

**Joint Report of the Chief Constable and Chief Executive
to the Chair and Members
of the Audit & Internal Control Panel
25th March 2010**

**Executive Officer: Joe McCarthy Chief Executive
Ann Hall Assistant Chief Officer
(Finance & Commissioning)**

**Presented by : Paul Kirkham
Status: For Decision**

Annual Governance Statement

1 Purpose

- 1.1 Authorities, including Police Authorities, are required to prepare an Annual Governance Statement. 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 update the panel on progress since January 2010 against significant governance issues, and the action points for improvement, identified in the 2008/2009 Statement (approved by the Police Authority Executive on the 4th June 2009).
- 1.4 Secondly it brings forward a further draft of the 2009/2010 Annual Governance Statement.

2 **Recommendations**

That Members

- 2.1 Note the current progress against the significant governance issues and action points for 2009/2010 identified in the 2008/2009 Annual Governance Statement.
- 2.2 Agree the current draft of the 2009/2010 Annual Governance Statement for further progression by your officers.

3 **Reasons**

- 3.1 The 2008/2009 Statement was approved on 4th June 2009 and contained just three matters for further development.
- 3.2 The agreed timetable for production of the Statement for 2009/2010 requires that a draft of the AGS be presented to this meeting.

4 **Significant internal control and action points for 2009/2010 arising from the 2008/2009 Statement - progress**

4.1 Force organisational governance has been the subject of change in part in response to the challenge of integration of business and financial planning. Further work is needed to embed the principles, concepts and processes of corporate governance, flowing from the Code of Corporate Governance updated in June 2008, through training and communication to the Force, stakeholders and contractors.

4.1.1 Commencement of the formal implementation of the Force's Corporate Governance Framework was announced by Administrator message on 6th October. The new arrangements are integrated with most of the individual parts already in operation. This will be followed by the integration of other elements such as the project management framework, standards for business conduct and whistle-blowing arrangements. All elements can be accessed via the governance site on the force intranet.

4.1.2 This governance micro site is administered by Corporate Planning & Governance. It is being used to promulgate new or revised Force policies to Service Unit Managers for their comment within 28 days of their issue. Recently (6th January) draft force policies in relation to the following have been issued

Individual Performance Development Reviews.
Public Protection Units.
Freedom of Information.
Capital Projects.

- 4.1.3 However arrangements still need to be put in place to provide appropriate training on the Code of Corporate Governance to key staff, stakeholders and contractors.
- 4.1.4 Force Governance arrangements were the subject of the first semi-structured interview in the programme agreed by Members. It took place on the 17th February 2010 and included Panel Members and the DCC, supported by your officers. Members notes have been transcribed, and a summary produced. The transcript and the summary will shortly be circulated to Panel members for review, and this will feed into the consideration by the Panel of the final draft of the AGS.
- 4.2 The Force has made progress in developing risk management and to plan for major business disruption via business continuity planning. It is acknowledged that a considerable amount of progress remains to be made.
- 4.2.1 The Joint Risk Management Group meets on a monthly basis (latest meeting 10th March 2010) and supports the risk management and business continuity arrangements within the Authority and the Force. Each meeting considers the programme of work established by the Force. The programme continues to show that positive progress is being made. Since the last report
- i. Professional Standards, OPT and HR/Diversity draft risk registers completed and due for discussion with the DCC.
 - ii. Finance risk register is due for moderation.
 - iii. CJU almost complete then needs moderation.
 - iv. Baseline assessments for both Corporate Planning & Governance, and the Force Executive need to be undertaken..
- 4.2.2 Implementation of the new software to support processes is, with the assistance of RSM Tenon, well advanced. It will capture risks and mitigations in a way which will facilitate management and oversight of the risk register not possible with the current mix of word processed documents. 8 systems administrators have been trained and the completed risk registers and corporate action plans are being input to the system. The Risk Maturity Report from Internal Audit and which is elsewhere on today's agenda contains more details of the work yet to be completed.
- 4.2.3 User training has taken place with the majority of those due to take part attending. Those who were unable to attend due either to work commitments or unplanned absences will be offered the training by the Governance Unit, it takes about an hour and a half. Feedback from participants in the training has been very positive.
- 4.2.4 This training is also being made available to officers of the CPA. Appropriate training for Members to facilitate their access to the CPA Risk register will also be developed.

4.2.5 Elsewhere on today's agenda the report "Cleveland Police Authority Risk Management Policy and Strategy" asks Members to note the Force's revised Policy and Strategy which underpins the work referenced above.

4.3 Significant progress has been made to integrate business and financial planning during this last year. However further developmental work needs to be undertaken, and the mechanisms need to run through further cycles before the arrangements can be judged to be fully embedded.

4.3.1 In accordance with the planned timetable the Business Plan for the Authority was approved by the Police Authority Executive at its meeting on 25th February along with the revenue and capital budgets.

4.3.2 The Policing Plan has been the subject of a collaborative dialogue between the Force and the Authority so as to meet the aspirations of the Police Authority. The latest version is due for consideration in the current cycle of Panel meetings.

5 The 2009/2010 Annual Governance Statement

5.1 As mentioned at para 4.1.4 the first semi-structured interview has been completed. Its outcome will feed into the Panel's review of the final draft of the AGS in June. The work also features in the annual report of the Panel contained within the AGS. Members are asked to advise your officers of any errors of commission or omission in the annual report.

5.2 Until recently the primary focus of the Pure & AGS Group has been on the gap analysis for the 2009/2010 Use of Resources. That work having been completed the emphasis is now on the AGS work over the next few months. Its next meeting is the 24th March 2010.

5.3 As is customary a draft of the AGS has been prepared for your consideration today (see Appendix A). It mainly addresses matters of factual change that has occurred to date in 2009/2010, but since your January meeting it now incorporates a fuller version of the annual report of the Panel. As the work of the PURE & AGS Group is incomplete it should be emphasised that there are no presumptions about the significant internal control and action points for 2010/2011 at this point in time.

6 Risks

6.1 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.

6.2 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.

6.3 The arrangements set out in this report mitigate these risks.

7 **Conclusions**

- 7.1 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

Joe McCarthy
Chief Executive

Background Papers

Accounts and Audit Regulations 2003

Accounts and Audit (Amendment) (England) Regulations 2006 – SI564/2006

CIPFA/SOLACE Framework Delivering Good Governance in Local Government

CIPFA/APA/ACPO - Delivering Good Governance in Local Government

Interim Guidance Note for Police Authorities and Forces in England and Wales

Appendix A



Annual Governance Statement

Position as at 31st March 2010 including plans for the financial year 2010/2011

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, and 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 2010 and up to the date of approval of the statement of accounts on 5th June 2010.

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.
- 3.4 Major changes to the Code were agreed at the meeting on 4th June 2009 and included alterations to the panel structure. The new Operational Policing Panel, effective from 1st June 2009, took over the remits of the Community Protection Panel and the Strategic Policing and Performance Panel. This new Panel encompasses all aspects of operational policing from the formulation of policies and strategies through to the reporting of results. A new Human Resources and Diversity Panel, effective from 1st June 2009, was established with a remit to address human resources matters (including workforce modernisation) and the need to embed policies to support equality and diversity. A consequence of the development of the business plan was the conclusion that the work of the Human Resources and Diversity Panel should be folded into an expanded remit of the Policy & Resources Panel from November 2009. The business plan, which replaces the service improvement plan, was agreed on 25th February 2010.

- 3.5 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.
- 3.6 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.
- 3.7 A further appraisal of member training needs was completed in year, and this has informed the programme of training undertaken in 2009/2010. Training has encompassed, amongst other matters: NPIA Policing Pledge and Neighbourhood Policing; Annual Governance Statement; Police Conduct Regulations; Police Authority Inspection arrangements and Business Continuity Management;

The Force

- 3.8 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.
- 3.9 The work of the Force Executive is supported by Service Units.
- 3.10 This support structure is designed to manage service delivery whilst ensuring that effective governance is applied throughout the Force. Corporate Planning and Performance Unit has direct responsibility for business planning, policy co-ordination, change & corporate performance management and more recently 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.
- 3.11 The Force Performance Management Framework is well established with monthly performance reviews with service unit managers by the Executive lead officers.

- 3.12 The Chief Constable has tasked the Deputy Chief Constable to lead and 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 PURE & Annual Governance Statement Group (PURE & AGS group), 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 PURE & AGS group

This is a multidisciplinary team comprised of representatives from the Police Authority the Force, and internal audit. Its role is to conduct the 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 its work is reported to management and to the Audit & Internal Control Panel. One outcome is the drafting of the Annual Governance Statement, including identification of areas for improvement, for management and Member review and 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 25th March 2010 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 2009/2010 on 3rd June 2010 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 under Sec 151 and 144 are fulfilled and that an effective internal audit service is provided to the Authority.
- 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 2009-2010 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 the requirement to tender; 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.

During the year the panel has continued to develop its scrutiny capability and its assurance function. In conjunction with the Force and Authority officers semi-structured interviews have been introduced as a further means to provide assurance to both the Chief Constable and the Authority about the effectiveness of the governance framework. This development work has also encompassed the review, for the first time, of the Monitoring Officers Annual Report on the Authority and Members adherence to requirements flowing from legislation e.g. declaration of interest, and the Code of Corporate Governance.

The Panel has adopted a new Risk Management Policy and Strategy which emphasizes the roles and responsibilities of all Members and Officers of the Authority in identifying and managing risk.

At its March 2010 meeting the Panel reviewed proposed changes to the Code of Corporate Governance.

With the assistance of the Audit Commission the panel concluded a process of self assessment in November 2008. Designed to identify and remedy any significant shortfalls against best practice, this proved to be a very helpful process in developing the panel's core knowledge and was exceptionally well attended by the panel membership. With the exception of one item (review of Financial Standing Orders) the actions identified have now all been fully completed during the course of 2009/2010.

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

- 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 review 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 Force has established a Project Board to monitor and drive programmes of work, assisted by the Police Authority, which will help develop and enhance existing arrangements for corporate governance. In the last two years sufficient progress has been made on the significant issues identified for us to conclude that they no longer need to be classified as significant.

5.2 However there are still issues which require continued focus:

- Force organisational governance has been the subject of change in part in response to the challenge of integration of business and financial planning. Further work is needed to embed the principles, concepts and processes of corporate governance, flowing from the Code of Corporate Governance updated in June 2008, through training and communication to the Force, stakeholders and contractors.
- The Force has made progress in developing risk management and to plan for major business disruption via business continuity planning. It is acknowledged that a considerable amount of progress remains to be made.
- Significant progress has been made to integrate business and financial planning during this last year. However further developmental work needs to be undertaken, and the mechanisms need to run through further cycles before the arrangements can be judged to be fully embedded.

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 5th June 2010 by

Cllr Dave McLuckie
Chair of Cleveland Police Authority

Joe McCarthy
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.