

# Charter Trustees for the City of Durham

26 June 2024

## Annual Governance Statement 2023/24



City of Durham

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### Report of Rob Davisworth, Treasurer

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#### Purpose of the Report

- 1 This report provides details of the Annual Governance Statement (AGS) for the year April 2023 to March 2024. The AGS will need to be formally approved as part of the consideration of the Annual Governance and Accountability Return 2023/24 and is attached at Appendix 2.

#### Executive summary

- 2 This report details the 2023/24 Annual Governance Statement, which demonstrates how the Charter Trustees comply with the requirements of the Accounts and Audit Regulations 2015 in relation to the annual review of the effectiveness of its system of internal control.
- 3 The statement is contained within Section 1 of the Annual Governance and Accountability Return and must be considered and approved in advance of the approval of the annual accounts.
- 4 There are eight assertions within the statement relating to good governance, financial management and internal control. Evidence is provided within the report setting out how the Charter Trustees have complied with each assertion, providing Trustees with assurance that governance arrangements are sound and operating effectively.
- 5 Trustees should be aware that the annual Internal Audit report provided a Substantial overall assurance opinion on the adequacy and effectiveness of internal control operating across the Charter Trust in 2023/24. This opinion has been taken into account in providing the assurance that the Charter Trustees requires in considering the Annual Governance Statement.

#### Recommendation(s)

- 6 It is recommended that:-

- The content of the 2023/24 Annual Governance Statement is noted.
- The Chair and Treasurer approve and sign the 2023/24 Annual Governance Statement as part of the consideration of the Annual Governance and Accountability Return 2023/24.

## **Background**

- 7 The Charter Trustees for the City of Durham 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. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in a way which functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
- 8 In discharging this overall responsibility, the Charter Trustees for the City of Durham is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk and performance.
- 9 The Charter Trustees for the City of Durham has adopted and operates under (via Durham County Council), a Local Code of Corporate Governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) Framework – ‘Delivering Good Governance in Local Government’. The Annual Governance Statement (AGS) explains how the Charter Trustees comply with this code and also meets the requirements of the Accounts and Audit Regulations 2015 in relation to an annual review of the effectiveness of its system of internal control.
- 10 The AGS will need to be formally signed by the Chair and Treasurer (Durham County Council’s Corporate Director: Resources) to the Charter Trustees for the City of Durham and published along with the Charter Trustees Annual Return no later than the 30 June 2024.

## **The Annual Governance Statement (AGS)**

- 11 The Annual Governance Statement is based around a number of statements or assertions in relation to good governance, financial management and internal control.
- 12 In approving the AGS, the Charter Trustees are required to provide an answer of ‘yes’ or ‘no’ to each assertion.
- 13 The Charter Trustees are expected to have relevant evidence in place to support each ‘yes’ answer and would need to provide an explanation to the external auditor if it is not able to provide a ‘yes’ answer, including details of how the Trustees will address any identified weaknesses in its governance arrangements.

- 14 The eight assertions relevant to the Charter Trust are summarised below:
- i. We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.*
  - ii. We maintained an adequate system of internal control including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.*
  - iii. We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and Proper Practices that could have a significant financial effect on the ability of this authority to conduct its business or manage its finances.*
  - iv. We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations.*
  - v. We carried out an assessment of the risks facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.*
  - vi. We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.*
  - vii. We took appropriate action on all matters raised in reports from internal and external audit.*
  - viii. We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this authority and, where appropriate, have included them in the accounting statements.*
- 15 The statement is initially compiled by the Finance Manager, Resources and Regeneration, in accordance with guidance contained within the Framework and reflects the current position for the Charter Trustees.
- 16 The statement is evidence based and relies upon the review of the effectiveness of internal audit undertaken by the Audit Committee of Durham County Council, internal audit's views, having carried out a review during the year and commented on the assurance given by each, external auditors and other review agencies and inspectorates

and the assurances contained within their reports to the Charter Trustees for the City of Durham.

- 17 The Statement is submitted to the Charter Trustees for the City of Durham for approval with submission to External Audit – PKF Littlejohn LLP by 30 June 2024.

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## **Appendix 1: Implications**

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### **Legal Implications**

The Accounts and Audit Regulations and Code of Practice set out the legal and regulatory framework in which the accounts of the Charter Trustees are prepared. The proposals within this report seek to strengthen the Charter Trustees compliance with these regulations.

### **Finance**

Finance planning and management is a key component of effective corporate governance.

### **Consultation**

Engaging local communities meets a core principle of the CIPFA/SOLACE guidance.

### **Equality and Diversity / Public Sector Equality Duty**

Engaging local communities including hard to reach groups meets a core principle of the CIPFA/ SOLACE guidance.

### **Human Rights**

None.

### **Crime and Disorder**

None.

### **Staffing**

Ensuring staff are adequately trained and professionally competent to meet the core principles of the CIPFA/SOLACE guidance.

### **Accommodation**

Asset Management is a key component of effective corporate governance.

### **Risk**

Risk is intrinsic to the system of internal audit and governance.

### **Procurement**

None.

### **Climate Change**

None.

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## Appendix 2: Annual Governance Statement

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### 1 Responsibility

The Charter Trustees for the City of Durham 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. It also has a responsibility 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.

The Charter Trustees for the City of Durham is also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk and performance.

The Charter Trustees for the City of Durham has adopted a local code of corporate governance, which is consistent with the principles of the CIPFA / SOLACE Framework `Delivering Good Governance in Local Government` and operates under the policies and strategies including Contract Procedure Rules, Financial Procedure Rules, Financial Regulations, developed, agreed and adopted by the Durham County Council.

### 2 Requirements

The Accounts and Audit Regulations 2015 require smaller authorities to prepare an Annual Governance Statement (AGS) every year.

The AGS is set out in Section 1 of the Annual Governance and Accountability Return and sets out eight statements or 'assertions'. These are summarised below:

- i. We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.*
- ii. We maintained an adequate system of internal control including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.*



- iii. We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and Proper Practices that could have a significant financial effect on the ability of this authority to conduct its business or manage its finances.*
- iv. We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations.*
- v. We carried out an assessment of the risks facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.*
- vi. We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.*
- vii. We took appropriate action on all matters raised in reports from internal and external audit.*
- viii. We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this authority and, where appropriate, have included them in the accounting statements.*

In approving the Annual Governance Statement, the Charter Trustees are required to provide an answer of 'yes' or 'no' to each of the above assertions.

The Charter Trustees are expected to have relevant evidence in place to support each 'yes' answer and would need to provide an explanation to the external auditor if it is not able to provide a 'yes' answer, including details of how the Trustees will address any identified weaknesses in its governance arrangements.

This document evidences how the Charter Trustees comply with the requirements behind each assertion, as set out in 'Governance and Accountability for Smaller Authorities in England – A Practitioners' Guide to Proper Practices'.

### **3 Governance Arrangements during 2023/24**

The key elements of the systems and processes that comprise the governance arrangements are detailed in Durham County Council's Local Code of Corporate Governance, which is documented in the Council's Constitution. This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the eight statements or assertions.

The following sections demonstrate assurance that the Charter Trustees have complied with each of these assertions in practice, and also highlights where we have further improved our corporate governance arrangements during 2023/24.

**Assertion 1: We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.**

The Charter Trust prepares a Revenue budget in advance of each financial year and robust budget setting processes are in place to support the Charter Trust's decision making process. The budget makes prudent but realistic estimates of income and expenditure and the need to maintain prudent levels of reserves.

Comprehensive monthly budgetary control systems including income and expenditure reconciliations and the preparation of regular financial reports which indicate actual expenditure against budget and forecast year end positions are also undertaken and reported quarterly to the Charter Trust, with corrective action being taken where required to address any budget issues.

The Treasurer is responsible for:

- ensuring the proper administration of the financial affairs of the Charter Trust
- establishing the Financial Management Standards and monitoring compliance with them
- reviewing the Financial Management Standards regularly to ensure they remain fit for purpose
- ensuring that proper professional practices, standards, and ethics are adhered to
- advising on the key strategic controls necessary to secure sound financial management
- ensuring that financial staffing resources are adequate to maintain adherence to these standards

- establishing a framework of documented business processes that support these financial management standards and ensuring that they are reviewed regularly

The Charter Trust prepares accounting statements each year via the Annual Return and these are supported by comprehensive working papers, supporting records and reconciliations.

Officers undertake a monthly reconciliation of the Charter Trust's bank accounts to the accounting records held on its financial management system. Quarterly budgetary control reports setting out actual spending and income against budget and details of financial performance are reported to the Charter Trust. The year end bank reconciliation also forms part of the year end external audit's limited assurance review.

The Finance Manager, Resources and Regeneration is responsible for putting in place sound arrangements for ensuring that the Charter Trust's annual accounts are accurately prepared in accordance with statutory obligations and proper practices. The accounting statements are set out in the Annual Return and are prepared in accordance with 'Governance and Accountability for Smaller Authorities in England – A Practitioners' Guide to Proper Practices to be applied in the preparation of statutory annual accounts and governance statements'. The accounting statements are approved by the Charter Trust prior to 30 June every year, in accordance with the statutory timetable set out in the Accounts and Audit regulations 2015.

**Assertion 2: We maintained an adequate system of internal control including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.**

The Charter Trust, via its lead authority Durham County Council has in place comprehensive Financial Management Standards governing how it operates in accordance with the law and proper practices. These are supported by various policies and procedures covering specific requirements.

The Financial Management Standards cover how the Charter Trust orders goods and services, incurs liabilities, manages debtors, makes payments and handles receipts and how it puts in place efficient arrangements for safeguarding public money. A Risk Management strategy is in place supported by risk registers. Risk assessments are carried out and the registers updated on an annual basis. The Charter Trust employs an Internal Auditor to undertake audits of all key services and systems and report on possible weaknesses or required improvements in internal controls. The system of internal control is risk based and focussed on key risk areas such as cash and fixed assets.

The Charter Trust, via its lead authority pays its staff in accordance with an approved establishment list and grading structure and in line with the terms and conditions as set out in the National Joint Council for Local Government Services 'Green Book' which sets out the national agreement on pay and conditions of service for local government staff. Comprehensive internal controls and checks are in place around the payroll system with significant internal audit time spent checking the accuracy and legitimacy of salary payments. The Charter Trust is responsible for ensuring compliance with all duties under employment legislation and has met its pension obligations and is not aware of any instances of non-compliance.

The Corporate Director: Resources and Treasurer to the Charter Trust is responsible for ensuring that the Charter Trust meets its statutory responsibilities in relation to VAT and putting in place robust arrangements for the processing of VAT and ensuring that the quarterly VAT claims are processed accurately and on time. All finance officers have had VAT training.

The Charter Trust has responsibility for conducting 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 senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the annual report of the Chief Internal Auditor and Corporate Fraud Manager, and also by comments made by the external auditors and other review agencies and inspectorates.

**Assertion 3: We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and Proper Practices that could have a significant financial effect on the ability of this authority to conduct its business or manage its finances.**

The Charter Trust is responsible for ensuring that all relevant laws and regulations have been complied with in the undertaking of all service activity and decision making.

Durham County Council and Charter Trustees for the City of Durham Constitutions set out how they operate, how decisions are made and the procedures which are followed to ensure that these are effective, transparent and accountable to service users.

Charter Trustees for the City of Durham ensures that its financial management arrangements conform to CIPFA standards by:-

- Appointing as its Treasurer, the Corporate Director: Resources from the lead authority along with the Finance Manager, Resources and Regeneration under the scheme of delegated responsibilities by the Treasurer. The Corporate Director and Finance Manager are professionally qualified and possess the necessary skills, knowledge and experience to perform effectively in both a financial and non-financial role
- Ensuring the finance function in support to the Treasurer is adequately qualified and resourced to fulfil its duties and a structure is in place that provides a line of professional accountability for the finance staff
- Ensuring that key CIPFA Codes such as the Prudential Framework for Local Authority Capital Finance and the Treasury Management Code are complied with where required
- Producing Monthly Budgetary Control Reports which are considered on a quarterly basis by the Charter Trust
- Ensuring proper Internal Audit, Risk and Governance arrangements are in place

The Internal Audit Section is also subject to an annual review of its activities and performance. Evidence of the effectiveness of the Audit Service is presented to, and reviewed by the Audit Committee of the lead authority, Durham County Council.

The Charter Trust has various measures in place to ensure that it does not take any decisions during the year that may exceed its powers or contravene any laws, regulations or proper practices. The lawfulness of all decisions referred to the Charter Trust is always considered by senior officers and is clearly referenced in reports, particularly in relation to decisions involving income or expenditure. The Charter Trust is not aware of any instances of non-compliance with law and regulations during 2023/24.

The Corporate Director of Resources & Treasurer to the Charter Trust ensures full compliance with the requirements of the Accounts and Audit Regulations 2015 in relation to the Charter Trust's financial management, accounting and audit arrangements.

**Assertion 4: We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations.**

The Charter Trust provides the opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations. The Treasurer publishes on the website

Sections 1 and 2 of the Annual Governance and Accountability Return, with a declaration that the status of the statement of accounts is unaudited and a statement detailing how public rights can be exercised.

A notice of the conclusion of the external auditor's limited assurance review of the Annual Governance and Accountability Return, together with the relevant accompanying information is also published on the website in accordance with the requirements of the Accounts and Audit Regulations 2015.

**Assertion 5: We carried out an assessment of the risks facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.**

Durham County Council and Charter Trustees for the City of Durham Constitutions set out how they operate, how decisions are made and the procedures which are followed to ensure that these are effective, transparent and accountable to service users.

A risk management approach is in operation that aids the achievement of strategic objectives, supports the decision making processes, protects the reputation of the Charter Trust and is compliant with statutory and regulatory obligations.

The Charter Trustees for the City of Durham ensures that the Risk Management approach:-

- Is conducted in accordance with the Risk Management Policy and Strategy of Durham County Council.
- Has strategically aligned the Internal Audit and Fraud service provision to enable access to trained investigators and allow greater coverage of counter fraud work when required
- Includes a Fraud Awareness training programme undertaken by Senior Officers

Involves regular reports by internal audit to those charged with governance, to standards defined in the CIPFA Code of Practice and in accordance with the Accounts and Audit Regulations 2015. These include the Chief Internal Auditor and Corporate Fraud Manager's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

Risk based assessments of key financial systems are carried out in the final quarter of the financial year to ensure maximum coverage of the Trust's financial transactions and provide an informed opinion on the robustness, adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

The production of a Risk Register with annual reviews undertaken by the Clerk, along with action plan reports are produced and approved where necessary. Full details are reported to the Charter Trust on an annual basis.

Risks are evaluated in a logical and straightforward process. Service risk assessments are based on the impact on finance, service delivery and stakeholders if the risk materialises, and also the likelihood that the risk will occur over a given period. Operational risk assessments are based on the health and safety risk assessment criteria, which include the likelihood of occurrence.

**Assertion 6: We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.**

The Charter Trust's internal audit provider is Durham County Council Internal Audit Services. The Internal Audit service is delivered in accordance with the requirements of the Accounts and Audit Regulations 2015 'for undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

The Internal Audit service applies a risk based audit approach and when determining the annual audit opinion considers the following:

- The adequacy of risk identification, assessment and mitigation
- The adequacy and application of controls to mitigate identified risk
- The adequacy and extent of compliance with Durham County Council's corporate governance framework
- The extent of compliance with relevant legislation
- The extent to which the organisation's assets and interests are accounted for and safeguarded from loss of all kinds including fraud, waste, extravagance, inefficient administration and poor value for money
- The quality and integrity of financial and other management information utilised within the organisation

The Internal Audit service conforms to the requirements of the UK Public Sector Internal Audit Standards (PSIAS) as evidenced through an external assessment by 'self-assessment with independent external validation'.

Durham County Council's Financial Management Standards include a specific requirement that internal auditors are given access at all reasonable times to premises, personnel, documents and assets that the auditors consider necessary for the purposes of their work. This complies with the requirements of the Accounts and Audit Regulations 2015.

**Assertion 7: We took appropriate action on all matters raised in reports from internal and external audit.**

The Charter Trust's Internal Auditor reports the conclusions and recommendations from every audit examination to the Charter Trust on an annual basis and follows up on audit recommendations in subsequent audits to ensure that they have been implemented.

The Charter Trust considers the annual review of the Annual Return from the external auditors and the Corporate Director of Resources and Treasurer to the Charter Trust would put in place an action plan to deal with any matters raised, as and when necessary.

**Assertion 8: We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this authority and, where appropriate, have included them in the accounting statements.**

During the annual closedown of the accounts, the Corporate Director of Resources and Treasurer to the Charter Trust assess whether there have been any events during the financial year or after year end, which may have potential consequences on the Charter Trust's finances. If any such events are identified, the Treasurer will determine whether the financial consequences need to be reflected in the accounting statements and disclose them as necessary.

#### **4 Significant Governance Issues**

Charter Trustees for the City of Durham are fully committed to the principles of Corporate Governance, and have made further progress in recent months in developing its arrangements.

The Internal Audit Section sought further assurance, via its annual plan of work and review of key systems.

As a result, Internal Audit has provided **Substantial** overall assurance opinion on the adequacy and effectiveness of internal control operating across the Charter Trustees in 2023/24. This opinion provides assurance



that there is a sound system of control in operation and there are no significant control weaknesses that warrant inclusion within the Annual Governance Statement.

## **5 Assurance Statement**

We have been advised on the implications of the result of the review of the effectiveness of the governance framework and the system of internal control by the Charter Trustees for the City of Durham and are satisfied that plans to address weaknesses and ensure continuous improvement of the system are in place.

**SIGNED:**

**Chair to the Charter Trustees**

**26 June 2024**

**Corporate Director of Resources and Treasurer to the Charter Trustees**

**26 June 2024**