be an increased risk of a control failure. It should be noted however that it is the responsibility of management to determine the extent of the internal control system appropriate to their area of operation.**