

**Report to:** Special Audit Committee  
**Date:** 24th March 2009  
**Report by:** Gordon Fletcher, Internal Audit Manager  
**Subject:** Annual Governance Statement for 2008/2009  
**Ward:** All

## **1. Purpose of Report**

- 1.1. This report is to explain the requirement for the Council to produce an Annual Governance Statement (see Appendix 1) declaring the degree to which it meets the governance framework.

## **2. Consultation**

- 2.1 In preparing this report I have consulted with the Corporate Governance Group, the Head of Financial Management and the Senior Auditor. The Management Team has considered the report.

## **3. Background**

- 3.1 Regulation 4 of the Accounts and Audit Regulations 2003 (amended 2006) required councils to review the “effectiveness of their system of internal control” at least once a year and to publish an Annual Governance Statement (AGS) each year with the authority’s financial statements. It also required the findings of the review to be considered by a committee of the council (or the whole council).
- 3.2. From April 2007 the new CIPFA/SOLACE governance framework required the AGS, which replaced the former statement of internal control.
- 3.3 The Financial Advisory Network (FAN) which is affiliated to CIPFA issued Guidelines in January 2007 in support of the revised Regulations.
- 3.4 The new CIPFA/SOLACE Governance Framework is a discretionary code but the Authority is judged against it as part of CPA and best practice. The new framework outlines six core principles of good governance focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and leads the community. The framework emphasises that good governance and therefore the process and statement should be corporately owned.

## **4. Position Statement and Option Appraisal**

- 4.1. There is an existing process for the review of the control system, collation of information and compilation and monitoring for the Annual Governance Statement to gather assurances on the control systems.

4.2. This Committee is best placed to:

- Consider the new arrangements required for gathering assurances for the preparation of the AGS.
- Consider the robustness of the Council's governance arrangements,
- Monitor any actions arising from the review of the new arrangements.

4.3 The AGS is the formal statement that recognises, records and publishes an authority's governance arrangements as defined in the framework. Under the previous and current guidance every local authority is required to develop and maintain an up-to date local code of governance.

4.4. The Governance, Risk and Assurance Manager submitted a Local Code of Governance to Members, which was approved by the Council on the 20<sup>TH</sup> May 2008. This Code is subject to review by the Corporate Governance Working Group.

4.5 The FAN Guide, which includes suggested evidence and areas of assurance in accordance with the framework's governance principles, has been followed.

## 5. **Governance Statement and the Assurance Gathering Process**

5.1 A flowchart taken from the FAN Guidance (attached as Appendix 2) sets out a framework for compiling the AGS.

5.2 This process is the same as the assurance gathering process previously in place for the SIC, plus applying the six core Principles. The position of Audit Manager is central to the review process and has responsibility for drafting the AGS, evaluating assurances and the supporting evidence and ensuring there is consistency with existing policies and the governance framework. Other Officers who feed into the process are members of the Corporate Governance Working Group.

5.3 Senior Managers currently complete an assurance document on internal control, which feeds into the AGS. This has been reviewed by me as Audit Manager to ensure that it accords with the revised Governance Framework and continue to be a useful source of assurance support.

## 6. **Implications of the report**

### 6.1. **Legal Implications.**

It is a requirement of law that the Council maintains an adequate and effective Internal Audit service.

6.2. **Financial**

There are no direct financial implications as a result of this report.

6.3. **Policy**

There are no direct policy implications as a result of this report.

6.4. **Local Government Review Implications**

The Audit Commission and Durham County Council will take assurance from the AGS as part of the process of transferring this council's financial affairs to the new authority.

6.5. **Risk**

That the Annual governance Statement is not completed, and therefore governance assurance is not given.

6.6. **Communications**

There are no direct communications implications as a result of this report.

**7. Corporate Implications**

7.1. **Corporate Plan and Priorities**

Priority 2 – Striving for excellence in the workplace.

SFE2 – To develop the capacity to achieve within the organisation.

7.2 **Equality and Diversity**

There are no direct implications.

7.3 **E. Government**

There are no direct implications.

7.4 **Procurement**

There are no direct implications.

7.5 **Performance Management and Scrutiny**

There are no direct implications.

7.6 **Sustainability**

There are no direct implications.

7.7 **'Well being powers'**

There are no direct implications.

7.8 **Human Resources**

There are no direct implications.

7.9 **Crime and Disorder**

There are no direct implications.

7.10. **Human Rights**

There are no direct implications.

7.11. **Social Inclusion**

There are no direct implications.

**8. Conclusions**

8.1 For 2008/09 the Council is required to complete the AGS and this Committee is requested to:

- Consider the arrangements for gathering assurances for the preparation of the annual governance statement.
- Consider the robustness of the Authority's governance arrangements.
- Monitor any actions arising from the review of arrangements.

8.2 The assurance gathering process is similar to the previous SIC process and the Audit Manager and the Corporate Governance Group will be the focus for the assurance gathering process.

**9. Recommendations**

9.1 Members are requested to approve the Annual Governance Statement (Appendix 1) and any recommended actions from it.

**Background List of Documents**

CIPFA Finance Advisory Network "The Annual Governance Statement Meeting the requirements of the Accounts and Audit Regulations 2003  
2006 Rough Guide for Practitioners with effect from 2007/8  
DCLG Circular 03/2006  
Delivering Good Governance in Local Government CIPFA/SOLACE  
Code of Practice for Internal Audit in the UK CIPFA 2006  
Corporate Governance Group Workplan

# APPENDIX 1

## ANNUAL GOVERNANCE STATEMENT - 2008/2009

### Scope of responsibility

The District of Easington Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. The 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 providing value for money, which is a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, to discharge its functions effectively and by having regard to the management of risk.

The Council approved and adopted a local code of corporate governance, which has recently been revised and is consistent with the principles of the Chartered Institute of Finance Accounts (CIPFA)/Society of Local Authority Chief Executives (SOLACE) Framework *"Delivering Good Governance in Local Government"*

A copy of the code is on our website at [www.easington.gov.uk](http://www.easington.gov.uk) or can be obtained from the Council Offices, Easington. This statement explains how the Council has complied with the code and 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.

### The purpose of the governance framework

The governance framework includes the systems and processes, culture and values, in terms of how the Council as an accountable body properly conducts its business and how it 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 the 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 the Council's policies, aims and objectives. The system then evaluates the likelihood of those risks being realised, their impact if realised, and to manage them efficiently, effectively and economically.

The revised governance framework has been in place at the Council for the year ending 31<sup>st</sup> March 2009.

## **The governance environment**

*Striving for Excellence in the workplace - Extract from Corporate Plan*

*The Council worked hard to achieve 'Excellent' status through Audit commission inspection, and is proud of this achievement. We want to continually strive to be better. To achieve this, we need to have the best employees and an effective leadership. We must all be able to perform and ensure that our staff understand the part they play in delivering effective, quality services which meets the community's needs. We also have to make sure that we properly manage our financial resources, making best use of resident's money and keeping council taxes to a minimum.*

*We believe that an excellent Council is not only one that is well run, but one which carries out it's role as a community leader to the full. This means bringing partners together for the good of the district and also advocating for Easington at the County, regional and national level. The leadership team in Easington is committed to playing a full part in regional and national affairs for the benefit of our community.*

The key elements of the Council's governance environment are:-

- The District Council has adopted a constitution, which sets out how the council operates, how decisions are made, and the procedures that are followed to ensure that these are efficient, transparent and accountable to local people. This is updated when required during the year and reported to Committee.
- The council has adopted the Leader/Cabinet Model. The Executive Committee is responsible for delivering identifiable, accountable, corporate leadership for the local authority and the people it serves. The facilitation of policy and decision-making is made through the council's Management Team, which meets on a weekly basis, and Scrutiny Committees, which assist the Council and Executive Committee in the development of its budget and the policy framework by in depth analysis of policy issues. Specific procedural rules are in place within the Constitution to govern this.
- Meetings are open to the public except where personal or confidential matters are being disclosed. In addition, senior officers of the council can make decisions under delegated authority.
- The Council has a Standards Committee where membership includes representatives from outside the Council.

The committee has a number of roles including promoting and maintaining high standards of conduct for councillors and co-opted members in accordance with the members code of conduct. The Committee also overviews protocols for member/officer relations, the employee's code of conduct, the confidential reporting code and the planning code of conduct.

- The Council publishes a forward Plan, which contains details of key decisions to be made by the Council, its Committees and Chief Officers under their delegated powers.

- The Council has adopted a revised “Local Code of Corporate Governance” in accordance with the updated CIPFA/SOLACE Framework for Corporate Governance.
- The Council has robust systems for identifying and evaluating all significant risks, which are developed and maintained with the pro-active participation of all those associated with planning and delivering services. A Risk Register is in place and appropriate Members and Officers have been trained in the assessment, management and monitoring of risks. All new risk implications are included with every report to Committee.
- Through reviews by external auditors, external agencies, Internal Audit, Performance Improvement Teams and Value for money Teams, the council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised.
- Trained and experienced people deliver services. All posts have a detailed job description and person specification. Training needs are identified through the Welfare and Appraisal Scheme.
- The council has in post a designated qualified Monitoring Officer., whose function is to report on and to ensure compliance with established policies, procedures, laws and regulations.
- The financial management of the council is conducted in accordance with the financial rules set out in Part 4 of the Constitution and with Financial Regulations. The council has designated the Director of Finance and Corporate Services to undertake those functions in accordance with Section 151 of the Local Government Act 1972.
- The council has in place a Medium Term Financial Plan for the period 2008/9 to 2010/11. The plan is reviewed annually ensuring budgets are fully integrated and aligned to the council’s objectives through its Corporate Plan.
- The council has an agreed programme for managing and improving value for money.
- The council maintains an Internal Audit Section, which operates to the standards set out in the ‘Code of Practice for Internal Audit in Local Government in the UK’.
- The council has an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit and Inspection Letter.
- The council has a performance management framework, which incorporates how we set, intend to deliver and review the council’s objectives at all levels. The system is driven by the Corporate Plan, which focuses attention on corporate priorities. This is cascaded through departmental service plans, individual employee appraisals and action plans. The council’s scrutiny committees monitor and scrutinise progress against targets and performance in priority areas affecting relevant service areas, and consider and approve corrective action where necessary, quarterly.

- The Council has ensured that there are clear channels of communication in place with all sections of the community and other stakeholders and have put in place monitoring arrangements to ensure that they are operating effectively. This can be seen in the Council's corporate plan, which sets out its corporate priorities and objectives and takes into account local priorities. The Council has developed a customer relationship Management (CRM) system, which is used to inform and further improve service delivery. Information taken from the CRM is used to inform the Management Team and the Scrutiny Committee. The Council has developed and implemented a comprehensive award winning website to ensure clear and concise channels of communication.
- The Council has set out clear guidelines for whistleblowing arrangements within the Constitution, and in the confidential Reporting code within the Financial Regulations.  
This is also included within the Councils Anti fraud and corruption strategy.
- The Council has implemented a complaints procedure and feedback received is used to monitor service delivery and to make improvements as necessary.
- A Partnerships Framework is in place that includes a partnership checklist to demonstrate a business case when entering partnerships and a partnership toolkit to review existing partnerships. The Risk Management Strategy Steering Group on the 8<sup>th</sup> January 2009 reviewed the Council's Register of Key Partnerships and prioritised them using four criteria: -
  - The Partnership has direct links to the Council's strategic objectives
  - The Partnership has a lifespan after 31<sup>st</sup> March 2009.
  - The Partnership is a contractual arrangement and/or is a relationship of mutual benefit.
  - The impact of the Partnership on the Council's strategic objectives.

Using the above the top four prioritised partnerships were identified for review, supported by a partnership action plan.

- The Councils main partner is East Durham Homes (EDH), which is a contractual partner and has links to the council. The governance structure is laid down in the Articles of Association and Management Agreement agreed with and issued by the District of Easington. This sets out the responsibilities of EDH and its Chief Officers

## **Review of Effectiveness**

### *Corporate governance arrangements*

The 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 managers within the authority who have responsibility for the development and maintenance of the governance environment, the Audit Manager's annual report, and also by comments made by external auditors and other review agencies and inspectorates.

A detailed review of the current local code of Governance workplan, was undertaken by the Corporate Governance Group (on 23<sup>RD</sup> January 2009) comprising of senior officers and working to an agreed terms of reference. Areas for improvement were identified and action agreed.

Within the process the group reviewed the Council's Local Code of Governance, which was presented to Audit Committee on the 12<sup>TH</sup> March 2009. Further to the above, the process of review and the annual governance statement was reported and considered by the Audit Committee that has responsibility for ensuring that robust corporate governance arrangements are in place to provide assurance that business is being conducted effectively and efficiently. (This included a review of the assurance statements).

#### *System of internal control*

In addition to the above the Council has responsibility for conducting annual reviews of the system of internal control. The review of the effectiveness of the system is informed by the work of the internal auditors and those senior managers within the authority who have responsibility for the development and maintenance of the internal control environment.

The process that has been applied in maintaining and reviewing the effectiveness of the system of internal control includes the following:

- The Monitoring Officer regularly monitors and reviews how the Constitution operates to ensure that its aims and principles are given full effect.
- During 2008/2009 the council had a Scrutiny Management Board, which comprises of the Chairs and Vice Chairs of the council's three Scrutiny Committees, which meet after the council's Executive Committee to consider whether there are any issues in need of referral to the individual Scrutiny Committees. As a significant partner the scrutiny process considers the performance of East Durham Homes.
- The council has delegated to the Audit Committee the responsibility for reviewing the adequacy of internal controls, monitoring the performance of internal audit, considering the external audit plan, monitoring corporate performance of the Council and considering the governance arrangements.
- The council's Management Team meet weekly to discuss strategic matters together with endorsing individual reports prior to them being considered by the council's relevant Committees.
- The council's internal audit section undertakes the audit of the council. The audits are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Internal Audit Standards with responsibility for monitoring the quality and effectiveness of the systems of internal control. A risk model is normally used to formulate and annually update, a three-year strategic plan, from which the annual audit plan is developed. However, for 2008/2009 an annual plan was agreed by the Audit Committee that included work for Local Government Reorganisation. (Audit committee report 13<sup>th</sup> March 2008)

There are quarterly Internal Audit reports to Audit Committee on the progress of the work carried out by the Audit Section, which summarises the findings and recommendations of each audit.

An annual audit report is completed to give an overall opinion of the Councils Internal controls. (Audit Committee 24<sup>th</sup> March 2009). In terms of the work carried out by Internal Audit for 2008/2009, they were of the opinion that the council's key systems are operating soundly and there were no fundamental breakdown in controls resulting in material discrepancies, and that satisfactory arrangements are in place to ensure the council's financial affairs are conducted in an effective, efficient and economical manner.

A report on the effectiveness of the internal Audit Section was considered examined and approved by Management Team (16<sup>th</sup> February 2009) and Audit Committee (12<sup>th</sup> March 2009).

- The Internal Audit Section is subject to regular inspection by the Audit commission, the Council's external auditors.
- The council reviews its Financial Regulations every year.
- The Governance and Risk Management Officer provides reports to the Management Team bringing their attention to any significant risks. The council reviews its risks through directorate service plans, which inform the corporate plan. New risks are identified throughout the year in reports to Committee and included on the risk register.
- The council's performance management framework is supported by the operation of performance improvement teams, which focus on key performance results, trends and improvement. Performance reports are issued every three months and are supported by Officer and Member workshops when necessary. Reports are made to:
  - Corporate Support Team
  - Management Team
  - Executive Committee
  - Scrutiny Committees
  - Audit Committee.
- The council was rated as "Excellent" in the comprehensive performance assessment. Follow up reports through the Audit Commission's Direction of Travel Statement are very positive in relation to performance management, which is now embedded within the council.
- In saying the above, systems of control cannot provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance; this statement is intended to provide reasonable assurance. There is an ongoing process in place to identify, evaluate and manage key risks, and these are reflected in the audit plan and are subject to separate reports during the year.

## **General**

The Audit Commission annually reviews the financial aspects of corporate governance at the council, which includes the work of Internal Audit. In carrying out this work the commission seeks assurances that systems of internal financial control are in place and effective.

## **East Durham Homes (EDH)**

The business of East Durham Homes is conducted through the EDH Board consisting of district councillors, independent members and tenants. The company is a significant partner of the council and as such is included in this statement.

- EDH is scheduled to undergo a further inspection by the Audit Commissions Housing Inspectorate in June 2009 to hopefully secure additional capital funding to improve the council's housing stock. They are required to achieve a 2 star rating to access the funding. The previous inspection assessed the Company as fair with uncertain prospects for improvement, and an action plan was produced outlining areas that required further improvement. Some of these areas do affect the corporate governance of EDH.
- EDH have appointed their own Internal Auditors from April 2008 but the Council's Internal Audit Manager still retains responsibility for monitoring the Governance arrangements at the company. This is achieved by receipt of relevant information and by holding quarterly meetings with the Company's Internal Auditors and Director of Finance and Corporate Services. In addition the Audit Manager is provided with assurance statements from the Senior Managers of EDH.

## **Significant Governance Issues**

It is not considered that there are any significant governance issues to address, however, following reviews of the local code of Governance and of Partnerships, we have addressed the items referred to in the 2007/8 statement.

We are therefore satisfied that these steps will improve the governance and control arrangements and their implementation and operation will be monitored within the new Council.

**LEADER OF THE COUNCIL**  
**DATE**

**CHIEF EXECUTIVE**  
**DATE**

**APPENDIX 2**

*Flowchart 1: Review of Annual Governance Statement and the Assurance Gathering Process*

