

**30th JUNE 2008**

**REPORT OF  
DIRECTOR OF RESOURCES**

**Portfolio: STRATEGIC LEADERSHIP**

**Annual Governance Statement 2007/08**

**1. SUMMARY**

- 1.1 The Account and Audit Regulations 2003 and 2006, requires the Council to ensure that its financial management arrangements are adequate and effective and that there is a sound system of internal control in place which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.
- 1.2 The Regulations also require the Council to conduct a review at least once a year, of the effectiveness of its system of internal control.
- 1.3 To facilitate this requirement, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) have produced guidance for Local Authorities to follow. Evidence has been produced by Heads of Service's and Directors following a review of their current internal control and governance arrangements and a Corporate Annual Governance Statement (AGS) covering all aspects of the Council's activities has now been compiled.
- 1.4 Although the AGS is incorporated in the Annual Statement of Accounts (SOA), best practice recommends that it should be considered separately from any review of the SOA
- 1.5 The purpose of this report is therefore for this Committee to review the content of the Annual Governance Statement, prior to its submission to the Council on 30<sup>th</sup> June 2008. Any comments that this Committee may have on the content of the Statement will be conveyed to the Council for its consideration.

**2. RECOMMENDATION**

- 2.1 That the Audit Committee approves the Annual Governance Statement for 2007/08, as shown in the Appendix , and recommends its acceptance by Council
- 2.2 That the Statement be incorporated into the Statement of Accounts for the 2007/2008 financial year.

**3. BACKGROUND**

- 3.1 Regulation 4 of The Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006, requires the Council to

conduct a review at least once a year of the effectiveness of its system of internal control and to prepare an appropriate statement in accordance with “proper practices”.

- 3.2 “Proper practice” for the purpose of the Annual Governance Statement is set out in the CIPFA/SOLACE framework document “Delivering Good Governance in Local Authorities - Guidance Note for English Authorities”. This document suggests the form and content of a governance statement to meet the requirement to prepare and publish a statement on internal control in accordance with the above regulations.
- 3.3 The Framework document suggest that the governance statement should include the following information
- An acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating the system of internal control)
  - An indication of the level of assurance that the systems and processes that comprise the Council’s governance arrangements can provide
  - A brief description of the key elements of the governance framework
  - A brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of
    - The Council
    - The Executive
    - The Audit Committee
    - Internal Audit
    - Other explicit review/assurance mechanisms
  - an outline of actions taken ,or proposed, to deal with significant governance issues, including an agreed action plan.
- 3.4 The Framework also points out that it is important to recognise that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of the council’s activities, including in particular those designed to ensure that:
- The Council’s policies are implemented in practice
  - High quality services are delivered efficiently and effectively
  - The Council’s values and ethical standards are met
  - Laws and regulations are complied with
  - Required processes are adhered to
  - Financial statements and other published performance information are accurate and reliable
  - Human, financial, environmental and other resources are managed efficiently and effectively
- 3.5 The Governance Statement is therefore expected to cover performance issues – good governance promoting good service but poor service performance reflecting a failure of governance.
- 3.6 Consequently, the Framework document suggests that approval and ownership of the governance statement should be at a corporate level and should be confirmed by the most senior officer and the most senior member signing the statement on behalf of the Council.
- 3.7 Equally, it goes on to point out, that the review and approval of the governance statement by a member group separately from the accounts will help ensure its robustness and reinforce its corporate standing. They must therefore be satisfied that

the document is supported by reliable evidence and accurately reflects the internal control environment.

#### **4 Annual Review Process**

- 4.1 A group of senior officers, who have been tasked with monitoring the Council's governance arrangements, met to consider how to provide the necessary assurance statement. They agreed that all Heads of Service should be required to complete a self-assessment questionnaire to provide evidence to their appropriate Director that satisfactory internal control and governance arrangements were currently in place or to confirm where necessary that actions were to be undertaken to further improve their existing arrangements. In turn, the Directors were able to provide an assurance statement to the Chief Executive in respect of their service responsibilities.
- 4.2 Assurance Statements have now been received from all Directors and Heads of Services, in respect of the 2007/2008 financial year and any relevant significant control, risk or governance issues have been included in the Corporate Annual Governance Statement shown as an Appendix to this report.
- 4.3 The group has also met to review evidence submitted by the Audit and Resources Manager to demonstrate the effectiveness of the system of internal audit which is also recommended best practice. For the purposes of that review, a number of sources of information were submitted for consideration, including
  - a self assessment measuring Internal Audit compliance with the CIPFA Code of Practice for Internal Audit in Local Government which was issued in 2006,
  - evidence provided by the Audit Commission following an assessment to the extent to which reliance can be placed on the work of the Internal Audit Team, particularly in relation to their reviews of the Council's core financial systems,
  - the Audit Commission's Use of resources score on the Internal Control theme
  - the Audit and Resources Managers interim and annual reports to the Audit Committee on the internal audit activities throughout the year
  - and customer satisfaction survey results
- 4.4 The group was satisfied with the evidence produced and explanations provided that the system of internal audit was effective.

#### **5. Corporate Annual Governance Statement**

- 5.1 As mentioned above, the resultant Corporate Annual Governance Statement for the 2007/2008 financial year which will be inserted into the Statement of Accounts is attached to this report as an Appendix.
- 5.2 In accordance with the CIPFA/SOLACE guide and best practice, the statement covers the following areas.
  - The scope of responsibility
  - The purpose of the governance framework
  - The governance framework itself
  - A review of its effectiveness
  - Outstanding issues from previous statements
  - Any significant governance issues
- 5.3 Whilst the statement is generally very positive, there are a number of issues identified in the document where there is recognition of the importance of having sound internal control and governance arrangements in place during 2008/2009 to improve the

governance environment, in particular in connection with the Council's Transition Plan projects and in dealing with the many issues involved in the re-organisation of local government in the County.

## **6. RESOURCE IMPLICATIONS**

6.1 There are no financial issues arising directly from this report.

## **7. CONSULTATIONS**

7.1 Directors and Senior Officers from all Departments have been involved in the production of this Statement.

## **8. LINKS TO CORPORATE OBJECTIVES/VALUES**

8.1 Reviewing the effectiveness of the Council's systems of internal controls ensures that the following corporate values have been addressed.

- Being responsible with and accountable for public finances

## **9. RISK MANAGEMENT**

9.1 If the Council is not able to demonstrate to the Audit Commission that it has effective systems of internal control and governance arrangements in place, or any weaknesses were not being addressed, it would inevitably have a detrimental effect on any Comprehensive Area Assessment (CAA) review by the Audit Commission, resulting in the Council not being able to achieve the highest possible rankings.

9.2 If there were not adequate control arrangements in place, there is the possibility of financial losses being sustained by the Council as a result of fraud, overpayments to creditors, loss of income etc.

9.3 If detailed procedural notes were not available to support the control environment, there could be a possibility that the business critical services provided by the Council could be affected by events such as a pandemic flu outbreak, a major fire or flood or utility supply disruption etc

## **10. HEALTH AND SAFETY**

10.1 No additional implications have been identified.

## **11. EQUALITY AND DIVERSITY**

11.1 No additional implications have been identified.

## **12. LEGAL AND CONSTITUTIONAL**

12.1 The Council is complying with its statutory responsibilities to produce the statement.

## **13. OTHER MATERIAL CONSIDERATIONS**

13.1 No other material considerations have been identified.

## **14. LIST OF APPENDICES**

14.1 Appendix 1 Annual Governance Statement 2007/08

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**Ward(s)** Proposals are not ward specific  
**Background Papers:** Various Account and Audit Regulations  
 CIPFA/SOLACE Framework Document – “Delivering Good Governance in Local Government”  
 Departmental and Head of Services Assurance Statements

**Examination by Statutory Officers**

	Yes	Not Applicable
1. The report has been examined by the Councils Head of the Paid Service or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
2. The content has been examined by the Councils S.151 Officer or his representative	<input checked="" type="checkbox"/>	<input type="checkbox"/>
3. The content has been examined by the Council’s Monitoring Officer or his representative	<input type="checkbox"/>	<input type="checkbox"/>
4. The report has been approved by Management Team	<input type="checkbox"/>	<input type="checkbox"/>

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