

Audit Detailed Report

March 2006



# **Corporate Governance - Follow Up Report**

**Copeland Borough Council**

**Audit 2004-2005**

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# Summary Report

## Introduction

- 1 As part of the 2003/2004 audit we reported our findings from a review of Council's governance arrangements. This followed a disclosure under the Public Interest Disclosure Act (PIDA) 1998 made to the Audit Commission. We investigated issues included in this disclosure and considered the impact on our audit.
- 2 Our review uncovered significant weaknesses in the governance arrangements in the building services department, deficiencies in compliance with and monitoring of standing orders, poor procedures for awarding of contracts and a lack of clarity in the way information on total expenditure with individual contractors was shared with members. This led to six specific recommendations being made to the council in our report 'Report on Corporate Governance' reported to members in January 2005.
- 3 We concluded that the systems of controls operated by the council over orders placed with contractors and variations to work orders were unsatisfactory. This placed the council at risk from fraud and corruption, but no evidence of actual fraud and corruption has been identified by either our review or inquiries made by the council.
- 4 We recommended that further consideration was given to all the available evidence and members conclude that they are either satisfied that enough has been done to address the concerns raised in relation to potential fraud and corruption, or whether further action is required.
- 5 We also made recommendations for the council to:
  - strengthen arrangements for monitoring compliance with contract standing orders;
  - update contract standing orders to encompass procedures for modern procurement approaches;
  - ensure the Council's Code of Conduct is received, read and understood by all employees; and
  - ensure that implementation of key audit recommendation is included within the council's approach to risk management.
- 6 We carried out further work in the year other than in Building Services which identified shortcoming in the Council's governance arrangements. We have made recommendations for improvement in arrangements to:
  - prevent staff being taken on without appropriate references;
  - update of financial procedure notes; and
  - comply with the housing benefit fraud verification framework.

- 7 Due to the seriousness of our concerns we made a recommendation under section 11 of the Audit Commission Act 1998 in our 2003/2004 Annual Audit and Inspection Letter which was reported to members in January 2005. The Council were required to consider the section 11 (s11) recommendation and to make a formal response.

## Background

- 8 Since the original review into the concerns rose over the building service procedures, the council has gone through some major changes. These include transferring ownership of the building services unit to Copeland Homes, as part of the transfer of the Council Housing stock on the 7 June 2004; and the reorganisation of senior management posts; and relocating the services into the new PFI building. This obviously placed considerable strain on the resources available to the address all of the issues noted in our original recommendations.
- 9 The Council prepared an Action Plan in response to our s11 recommendation that was agreed by members in January 2005. The action plan required that the council implement the recommendations within the following three to four months.
- 10 To ensure this was achieved it was agreed that the s11 recommendation would require significant involvement of the senior management team in reviewing governance arrangements and that the actions taken would be reviewed by Copeland Borough Council's Internal Audit service.

## Audit approach

- 11 We have now followed up progress taken by the Council to action the s11 recommendation, and recommendations given in the Report on Corporate Governance.

## Main conclusions

- 12 The issues raised in our report are fundamental to sound and appropriate governance of the organisation and need to be regarded as a matter of priority. When preparing the Action Plan members acknowledged this by proposing to implement the changes within a three to four month timescale from January 2005 and recognising that significant senior management input would be required. By November 2005 most, but not all of the proposed actions have been implemented. We recognise the good progress made in some areas but need to draw members' attention to the requirement for further action to address the remaining weakness in the Council's arrangements.
- 13 We have acknowledged the impact on the Council's ability to manage the work required to strengthen corporate governance arrangements during a time of change in the structure of the Council and the way some services are delivered.

- 14 The Council has taken positive steps to review itself against best practice and identify the governance standards needed to move to a strong internal governance environment. As part of this drive for improvement, the Council resolved to adopt and implement the 'Good Governance Standards for Public Services' in July 2005, and have drafted an action plan to achieve the levels of governance required to comply. The Council's own assessment of arrangements in the Statement of Internal Control (SIC) , published in the 2004/05 Statement of Accounts, was a fair reflection of current arrangements and acknowledges that there were a large number of shortcomings to address in 2005/06.
- 15 There is undoubtedly increased awareness of the issues which need to be addressed at both Officer and Member level, however, there is still more to be done to ensure the required changes are fully implemented.
- 16 In our view the Council has not yet fully put in place all the improvements necessary to ensure that the risk of fraud, corruption or other error such as unintentional breach of procurement legislation is reduced to a minimum. The council have introduced contract registers to ensure that tender procedures are complied with and have given additional training to improve awareness of governance issues in an attempt to ensure such legislation is complied with. However, further improvements including the introduction of expenditure monitoring controls in year still need to be made.
- 17 Members did not consider or review progress against the Action Plan agreed in January 2005 until November 2005 and there has been significant slippage in the timescales agreed by senior officers. Members have not therefore been able to monitor the reasons for the delay or the action taken to mitigate risks arising from such delays. Internal Audit has however carried out work to review progress on the recommendations contained in our governance report and will be reporting their findings to the Overview and Scrutiny committee in November 2005.
- 18 We found, at the end of October 2005 a total of 102 high (P1) and medium (P2) priority Internal Audit recommendations had not been actioned despite management agreeing to implement the changes and them being approved by members. There is evidence of repeated slippage in the implementation timetable, in some cases in excess of 12 months. By January 2006, the number of outstanding recommendations had reduced to 38. As these are all rated as high and medium priority recommendations it is essential that this progress is continued and compliance with recommendations built into staff performance reviews. The action has been agreed with the Chief Executive and is to be introduced as soon as possible.

## Previous recommendations still requiring action by Members

*R1- The Monitoring Officer and Chief Finance Officer should strengthen arrangements for monitoring compliance with contract standing orders so that failure, giving rise to financial and legal risks to the Council, is identified and corrective action taken.*

- 19 There is currently no monitoring of disaggregated orders placed with suppliers other than by IA as part of their audit programme. The overall level of risk has reduced owing to the transfer of the building services, but a system of review still needs to be introduced. As a result there is still a potential risk that standing orders could be breached and so too could OJEU (Official Journal of the European Union) requirements under EC directives relating to procurement rules. The Head of Finance and Business Development has agreed to introduce in year checks on expenditure with suppliers to check on spend levels to reduce the risk of aggregated spend on multiple orders going over the OJEU.

*R4 - Arrangements should be implemented which ensure the Council's Code of Conduct is received, read and understood by all employees. Employees should sign to acknowledge that is the case.*

- 20 The Code of Conduct was considered in draft by the Management Group in December 2005, but has yet to be issued and signed as acknowledged by all staff. This represents a departure from the action plan agreed in response to the Governance report which was issued alongside the S11 recommendation and highlighted the need for compliance with both Internal Audit and External Audit recommendations on this matter. The Council have failed not implemented this recommendation in a timely manner and as a result have not secured the expected improvements in the governance environment. We have been informed that this has occurred in the first few months of 2006.

*R6 - Ensure that implementation of key audit recommendations is included within the council approach to risk management.*

The risk register has been updated to reflect the recommendation above and the revised risk register was presented to the Executive meeting on 26 July 2005. The ability of members and senior management to ensure their desired improvements in corporate governance are brought about is dependant on resources being targeted at ensuring these higher level recommendations are actioned on a timely basis. There has been recent improvement and it is important to continue this trend. The Chief Executive has decided to include compliance with agreed audit recommendations within the staff performance review process.

## Other areas of concerns that require action by the council

- 21** The Statement of Internal control included a list of 20 high and medium priority areas for improvement (Appendix 2). These included issues such as:
- budget holders' job profiles should set out accountability for their budgets and express clearly their financial responsibilities;
  - the Employee Code of Conduct should be updated once feedback from the national consultation has been published;
  - Financial Regulations should be updated in line with Contract Standing Orders and the organisational restructure; and
  - when the revised Security Policy is approved, all employees should be required to say they have read, and will comply with, the Policy (not just new recruits).
- 22** We understand that these issues are being tackled and will follow them up as part of our 2005/06 audit of the Statement of internal Control and expect significant progress to address the underlying weaknesses. We have been informed that some of the items noted above have been actioned during the first few months of 2006, and will confirm this as part of our 2005/06 final accounts audit.
- 23** IA review of Compliance with the Council's Code of Corporate Governance against the CIPFA/SOLACE framework noted some areas of none compliance. These included:
- the adoption of Customer Service Standards;
  - linking performance to budgets within Service Plans and Performance Monitoring reports;
  - undertaking a programme of service reviews;
  - formalizing the manner in which the Council considers external risks arising at other bodies that could be applicable to this Council; and
  - carrying out independent spot checks to validate performance data submitted in bi-monthly performance reports.
- 24** Again, we have been given assurances that these issues are being tackled and will follow them up as part of our 2005/06 audit and expect significant progress to address these issues to be made before the next SIC is drafted. Again we have been informed that some of the items noted above have been actioned during the first few months of 2006, and will confirm this as part of our 2005/06 final accounts audit.



## Detailed Report

### Review of Action against recommendations

#### **Annual Audit and Inspection Letter 2003/2004 Recommendation requiring a formal response by the Council.**

*The council should review and strengthen overall corporate governance arrangements and in particular, ensure implementation of the recommendations already made in Audit Commission, Internal Audit and Overview and Scrutiny reports for such improvements.*

- 25 Members agreed action plan gave a commitment that a review would be completed by Internal Audit to 'evaluate compliance with the Council's Code of Corporate Governance, which is based on the CIPFA/SOLACE framework. The action plan to rectify any weaknesses derived from this review was to be agreed by the Chief Executive and Corporate Team before reporting to the Executive.
- 26 The Council also agreed that from 2005 onwards, governance arrangements will also be reviewed in line with the ODPM and CIPFA joint code, as given in the document 'The Good Governance Standard for Public Services' published by 'The Independent Commission for Good Governance in Public Services'.

#### **Actions taken**

- 27 Internal Audit completed a review of the Council's Code of Corporate Governance against the CIPFA/SOLACE framework as agreed. The report went to the Executive on the 24 May 2005, with a recommendation that it was referred for consideration by Full Council on 21 June 2005.
- 28 Internal audit reported that the Council's Code of Corporate Governance is in line with the Framework for Corporate Governance in Local Government Guidance Note, issued by CIPFA and SOLACE, and follows best practice. Internal Audit found that the Code was generally effective and being complied with, but with some areas that require further action.
  - The adoption of Customer Service Standards.
  - Linking performance to budgets within Service Plans and Performance Monitoring reports.
  - The adoption of the Protocol re working arrangements between Members and officers [approved as part of amendments to the Constitution in April 2005].
  - Undertaking a programme of service reviews.
  - Updating the Employee Code of Conduct.
  - Adopting protocols and codes of conduct to ensure that the implications for supporting community political leadership for the whole Council are acknowledged and resolved.

- Reviewing and updating the strategic risk register quarterly and including details of action taken and progress being made to address risks.
  - Formalizing the manner in which the Council considers external risks arising at other bodies that could be applicable to this Council.
  - Reviewing Financial Regulations.
  - Carrying out independent spot checks to validate performance data submitted in bi-monthly performance reports.
- 29** This, along with other work completed by IA, was used by the Council to inform the Statement of Internal Control that was used in the 2004/2005 financial statements. This was approved by members as being an accurate statement of the 2004/05 position and actions needed to improve the control environment and hence governance within the council. We considered the statement to be a fair reflection of the control environment after some minor adjustments. The issues noted as requiring action in the SIC are listed in Appendix 2. The actions required indicate there is still need for improvement in some areas of corporate governance. We understand that these areas of concern will be tackled in time for the improvements to be reflected in the 2005/6 Statement of internal control.
- 30** IA and the Overview and Scrutiny Committee (OSC) also reviewed the 'The Good Governance Standard for Public Services'. This takes the concept of good governance a stage further and links good governance as being the prerequisite for 'good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes'.
- 31** The review was discussed and agreed at OSC 28 June 2005, with a finalised action plan being presented to Full Council on 28 July 2005. The report highlighted areas that require action to achieve improvement in many of the areas reviewed (see Table 1). These actions have not been fully implemented as yet and IA has not had opportunity to follow up the review of the actions taken to assess if they have led to changes in the way the Council is governed. The actions required demonstrate there is scope for further improvement in governance arrangements.
- 32** We have concluded that the Council has taken action to improve awareness of good governance arrangements and have agreed actions needed to introduce the required changes, but has yet to fully implement all the required changes which will to be in place by 31 March 2006. The Council now needs to ensure these issues are actioned and that they lead to improvement.

**Table 1 The Good Governance Standard for Public Services**

Extracted from Copeland Borough Council self assessment action plan

<b>Principle and Application</b>	<b>How Copeland Borough Council propose to demonstrate compliance</b>
1.1 Being clear about the organisation's purpose and its intended outcomes for citizens and service users.	Review Corporate Plan when Community Strategy is revised.
1.3 Making sure that taxpayers receive value for money.	Consider the findings from the Audit Commission's Use of Resource assessment process Implement CIPFA Financial Management Model.
2.1 Being clear about the functions of the governing body (the elected Council).	Review effectiveness of OSC in looking at performance of Executive.
2.2 Being clear about the responsibilities of Members and senior managers and making sure that the governing body responsibilities are carried out.	Review effectiveness of the corporate restructure. Roles and responsibilities to be clear and documented. OSC to consider.
2.3 Being clear about relationships between Members and the public.	Scheme of Delegation allows portfolio holder/officers discretion. Clarify how this may be used with Executive to be effective. Communications Strategy. Councillor Surgeries to be set up. All senior posts are committee appointments. Review role of personnel panel. Review membership and attendance at Joint neighbourhood Forums. OSC to review need for further Job descriptions. Review CEO job description.

*Action plan agreed by Full Council 28-7-2005*

## Action taken in response to other Governance recommendations raised

- R1 The Monitoring Officer and Chief Finance Officer should strengthen arrangements for monitoring compliance with contract standing orders so that failure, giving rise to financial and legal risks to the Council, is identified and corrective action taken.*
- 33** The following actions were put forward in response to this recommendation, as being sufficient to ensure contract standing orders were being strengthened.
- There had been a reminder to Management Group in October 2003 re declarations of interest.
  - Management Group in April 2004 had considered fraud and corruption and the need to report any concerns to the CFO.
  - Instruction had been issued to management group that all breaches of CSO's must be reported to Members as soon as they become known.
  - Prioritisation of audit recommendations reviewed by Chief Finance Officer & Audit Services Manager.
  - SMT minute 5544 highlights the reviewed procedure for SMT instructions taking precedence.
  - SMT instructions communicated to Corporate Team by task lists sent following each meeting.
  - Further reminder to Management Group June 2004 re declarations of interest.
  - Audit undertook baseline analysis of payments to creditors/value/how procured. No anomalies found.
- 34** Internal Audit found that additional action had been taken since the report had been issued, and that there had been revision of Contract Standing Orders and that the procurement strategy was being redrafted.
- 35** However, IA have found that our recommendation to ensure there is adequate monitoring of disaggregated orders placed with suppliers to enable identification of any potential non-compliance with standing orders, had not been implemented. This was due to the post of procurement officer remaining vacant. It is for the Council to decide how this responsibility is addressed it may for example be possible to address this risk without appointing a further member of staff. Our concern remains that there is no in year monitoring of disaggregated orders placed with suppliers, although we accept that the transfer of the building serves unit as part of the transfer of housing stock to Copeland Homes has reduced the scope for risk to occur. As a result there is still a potential risk that standing orders could be breached and so too could OJEU (Official Journal of the European Union) requirements under EC directives relating to procurement rules.
- 36** To counter this risk the Chief Executive and Head of Finance and Business Development has agreed to place an additional control in place to review spend against supplier monthly from the end of January 2006. This will be in addition to annual review completed by Internal Audit of expenditure with suppliers.

- 37** IA also found that the following agreed actions under our governance report had not been implemented as at November 2005:
- Council to draft procurement strategy that proposes the Procurement Officer undertakes monitoring of procurement activity and reports to the Procurement Board; and
  - Council to draft procurement strategy that strengthens Members' role in procurement and monitoring of key contracts.
- 38** We have been informed the strategy has been drafted, but not adopted and actioned since November 2005. This means that some governance weaknesses remain as reported in January 2005, and that agreed actions have not been implemented within the expected timeframe.
- R2 The Council should review contract standing orders to encompass procedures for modern procurement approaches including partnering. Opportunities for partnership should always be advertised to attract interest to ensure fairness.*
- 39** IA reviewed the action taken and confirmed that revised Contract Standing Orders approved by Full Council on 1 March 2005. The revised standing orders include reference to consideration of all the options, including partnerships, plus a guide to characteristics of partnership working.
- R3 The recommendations of the Overview and Scrutiny Select Committee – Performance and Resources, made 7 May 2004, should be implemented to improve internal control and governance.*
- 40** The Overview and Scrutiny Committee – Performance and Resources issued a report on 7 May 2004. The main conclusions and recommendations relevant to general governance issues are noted below.
- There was general acceptance that there had been a breach Contract Standing Orders.
  - The Chief Legal Officer's advice that the procurement may have been in breach of the EU Procurement Directive was noted.
  - The Committee believed that the breach of Contract Standing Orders was not regarded seriously by those involved at all levels of the organisation.
  - The Committee recommended that additional training is provided for all relevant employees on the content and requirements of Contract Standing Orders.
  - The Committee recommended that all breaches of Standing Orders are reported to Members as soon as they become known, either formally to the Executive, or where this is not possible, through informal briefings to the Leader/portfolio Holder.

- The Committee recommended that Senior Management Team (SMT) consider introducing mechanisms or procedures to ensure its decisions are acted upon promptly in view of the delay in reporting to the Executive the breach in Contract Standing Orders following completion of the Internal Audit report.

41 The actions listed above were considered as an appropriate response to our concerns. As well as the issues noted by us in response to recommendation 1 of the Governance report, the need to improve prompt compliance with recommendations made by IA and ourselves is a key part of ensuring the decisions of the Senior Management Team are acted upon swiftly. The recent improvement in compliance with IA recommendations agreed by managers needs to be continued.

*R4 Arrangements should be implemented which ensure the Council's Code of Conduct is received, read and understood by all employees. Employees should sign to acknowledge that is the case.*

42 This recommendation has not been implemented as at December 2005. Officers indicated that they wish to wait until after the corporate re-organisation is complete. We have been informed that this has occurred in the first few months of 2006.

43 This is significant departure from the action plan agreed in response to the Governance report. Compliance with Codes of Conduct is key to maintaining a satisfactory standard of corporate governance.

*R5 The council consider all the available evidence and formally conclude that they are either satisfied that enough has been done to address the concerns raised in relation to potential fraud and corruption, or whether further action is required.*

44 A special meeting of the OSC Performance & Resources was held on 17 February 2005 to review all the available evidence and to consider whether further action is required. They concluded that they were satisfied enough had been done to conclude no further work was required.

*R6 Ensure that implementation of key audit recommendations is included within the council risk register.*

45 The risk register has been updated to reflect the recommendation above. The revised risk register was presented to the Executive meeting on 26 July 2005. The table below is the relevant extract from the register.

**Table 2 Risk Register Extract**

Response to recommendation 6

Risk	Action
Key audit recommendations are not included in Council's risk register and are not implemented.	Quarterly follow ups of all outstanding Priority 1 and 2 recommendations for reporting to Corporate Team and Audit Sub-Group.

*Minutes from Executive meeting 26 July 2005*

- 46 The core requirement of this action is to ensure recommendations are being actioned within a reasonable timeframe as priority 1 and 2 recommendations are fundamental to improving corporate governance.
- 47 The data base held by IA was reviewed in November 2005 to see if there had been progress in this area. The level of un-actioned recommendations still gave rise for concern.
- 48 The data base contained 479 P1 and P2 recommendations: 179 not yet implemented, 300 considered implemented. 72 of the 179 not yet implemented had not been subject to follow up by IA but are to be followed up as part of the IA programme of work in the future.
- 49 Our review of the database in November 2005 noted 82 (17 per cent) of the 479 P1 and P2 recommendations were considered by IA not to have been fully implemented by the agreed date. Of these 26 (5 per cent) were partially actioned and the remainder no action had yet been taken.
- 50 We reviewed Internal Audit database again in January 2006 and found this had fallen to 38 P1 and P2 recommendations not fully implemented by January 2005. This positive progress needs to be continued and compliance with recommendations built into staff performance reviews. The action has been agreed with the Chief Executive and is to be introduced as soon as possible.
- 51 The ability of members and senior management to ensure their desired improvements in corporate governance are brought about is also dependant on resources being targeted at ensuring these higher level recommendations are actioned on a timely basis. Although the risk register include reference to this issue, ongoing procedures need to be introduced to ensure a backlog does not reoccur in the future and that recommendations are being actioned within the agreed time frame.



## Appendix 1 Summary of recommendations

### **Annual Audit and Inspection Letter 2003/2004, recommendation requiring formal response by the council (section 11 1998 Act).**

This recommendation required the council to respond to the detailed recommendations made in our Corporate Governance Report and specific reports made by Internal Audit and the Council's own Overview and Scrutiny Committee.

The specific recommendations which required action and which the council prepared a formal response and action plan are shown below:

#### **Recommendations in the Report on Corporate Governance**

- R1 The Monitoring Officer and Chief Finance Officer should strengthen arrangements for monitoring compliance with contract standing orders so that failure, giving rise to financial and legal risks to the Council, is identified and corrective action taken.
- R2 The Council should review contract standing orders to encompass procedures for modern procurement approaches including partnering. Opportunities for partnership should always be advertised to attract interest to ensure fairness.
- R3 The recommendations of the Overview and Scrutiny Select Committee – Performance and Resources, made 7 May 2004, should be implemented to improve internal control and governance.
- R4 Arrangements should be implemented which ensure the Council's Code of Conduct is received, read and understood by all employees. Employees should sign to acknowledge that is the case.
- R5 The council consider all the available evidence and formally conclude that they are either satisfied that enough has been done to address the concerns raised in relation to potential fraud and corruption, or whether further action is required.
- R6 Ensure that implementation of key audit recommendation is included within the council risk register.



## Appendix 2 – Significant control issues as listed in the 2004/2005 Statement of Internal Controls

### High Priority

- The Risk Management Group needs to meet at least quarterly and operate to its approved terms of reference.
- The draft Disaster Recovery Plan should be developed into a Business Continuity Plan be approved and tested.
- Operational Risk Registers should be updated when key service objectives are set following implementation of the restructure.
- A corporate resource plan should co-ordinate the resources needed for key projects to ensure there is the capacity to deliver to timescale.
- Budget holders' job profiles should set out accountability for their budgets and express clearly their financial responsibilities.
- Following implementation of the restructure, Heads of Service will review any outstanding 2004/05 key objectives and take these forward in the 2005/06 service plans.

### Medium Priority

- The draft Communications Strategy should be revised in line with the improvement plan arising from the Best Value Review of Communications.
- The Customer Service Standards should be approved and adopted corporately.
- Performance reports should link performance/outputs with financial budgets/expenditure.
- Following appointment of the Process Improvement Team, a programme of service reviews should be developed and progress monitored by Corporate Team.
- The Employee Code of Conduct should be updated once feedback from the national consultation has been published.
- Financial Regulations should be updated in line with Contract Standing Orders and the organisational restructure.
- When the revised Security Policy is approved, all employees should be required to say they have read, and will comply with, the Policy (not just new recruits).

## 18 Corporate Governance - Follow Up Report | Appendix 2 – Significant control issues as listed in the 2004/2005 Statement of Internal Controls

- Protocols and codes of conduct should be adopted to ensure that the implications for supporting community political leadership for the whole Council are acknowledged.
- The Corporate Risk Register and Operational Risk Registers should be reviewed and updated quarterly.
- The Council should formalise the manner in which the Council considers external risks arising at other bodies that could be applicable to this Council.
- There should be independent spot checks to validate performance data submitted in performance reports.
- The existing Code of Corporate Governance should be revised in line with the Good Governance Standard for Public Services.
- Improvements need to be made in the speed of both raising and recovering Sundry Debts, together with the standard of evidence of debt.
- A central record of employee and member training undertaken should be maintained to monitor progress against the Corporate Training Plan.
- Progress against Service Plans will be monitored by the relevant Director.

### **Low Priority**

- Performance management software should be further considered.