

23rd March 2009

REPORT OF
DIRECTOR OF RESOURCES

Portfolio: STRATEGIC LEADERSHIP

Annual Governance Statement 2008/09

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. Individual Heads of Service and Directors have been requested to review 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 The AGS will eventually be incorporated into this Council's Annual Statement of Accounts (SOA) which will be considered by the new authority in due course after the final accounts have been completed later this year.
- 1.5 A Statutory Instrument has recently been issued, which requires those Councils that are to be abolished with effect from 1st April 2009, to approve a Statement of Internal Control for the 2008/09 financial year, prior to their demise.
- 1.6 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 27th March 2009. 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 2008/09, as shown in the Appendix, and recommends its acceptance by Council

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 suggests 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.
- 3.8 As a result of the re-organisation of Local government in some areas of the Country with effect from 1st April 2009, the Government has introduced a number of transitional arrangements for those authorities affected to implement.
- 3.9 Usually the Annual Governance Statement, which incorporates a Statement of Internal Control, is prepared and considered by the Council after the end of the financial year and as part of the arrangements to approve the Council's Statement of accounts, normally at the end of June.
- 3.10 As a number of authorities will be abolished from 1st April 2009, the Government require those authorities to prepare and approve an up to date statement of the way in which their financial affairs are controlled internally (a Statement of Internal Control) prior to their demise
- 3.11 Any ongoing or incomplete audit issues at 31st March 2009 will be discussed and handed over to the appropriate officers of Durham County Council.

4. ANNUAL REVIEW PROCESS

- 4.1 A group of senior officers with involvement in corporate management, who have been tasked with monitoring the Council's governance arrangements, met to consider how to provide the necessary assurance statement for the 2008/09 financial year, bearing in mind that this Council will be abolished on the 1st April 2009. This group subsequently prepared a draft AGS highlighting appropriate Transition Plan issues and any other areas of concern they were aware of. This draft was circulated to the Chief Executive, Directors and Heads of Service for comments/approval and any comments received were considered and a revised AGS was then produced.
- 4.2 The group also reviewed evidence submitted by the Audit Resources Manager to demonstrate the effectiveness of the system of internal control, which is also recommended best practice. The review included the following:
- A self assessment measuring Internal Audit compliance with the CIPFA Code of Practice for Internal Audit in Local Government, which was issued in 2006.
 - The Audit Commission's Use of Resources score on the Internal Control theme.
 - The Audit and Resources Manager's Interim and draft Annual Reports to the Audit Committee on the internal audit activities throughout the year.
 - Customer satisfaction survey results.
- 4.3 The work undertaken by the LGR Workstreams, with appropriate involvement of the Council's officers, has effectively provided another layer of governance in terms of

identifying risk issues and implementing appropriate actions to maintain/improve services and associated governance.

5. CORPORATE ANNUAL GOVERNANCE STATEMENT

5.1 As mentioned above, the resultant Corporate Annual Governance Statement for the 2008/2009 financial year 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 at the new Council during 2009/2010 to improve the governance environment, in particular in connection with some of the Council's Transition Plan projects and in dealing with ongoing 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 and approval 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.

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., with such risks potentially continuing within the new authority.

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 Local Government (Structural Changes) (Further Transitional and Supplementary Provision and Miscellaneous Amendments) Regulations 2009 which has recently been introduced, requires Councils that are to cease to exist from the 1st April 2009 to approve a Statement of Internal Control for the 2008/09 financial year, prior to their abolition. The Council is therefore complying with its statutory responsibilities to produce this 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 2008/09

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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”

Statutory Instrument 2009 No. 276 - The Local Government (Structural Changes) (Further Transitional and Supplementary Provision and Miscellaneous Amendments) Regulations 2009.

Examination by Statutory Officers:

	Yes	Not Applicable
1. The report has been examined by the Council's Head of the Paid Service or his representative.	√	
2. The content has been examined by the Council's S.151 Officer or his representative.	√	
3. The content has been examined by the Council's Monitoring Officer or his representative.	√	
4. The report has been approved by Management Team.	√	