

HAMBLETON DISTRICT COUNCIL

Report To: Audit, Governance and Standards Committee
26 September 2012

From: Director of Resources

Subject: **ANNUAL GOVERNANCE STATEMENT 2011 - 2012**

All Wards

1.0 **PURPOSE AND BACKGROUND:**

1.1 Good governance is important to all involved in local government, however, it is a key responsibility of the Leader of the Council and of the Chief Executive.

1.2 The preparation and publication of an annual governance statement in accordance with the Cipfa/SOLACE Framework is necessary to meet the statutory requirements set out in Regulation 4(2) of the Accounts and Audit Regulations which requires authorities to “conduct a review at least once in a year of the effectiveness of its system of internal control” and to prepare a statement on internal control “in accordance with proper practices”.

1.3 The AGS refers to the year 2011/12 and has therefore been written to reflect the processes, management and committee structure at that time.

2.0 **THE SYSTEM OF INTERNAL CONTROL:**

2.1 The Turnbull Report (1999) states that:

“... an internal control system encompasses the policies, processes, tasks, behaviours and other aspects of (an organisation) that, taken together:

- Facilitate its effective and efficient operation by enabling it to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the (organisations) objectives. This includes the safeguarding of assets from inappropriate use or from loss and fraud;
- Help ensure the quality of internal and external reporting. This requires the maintenance of proper records and processes that generate a flow of timely, relevant and reliable information from within and outside the organisation;
- Help ensure compliance with applicable laws and regulations, and also with internal policies with respect to the conduct of business.”

2.2 The scope of internal control accordingly spans the whole range of local authority activities and includes those controls designed to ensure:

- The authority's policies are put into practice;
- The authority's values are met;
- Laws and regulations are complied with;
- Required processes are adhered to;
- Financial statements and other published information are accurate and reliable;
- Human, financial and other resources are managed efficiently and effectively, and
- High quality services are delivered economically, efficiently and effectively.

3.0 **THE REVIEW PROCESS:**

- 3.1 The Cipfa/SOLACE Framework defines proper practices for the form and content of a governance statement that meets the requirement to prepare and publish a statement on internal control. There is no requirement to prepare and publish a separate statement on internal control.
- 3.2 Subsequent to the CIPFA “Statement on the Role of the Chief Financial Officer in Local Government”, which was issued in 2010, it is now expected that the AGS will include a specific statement on whether the Council’s financial management arrangements conform to the governance requirements of the statement. Furthermore where they do not, to explain why and how the Council’s arrangements deliver the same impact.
- 3.3 At Hambleton there is full compliance as the Director (S151 officer), whilst not reporting directly to the Chief Executive, has a close working relationship, and unfettered access. The s151 Officer is not a member of the Strategic Management Team (will be a member under the senior management restructure 2012/13), but is a member of the Assistant Directors Team.
- 3.4 The External Auditor will be considering the AGS as part of his review of the Statement of Financial Accounts. The Auditor is required to issue his opinion on the accounts and “sign them off”.
- 3.5 The AGS provides public assurance that a local authority has a sound system of internal control, designed to help manage and control risks that will impede the achievement of its objectives. The AGS should not be seen as a purely financial requirement, but as an important public expression of what the Council has done, how it sets out priorities, monitors performance and has put in place good business practice. It is also about the process for ensuring high standards of conduct and is a means of demonstrating sound governance. The requirement for it to be signed by at least the Leader and the Chief Executive reflects the importance for which it is viewed.
- 3.6 In common with most local authorities, the Council has a well established system of internal control in place. However, the AGS process requires the Council to formally demonstrate what these controls are and how they safeguard against the most significant risks to the organisation and to gain assurance, based on evidence, that these controls are operating effectively, or where they are not, to identify areas for improvement.
- 3.7 Assurance can be provided by evidence from a number of sources including: inspection records, external audit reports, internal audit reports and direct assurance from managers. It is the responsibility of both Members and Chief Officers to obtain and provide such assurance. The production and publication of an AGS is therefore not an isolated act, but the final stage in a continuing review of internal control processes and procedures.

4.0 **CONCLUSION:**

- 4.1 There are a number of sources that could potentially identify whether there are any significant weaknesses in the Council’s system of internal control. None of these have identified any such weaknesses in the system and Members can take assurance from this that the Council’s system of internal control is adequate and effective.

5.0 **DECISIONS SOUGHT:**

- 5.1 Members are asked to consider the results of the review of the system of internal control and approve the contents of the report and the Annual Governance Statement at **Annex A** which the Regulations require the Leader of the Council and Chief Executive to sign.

6.0 **RISK ANALYSIS:**

6.1 There are no risks associated with the recommendations in the report.

7.0 **FINANCIAL IMPLICATIONS:**

7.1 There are no financial implications associated with the recommendations in the report.

8.0 **LEGAL IMPLICATIONS:**

8.1 The Council is under a statutory duty to undertake a review of the systems of internal control operating within the Council during 2011/12 and to approve an Annual Governance Statement. Failure to undertake the review or present an Annual Governance Statement would have been a breach of this statutory requirement.

9.0 **RECOMMENDATIONS:**

9.1 It is recommended that Members:

- 1) agree with the conclusion of the review of the system of internal control, and;
- 2) approve the content of the Annual Governance Statement for publication with the annual Statement of Accounts.

JUSTIN IVES

Background papers: Cipfa/Solace: Delivering Good Governance in Local Government ~ Framework & Guidance.
Cipfa Finance Advisory Network ~ AGS 'Rough Guide' for practitioners.
Cipfa/Solace Application Note to Delivering Good Governance in Local Government: a Framework. (March 2010)

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Hambleton District Council
ANNUAL GOVERNANCE STATEMENT 2011 – 2012

Scope of Responsibility

Hambleton District Council is responsible for ensuring that 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. Hambleton District Council 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.

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

Hambleton District Council has approved and adopted a code of corporate governance. The code has been updated to embrace the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

A copy of the existing code is on our website at www.hambleton.gov.uk or can be obtained from Customer Services on 0845 1211 555 or by email from customer.services@hambleton.gov.uk.

This statement explains how Hambleton District Council has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011 in relation to the publication of a statement on its governance and internal control arrangements.

The Purpose of the Governance Framework

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Hambleton District Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at Hambleton District Council for the year ended 31 March 2012 and up to the date of the approval of the Statement of Accounts.

Identifying & communicating the authority's vision of its purpose and intended outcomes for citizens and service users:

Hambleton District Council has developed a new Council Plan. In setting the priorities, national, regional and the public's priorities were also taken into account. To cascade this down, performance indicators are arranged under priorities in service plans. From the whole suite of performance indicators, key indicators have been selected as those that best measure

achievement of the priorities set in the Council Plan. These key, high level, indicators are monitored by the Chief Officers, through Performance Clinics, Service Reviews, and reported to Cabinet on a regular basis.

Senior Management is able to use this information to vire money/resources between service areas to provide additional resources where performance is below an acceptable level. The Council also uses benchmarking information to compare unit costs; however this information is limited and does not cover all service areas.

The Constitution includes sections defining and documenting the roles & responsibilities of the executive, scrutiny and officer functions with clear delegation arrangements.

The Constitution includes the Code of Member Conduct, a Code for Planning Conduct and an officer and Member Protocol.

The Audit and Governance Committee considers amendments to the Constitution.

Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities:

The Audit & Governance Committee's terms of reference are reviewed annually to align with those suggested by CIPFA. The terms of reference cover a number of areas that include: -

- All aspects of Internal Audit;
- All aspects of External Audit;
- Overseeing the development of risk management;
- Overseeing the production of the Annual Governance Statement;
- Consideration of the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful:

Hambleton District Council achieves this through a number of mechanisms:-

- The Head of Legal Services has access to all draft Cabinet and Council reports and approves the minutes;
- The Legal Section monitors legal developments and notifies relevant senior officers;
- A protocol for the Monitoring Officer is in place;
- Senior Officers and Members are aware of the availability of the advice on propriety which is available from both the Monitoring Officer and the North Yorkshire Audit Partnership (who provided internal audit services in 2011/12);
- The Monitoring Officer, Legal Section, the s.151 Officer and North Yorkshire Audit Partnership have good working relations and often cross-refer matters;
- The CIPFA Statement on the role of the Chief Finance Officer (CFO) recommends that the CFO should report directly to the Chief Executive and be a member of the 'Leadership' Team. Furthermore that the AGS should assess the position of the CFO against these criteria and report on a 'comply or explain' basis.
- Whilst not reporting directly to the Chief Executive there is a close working relationship, and unfettered access. The s151 Officer is not a member of the Strategic Management Team (will be a member under the senior management restructure 2012/13), but is a member of the Assistant Directors Team.

- The CFO has unfettered access to information, to the Chief Executive and to Members of the Council. Therefore we consider that there are the processes and procedures in place which provide assurance that the role of the CFO (Head of Finance) in Hambleton DC meets the Statements' expectations.
- All Assistant Directors have completed an Assurance Statement for the 12 months to 31st March 2012 and;
- The Chairman of the Council, Leader of the Council (As Chairman of Cabinet) and the Chairmen of the 7 main committees have each completed an Assurance Statement for the 12 months to 31st March 2012.

This gives assurance as to the soundness of the system of internal controls that is in place.

Training is offered to members on probity and governance issues. Briefings are given on strategic issues from time to time.

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

The Council has developed and adopted a community engagement strategy with other Council's and agencies, which reflects the work of the theme groups and picks up on existing strategies such as the young and older person work streams.

Embedding risk management in the activity of the authority, giving leadership to the risk management process, and training or equipping of staff to manage risk in a way appropriate to their authority and duties:

Hambleton District Council has a risk management strategy. The Audit & Governance Committee has assumed responsibility overseeing the risk management strategy and Scrutiny oversee the operational and strategic risk registers.

Members of the Cabinet and the Audit & Governance Committee, Members, Risk Owners and other selected staff have received specialist training. The Risk Management Guidance Manual is revised annually and the revised version has been issued to Risk Owners.

Risk Management is a standard element of all officer reports to Cabinet and other member Committees etc. All senior officers are required to implement the strategy and to further embed risk management within the Council.

A risk register has been created, incorporating risks associated with delivery of the Councils' Corporate Objectives under each priority Board.

Additionally, the corporate risks are identified and reviewed by the priority theme Performance Clinics and Boards who in turn report to Cabinet on a quarterly basis.

A Partnership Risk Register was introduced during 2009/10 recognising the growing increase and importance service delivery through the use of partnership arrangements. Again, risks in this area are reviewed through the Performance Clinics and Boards.

With the measures mentioned above in place the Council is able to identify, assess and manage the risks to the Council's corporate objectives.

The Council recognises the need to ensure that good governance arrangements and robust controls exist within all partners & other group working. It also recognises the need for comprehensive agreements to be in place for all significant partnerships and that these agreements should clearly identify how the risks of the partnership or working group arrangements will be managed.

Review of Effectiveness

Hambleton District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior officers and managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audits Annual Report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Cabinet and Council:

There is a hierarchy of decision making at Hambleton District Council. Any new draft policies or strategies are developed and then submitted to the Senior Management Team. Once any amendments have been made, the policy/strategy moves on to Cabinet and then on to the full Council.

The Audit & Governance Committee

The Audit and Governance Committee has specific responsibility for monitoring the effectiveness of the Council's Code of Corporate Governance.

The Standards Committee:

The Council has a Standards Committee to ensure that the Council undertakes its duties in an appropriate manner and maintains a high standard of Corporate Governance.

Scrutiny Committees

The Council has two Scrutiny Committees. Part of their function is to scrutinise Council policies. They do not have a specific role in dealing with Governance.

Internal Audit:

During the year April 2011 to March 2012 the Council's internal audit service was provided by the North Yorkshire Audit Partnership (NYAP). From 1st April 2012, NYAP was dissolved and responsibility for the provision of the internal audit service transferred to Veritau North Yorkshire Ltd. (VNY), which is part of the Veritau group. It operates in accordance with the statements, standards and guidelines published by CIPFA (particularly the 2006 Code of Practice for Internal Audit in Local Government in the United Kingdom) and the Chartered Institute of Internal Auditors.

The Partnership provides an independent review service, and the work of internal audit is determined using a risk assessment model from which a Strategic Plan and a detailed Annual Internal Audit Plan are developed. The Audit & Governance Committee considers and approves both the strategic and annual plans and receives regular updates of actual performance against the plan and an Annual Internal Audit report at the year end which will contain an opinion or assurance statement from Internal Audit on the operation of the overall Governance Framework, incorporating the system of internal control.

A requirement under the Accounts & Audit Regulations 2011 is that every local authority undertakes a review of the effectiveness of its system of internal audit annually. The North Yorkshire Audit Partnership undertook this review, and presented their report to the Audit & Governance Committee in March 2012.

Other explicit review/assurance mechanisms:

The Council is also subject to external review. The External Auditor is required to review, and where appropriate, report on the Council's corporate governance arrangements as they relate to:

- legality of transactions that might have significant financial consequences;
- financial standing;
- internal financial control, and;
- standards of financial conduct and the prevention and detection of fraud and corruption.

The Chair of the Council, Leader of the Council (As Chair of Cabinet) and the Chairs of the 7 main committees sign a statement giving an assurance as to the conduct of Council/Committee business being both lawful and in a manner prescribed by the Councils' Constitution.

Every Assistant Director and Head of Service signs a statement which gives an assurance as to the soundness of the system of internal controls that are in place within their respective areas.

Governance Issues

During the year the post of Chief Executive changed. An acting Chief Executive was in post from February 2012 and was appointed post year end. During the transition period the Council took steps to ensure continued effective governance was maintained.

In 2012 the Council initiated a review of the shared service arrangements with Richmondshire District Council. This has resulted in the Council appointing its own senior management team. This review process is ongoing and is scheduled to be completed in 2013.

Signed: -----
Councillor Neville Huxtable
Leader of the Council

Signed: -----
Philip Morton
Chief Executive