

**Joint Report of the Chief Constable and Chief Executive
to the Chair and Members
of the Audit & Internal Control Panel
21st April 2011**

**Executive Officer: Michael Porter, Treasurer
Ann Hall Assistant, Assistance Chief Officer
(Finance & Commissioning)**

**Presented and written by: Michael Porter
Status: For Decision**

**Draft Annual Governance Statement 2010/11 and Sources of
Assurance**

1 Purpose

- 1.1 Authorities, including Police Authorities, are required to prepare an Annual Governance Statement (AGS). Though the statement is published within the Annual Statement of Accounts, it should be considered and agreed as a separate document as it is about all corporate controls and not confined to financial issues. Guidance from CIPFA envisages that the statement is reviewed by a Member group during the year (rather than just at year end) as an integral and indeed critical component of the review process.
- 1.2 The Audit and Internal Control panel has been tasked with this role in the light of its other remits.
- 1.3 The purpose of this report is firstly to bring forward a further draft of the 2010/2011 Annual Governance Statement which builds upon the first draft presented to Members at their February meeting.
- 1.4 Secondly to provide Members with an opportunity to review and comment on the Sources of Assurance as part of the process of establishing the assurance framework in support of the Annual Governance Statement.

2 Recommendations

That Members

- 2.1 Agree the further draft of the 2010/2011 Annual Governance Statement for further progression as per Appendix A.
- 2.2 Agree the Sources of Assurance as per Appendix B

3 Reasons

- 3.1 Members received an initial draft of the 2010-11 Annual Governance Statement at their meeting in February and as part of the approved timetable for the production of the 2010/11 statement approved that a second draft of the report be brought to the April meeting in advance of the final report being presented for approval at the June meeting.
- 3.2 As part of the framework for preparing the Annual Governance Statement it is necessary to identify the Sources of Assurance which underpin the provision of assurance on the adequacy and effectiveness of controls over key risks. These sources of assurance link directly to key controls and the extent to which positive assurances, or otherwise, have been obtained will then feed into the final review of key controls. Members are requested to review the list at Appendix B and identify any gaps in the proposed assurance list.

4 The 2010/2011 Annual Governance Statement

- 4.1 As required within the agreed AGS timetable a further draft of the AGS has been prepared for your consideration (see Appendix A), mainly addressing matters of factual change that have occurred to date in 2010/2011. There are no presumptions about the significant internal control and action points for 2011/2012 at this point in time, although several are shown within the draft document at this time these are subject to change and development.

5 Risks

- 5.1 Publication and approval of the Annual Governance Statement is a mandatory requirement. Failure to achieve this would undermine the Authority's progress in promoting corporate governance and driving up performance.
- 5.2 The Authority could also expose itself to risk to its reputation if the External Auditor concluded that proper practices were not being followed in preparing the AGS, and commented on this in a public report.
- 5.3 The arrangements set out in this report mitigate these risks.

6 **Conclusions**

- 6.1 The purpose of the Annual Governance Statement process is to provide a continuous review of the effectiveness of an organisation's governance arrangements including internal control and risk management systems. This is intended to give assurance on their effectiveness or otherwise leading to an action plan to address identified weaknesses.

Sean Price
Chief Constable

Julie Leng
Acting Chief Executive

Appendix A



Annual Governance Statement

Position as at 31st March 2011 including plans for the financial year 2011/2012

1. SCOPE OF RESPONSIBILITIES

- 1.1 Cleveland Police Authority is responsible for ensuring its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 1.2 In discharging this overall responsibility, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the exercise of its functions, which includes ensuring a sound system of internal control is maintained through the year and that arrangements are in place for the management of risk.
- 1.3 At its meeting on 11th December 2007, the Authority approved and adopted a revised Code of Corporate Governance, which is compliant with CIPFA/SOLACE principles of good governance, and guidance. It has been the subject of regular review and updating since then. A copy of the current Code is on our [website](#) or can be obtained from Cleveland Police Authority, Police Headquarters, Ladgate Lane Middlesbrough, TS8 9EH.
- 1.4 This statement explains how the Authority has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a statement on internal control.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 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 and engages with the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services, including achieving value for money.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable and foreseeable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives; it 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 the Authority'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 effectively, efficiently and economically.
- 2.3 An approved governance framework has been in place at the Authority for the year ended 31st March 2011 and up to the date of approval of the statement of accounts **on 15th June 2011.**

3 THE GOVERNANCE FRAMEWORK

- 3.1 Although the Chief Constable is responsible for operational policing matters, the direction and control of police personnel, and for putting in place proper arrangements for the governance of the Force, the Authority is required to hold him or her to account for the exercise of those functions and those of the persons under his/her direction and control.
- 3.2 It therefore follows that the Authority must satisfy itself that the Force has appropriate mechanisms in place for the maintenance of good governance, and that these operate in practice.

The Authority

- 3.3 The authority now has a well established process to review its Code of Governance at least annually, and to ensure its panel structure meets its needs. Changes to the Code were agreed at the meeting on 3rd June 2010 and included:

3.3.1 Changes to the Terms of Reference for Panels were amended following the agreed changes to the Panel structure in November 2009:-

- The new Policy and Resources Panel's terms of reference now incorporate those from the previous Human Resources and Diversity Panel.
- Reference to the defunct Strategic Procurement and Major Projects Panel has been removed. Responsibilities have reverted to the Police Authority Executive.
- Minor change to the Standards Committee terms of reference to reflect the Standards Committee Regulations 2008 – dealing with complaints against Members.

3.3.2 A change to the Members Code of Conduct was added with a new subsection being inserted which reads:

A Member must treat Authority and Force information as confidential where appropriate, especially when material is marked as "under the line" or "confidential" or "private" ; or when it is of a sensitive or personal nature and is not for public disclosure. Such information, whether electronic or hard copy, must be managed and disposed of in line with the principles of the Data Protection Act. Members are responsible for the safe and secure disposal of confidential waste.

3.3.3 The Code was updated as a result of the following legislation and regulation:-

a. The Police and Crime Act 2009 with particular reference to the following:-

- Changes to the Police Act 1996 (c.16, Section 6 (2)) – matters which police authorities must have regard to in discharging their functions. Reference to taking account of the views of people in the authority's area about policing in that area, including a duty on HMIC to check on compliance.
- Changes to Police Act 1996 (Section 23) allowing for police force and police authority collaboration agreements.

b. Police Authority (Community Engagement and Membership) Regulations 2010 with particular reference to the following:-

- Police authorities must obtain the views of a wide range of diverse people, including businesses, about matters concerning the policing of their area.
- Provisions for elected Mayors to sit on police authorities.

- Provisions that Members appointed must represent the interests of a wide range of people and promote diversity.
- Provisions regarding the election of the Chair, including his/her removal.
- Provisions to change the make up of the independents' selection panel.

c. Police Authority (Particular Functions) Regulations 2010 in respect of provisions to strengthen the police authority's duty to monitor complaints against the Force, with interventions where necessary to ensure a satisfactory response.

d. Police Authority (Policing Plan) Regulations 2010 whereby the authority must publish a Value for Money Statement within the Policing Plan each year.

e. Reference to policy outlined in the Policing White Paper 2009.

3.4 The Audit & Internal Control Panel has the remit to act as the Authority's Audit Committee. Force performance is scrutinised by the Operational Policing panel, whilst responsibility for overseeing financial management, efficiency and effectiveness rests with the Policy & Resources panel. All panels report to the Police Authority Executive largely on a two monthly cycle. The frequency of meetings has changed to reduce bureaucracy whilst ensuring timely decision making and this has been assisted by an annual timetable of decision making and scrutiny by panels.

3.5 The Code of Corporate Governance is accessible through the authority's website. It meets the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government. The next major review is to be considered at the authority's June meeting and will include updates to the Terms of Reference of the Standards Committee, the Leadership Panel and the Joint Risk Management Group. These have been agreed during the year as part of the ongoing process to ensure that the Governance Framework is updated and reviewed on a regular basis.

The Force

3.6 Within the Force, the Chief Constable has assigned to members of his Force Executive specific areas of responsibility, including key elements of the internal control environment. Executive officers attend those panels whose remits cover their areas of responsibility to present reports and answer questions on behalf of the Chief Constable. The Chief Constable particularly attends the Policy & Resources Panel, and Police Authority Executive meetings.

- 3.7 The work of the Force Executive is supported by Service Units.
- 3.8 This support structure is designed to manage service delivery whilst ensuring that effective governance is applied throughout the Force. The Corporate Planning and Governance Service Unit has direct responsibility for business planning, policy co-ordination, change and corporate performance management and risk management / service continuity. Whilst the Operational Performance Team has a more day to day focus on improving Force performance including operations audit, inspection and review. The Strategic Development Group oversees development of operational and business policies. This is chaired by the Chief Constable. It follows the Chief Constable's operational vision of Putting People First, and is guided by the local and national Policing Plan, applicable legislation and best practise. All of these have key roles in corporate governance.
- 3.9 The Force Performance Management Framework is well established with monthly performance reviews with service unit managers by the Executive lead officers.
- 3.10 The Chief Constable has tasked the Deputy Chief Constable to lead the Project Board which co-ordinates the efforts of the Force to ensure a sound system of governance and to co-ordinate an appropriate response to the significant governance issues listed at Section 5 of the Statement.

4. REVIEW OF EFFECTIVENESS

- 4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including:
- the system of internal audit
 - the system of internal control
- 4.2 These reviews have been completed by the work of the Joint Risk Management Group, surveying of all Service Unit Managers, internal auditors, Panels and also managers within the Authority and Force who have the responsibility for the development and maintenance of the governance environment. In addition comments made by the external auditors and other review agencies and inspectorates have informed this review. Brief comments on their roles are as follows:-

- The Surveying of Service Unit Managers

The purpose of this is to conduct a review of governance arrangements including systems of internal control, in accordance with CIPFA guidance. This is achieved by gathering evidence and for example, surveying managers about compliance with the control framework. The outcome of this work is reported to management and to the Audit & Internal Control Panel. For the first time in 2010-11 this survey and the evidence which supports compliance with the systems of internal control is the subject of an Internal Audit review. The results of this survey aids in the drafting of the Annual Governance Statement, including identification of areas for improvement and for further management and Member scrutiny.

- Internal Audit:

The responsibility for maintaining and reviewing the system of internal control rests with the Authority. In practice however the Authority takes assurance from the work of Internal Audit (it has procured its Internal Audit function from RSM Tenon). In fulfilling this responsibility:

- Internal Audit operates to CIPFA's Code of Internal Audit Practice 2006 and the Accounting Practices Board Guidance for Internal Auditors. The Authority received a self assessment from internal audit on 21st April 2011 in relation to compliance against the 2006 CIPFA Code. It is satisfied that Internal Audit operates to the standards set out in the Code and can take assurance from their opinion.
- The Code requires the Head of Internal Audit to include in the annual internal audit report an opinion on the internal control environment; providing any details of weaknesses that qualify this opinion and bringing to the attention of the Authority any issues particularly relevant to the preparation of this Annual Governance Statement. The Audit & Internal Control Panel formally received the Internal Audit Annual Report for 2010/2011 on 21st April 2011 and endorsed the Head of Internal Audit's assurance on internal control.
- Internal Audit reports to the Chief Executive and the Audit & Internal Control Panel. Prior to each meeting of the Panel all of its Members have a collective opportunity to meet with the Head of Internal Audit. Protocols also provide for the Chair and Vice Chair to meet privately with the Head of Internal Audit if and when required.
- Internal audit work is planned using a risk-based approach that aims to ensure that the Treasurer's responsibilities

- External Audit – the Audit Commission in its annual audit letter reports on:
 - The Authority's accounts; and
 - Whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

External audit express an opinion on the adequacy of internal audit work. After each meeting of the Panel all of its Members have a collective opportunity to meet with the Audit Manager.

- Audit and Internal Control Panel

This panel acts as the Audit Committee for the Authority. During 2010-2011 the Panel has met formally on 5 occasions to conduct its business. Business includes, but is not limited to consideration and scrutiny of: proposed changes to internal control arrangements such as new Contract Standing Orders; exemptions from tendering; the Annual Governance Statement; and the Annual accounts. It also receives all internal audit reports, and those from the external auditors related to its remit. Implementation of recommendations from these reports is reported to the panel.

On behalf of the Panel the Chair and Vice Chair attend the Quarterly Audit meeting which is comprised of internal auditors, external auditors and officers.

- Joint Risk Management Group

This Group has the responsibility to engender and support a culture of risk management across the Police Authority and the Force in a consistent manner, to promote the embedding of risk management within integrated business and financial planning processes and to consider relevant recommendations flowing from inspections, assessments and reviews, and monitor progress of action plans.

The Group is now Chaired by the Vice Chair of the Authority which ensures the required links into the Leadership Panel and is also attended by the Vice Chair of the Audit and Internal Control Panel.

The work of this group is part of the Annual Governance Statement delivery process and reported through the Audit and Internal Control Panel.

- Leadership Panel

The Leadership Panel, whose Membership consists of the Chair and Vice Chair of the Police Authority and the Chairs of the Police Authority Panels, has a broad remit to consider all aspects of leadership for the Force and Authority. Within the remit it has a range of responsibilities in relation to Governance that specifically includes the ownership and monitoring of both the Risk Register and the Business Plan of the Authority.

- Operational Policing Panel

The Panel's remit includes monitoring and scrutinising the Force's performance; in reducing crime and increasing offences brought to justice; against the operational objectives set in the Annual Policing Plan; and against the components of the Assessment of Policing & Community Safety.

- Professional Standards Panel

To ensure the Authority fulfils its role to secure an effective and efficient police service in respect of complaints against police (CAP).

- Standards Committee

The Standards Committee is a requirement of the Local Government Act 2000. This Committee deals with statutory issues such as hearing cases referred by the Standards Board. The Standards Committee has an Independent Chair and Vice Chair who are not regular members of the Police Authority but classed as co-opted members for this purpose.

4.3 Assurance is drawn from a number of other sources, for example, HMIC, Health & Safety Inspectorate, external insurers, partners, and organisations such as the courts. The Audit & Internal Control Panel reviews the sources of assurance as part of the AGS process. This review takes place annually.

4.4 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit & Internal Control Panel and a plan to address areas for improvement and ensure continuous improvement of the system is in place.

5. **SIGNIFICANT GOVERNANCE ISSUES**

5.1 The following matters are to be classified as significant:

- The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives. By far the biggest risk facing the Authority is that the options available to balance the Long Term Financial plan in 2012/13 and beyond have not yet been outlined. The impact of these options on the policies, aims and objectives of the Authority have yet to be expressed and therefore Members are unable to determine whether the achievement of the Strategic Objectives of the Authority is possible beyond the short term and also whether the delivery of these objectives in the short term precludes them being achieved in the longer term.
- During a time of significant organisational change it is vital that the key documents that control the way the Authority and Force undertake their activities are clearly set out, up to date and communicated to both Members and Employees. As such it is vital that the Standing Financial Instructions are reviewed and updated. Significant changes have occurred to the Governance arrangements since the outsourcing in October 2010 but these have yet to be reflected in this key document.
- The HR Policies and Procedures were the subject of an Internal Audit Review during 2010-11. The review was conducted to look into the following risk 'Increased cost and possible litigation in relation to current workforce policies and the potential failure to apply effective employment law practices.' As highlighted in the report to the Audit and Internal Control Panel in December 2010 there needs to be consistently applied and effective action taken to address this area to increase the level of Assurance that the Authority can place on the controls in this area.

5.2 In addition to the Significant Governance issues there are also some issues which require further/continued focus:

- The Force is currently under going a significant amount of restructuring as a result of outsourcing the vast majority of its

- The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives. One of the most significant of these aims and objectives is to protect 'frontline services' given the back drop of significant funding cuts, however there is no internal definition of what these services are and therefore it is impossible for the Authority to assess the risks to achieving this objective and the impact of not achieving this aim.

5.3 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed this 15th June 2011 by

Cllr Dave McLuckie
Chair of Cleveland Police Authority

Julie Leng
Acting Chief Executive of
Cleveland Police Authority

Sean Price QPM
Chief Constable of
Cleveland Police

On behalf of the Members and officers of
Cleveland Police Authority and Cleveland Police.

Appendix B

Sources of Assurance

Corporate

- Statutory Officers
 - Chief Executive
 - Chief Constable
 - Monitoring Officer
 - Section 151 Officer
- Code of Corporate Governance
- Audit and Internal Control Panel

Management

- Force Organisational Governance Framework*
- Deputy and Assistant Chief Constables
- ACO (Finance & Commissioning)
- Head of Corporate Planning and Governance
- Head of Legal Services
- Head of People and Organisational Development
- Professional Standards Unit
- Strategic Performance Group
- Strategic Development Group
- Resource Management Group
- Manager Secretariat
- Service Unit Managers
- Operational Performance Team (OPT)
- Joint Risk Management Group

Audit and Inspection

- Internal Audit
- Audit Commission
- Her Majesty's Inspector of Constabulary
- Health and Safety Inspectorate

Other Sources of Assurance

- Corporate Performance Management Framework
- Management Performance Reviews
- Project Management Principles and Framework
- Risk Management Framework
- Reports to Force Executive, Police Authority, and Panels
- Home Office
- Police Crime and Standards Directorate
- Employment Tribunals
- External Insurers
- Courts
- Regularly reviewed complaints statistics

Good Governance Standards e.g. CIPFA/SOLACE
Local Strategic Partnerships (LSP)
Crime & Disorder Reduction Partnerships (CDRP)
National Intelligence Model
Crime Recording Standards
Incident Recording Standards

