

Audit and Governance Committee

15 January 2008

Report of the Assistant Director of Resources (Audit & Risk Management)

Annual Governance Statement

Summary

- 1 The purpose of this report is to introduce to Members the Annual Governance Statement (AGS) which will be published as part of the 2007/08 Statement of Accounts, and which replaces the Statement on Internal Control (SIC). The report also advises Members of the changes resulting from this new statutory requirement, and on the process which will be followed to enable publication of the 2007/08 AGS.

Background

- 2 CIPFA/SOLACE originally published a guidance document for local authorities in 2001, called *Corporate Governance in Local Government: A Keystone for Community Governance*. The guidance was not mandatory but was intended to help authorities to develop and maintain strong governance arrangements. The Accounts and Audit Regulations 2003 introduced the requirement for each local authority to conduct a review of the effectiveness of its system of internal control and to publish a SIC as part of the annual accounts. The Council first published a SIC in 2003/04.
- 3 The SIC formed an important part of the overall process within the Council for monitoring and reporting on the adequacy and effectiveness of its corporate governance arrangements, particularly those in respect of risk management and internal control. Publication of the SIC enabled the Council to formally report on governance related issues identified during the relevant accounting period. The SIC demonstrated openness and accountability to the public and other stakeholders, and provided:
 - a framework for improving the adequacy and effectiveness of corporate governance arrangements, and;
 - evidence for CPA.
- 4 The Department for Communities and Local Government issued guidance in 2006 (Circular 03/2006) which gave the CIPFA/SOLACE Corporate Governance Framework document 'proper practice' status.

- 5 CIPFA/SOLACE recently published an updated Framework document. The new document '*Delivering Good Governance in Local Government Framework*' sets out six core principles of governance which authorities are required to adopt:
- Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
 - Members and officers working together to achieve a common purpose with clearly defined functions and roles;
 - Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
 - Developing the capacity and capability of Members and officers to be effective;
 - Engaging with local people and other stakeholders to ensure robust public accountability.
- 6 The new guidance also introduced the requirement on local authorities to prepare an Annual Governance Statement (AGS) instead of a SIC (from 2007/08 onwards). In preparing the AGS it is necessary to address the overall governance arrangements of the organisation rather than specifically the systems of internal control.

Annual Governance Statement

- 7 The Council adopted a new local Code of Governance in September 2007 which reflects the new CIPFA/SOLACE framework. Although the process followed to prepare the SIC was robust and will form the foundation for preparing the AGS a number of changes are required to ensure that the Council:
- has formally compared its existing governance arrangements against the CIPFA/SOLACE framework and the local Code of Governance, and has reported on the extent of compliance;
 - can clearly demonstrate that the process has corporate ownership;

Existing Process for Preparing the SIC

- 8 The Council had developed a robust system to prepare the annual SIC. The process was coordinated by the Officer Governance Group, and included:
- Inviting key Members (with governance responsibilities) to identify and report significant control issues;

- Requiring each Directorate to complete a detailed control self assessment, designed to identify the existence, and measure the effectiveness of, key controls;
 - Completing a similar corporate key control self assessment;
 - Each Director being required to complete and sign a Directorate Assurance Statement (using the information gathered through the Directorate self assessment and other sources);
 - The S151 Officer and the Monitoring Officer being required to complete and sign a similar Assurance Statement;
 - A detailed review by Internal Audit of all audit and inspection reports to gather evidence of possible significant control issues;
 - A follow up review of significant control weaknesses reported in the previous year's SIC.
- 9 The review process also took into account the opinion of the Chief Internal Auditor on the overall adequacy and effectiveness of the Council's internal control environment.
- 10 The Officer Governance Group evaluated the control issues identified through the review process and considered which should be disclosed as significant control weaknesses. The significant control issues identified through the process were discussed with the Leader and a copy of the proposed SIC was considered by Corporate Management Team (CMT). The draft SIC was also presented to the Audit and Governance Committee prior to it being reported to the Executive for their approval and recommendation to Full Council (as part of the report on the Statement of Accounts). The SIC was signed by the Leader and the Chief Executive.
- 11 Although not specifically recommended by CIPFA, the Council already linked the SIC process to the CIPFA/SOLACE Corporate Governance framework and made clear reference to it.

Required Changes

- 12 To enable preparation of the AGS it is proposed that:
- the process continues to be coordinated by OGG but that CMT is engaged at an earlier stage;
 - the existing process (including the Directorate and Corporate self assessments) is adapted so that it clearly focuses on the six governance principles rather than simply the Council's system of internal control;
 - CMT formally takes ownership of the corporate self assessment and any identified weaknesses;
 - Greater emphasis is placed on the importance of the Assurance Statements prepared by the Directors, the S151 Officer and the Monitoring Officer;

- The Chief Executive is also required to complete and sign an Assurance Statement;
- Chief Officers are made more aware of their governance responsibilities;
- For the 2007/08 AGS, Internal Audit will initially map the Council's existing governance arrangements and identify gaps. This exercise will help to confirm the existence of the current governance arrangements, identify ownership and assess the level of assurance required;
- In future years, Internal Audit will provide independent assurance on the effectiveness of these governance arrangements. This will necessitate some changes in emphasis when the Audit Plan is prepared.

Action Plan Monitoring for the 2006/07 SIC

- 13 Internal Audit is currently undertaking a follow up exercise to identify the progress which has been made in addressing the significant control issues identified in the 2006/07 SIC. The results of this review will be reported to this Committee at the April meeting. A copy of the final 2006/07 SIC is attached for information (see annex 1).

Proposed Timetable

- 14 The following timetable is proposed for the 2007/08 AGS;

Action	Target Completion Date
Completion of amendments to Directorate and Corporate key control self assessments by Internal Audit	31/01/08
Deadline for receipt of Directorate key control self assessments	30/4/08
Deadline for the completion of the Corporate key control self assessment	30/4/08
Deadline for receipt of Directorate Assurance Statements	9/5/08
Deadline for receipt of Chief Executive, S151 and Monitoring Officer Disclosure Statements	9/5/08
Completion of exercise for mapping the Council's Governance processes and evidence gathering (by Internal Audit)	9/5/08

Deadline for the receipt of control/governance related issues from Members	9/5/08
Consideration of identified control weaknesses by OGG, for possible inclusion in the AGS	16/5/08
Deadline for the preparation of the draft AGS and circulation to OGG	23/5/08
Consideration of the draft AGS by CMT	4/6/08*
Completion of the formal consultation on the draft AGS with the Leader and Chief Executive	11/6/08
Final amendments to the AGS to be completed	13/6/08
Audit and Governance Committee to receive the Annual Report of the Chief Internal Auditor, and the Review of the Effectiveness of Internal Audit.	TBA*
Audit and Governance Committee to consider the draft Annual Governance Statement	TBA*
Executive to receive the Annual Governance Statement (together with the 2007/08 Statement of Accounts)	TBA*
Full Council to approve the Annual Governance Statement (together with the 2007/08 Statement of Accounts)	TBA*
AGS to be signed by the Leader and Chief Executive	TBA*

* June 2008 - dates of meetings to be confirmed.

Consultation

15 Not relevant for the purpose of the report.

Options

16 Not relevant for the purpose of the report.

Analysis

17 Not relevant for the purpose of the report.

Corporate Priorities

18 This report contributes to the Council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. It also contributes to all the improving organisation effectiveness priorities.

Implications

19 The implications are;

- **Financial** – there are no financial implications other than the time required to undertake the review of key controls and prepare the AGS.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** - there are no equalities implications to this report.
- **Legal** - there is a legal requirement for the Council to publish a Annual Governance Statement as part of the annual Statement of Accounts.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** - there are no IT implications to this report.
- **Property** - there are no property implications to this report.

Risk Management Assessment

20 The Council will fail to comply with legislative requirements if it does not publish a Annual Governance Statement with the annual Statement of Accounts. The Council would be criticised by the external auditor if the process followed to prepare the Annual Governance Statement was not sufficiently robust. This in turn would adversely impact on the Council's CPA score for the Use of Resources and therefore its overall CPA score when it is re-assessed.

Recommendation

21 Members are asked to:

- note the new statutory requirement for the Council to produce an Annual Governance Statement and to publish this as part of the 2007/08 Statement of Accounts;

Reason

To ensure that the Council complies with relevant legislation.

- consider and agree the proposed process and timetable for completion of the 2007/08 AGS;

Reason

To ensure that the Council complies with relevant legislation.

Author:

Max Thomas
Audit and Fraud Manager
Audit and Risk Management
Telephone: 01904 552940

Chief Officer Responsible for the report:

Liz Ackroyd
Assistant Director (Audit and Risk Management
Telephone: 01904 551706

Report Approved



Date 27/12/07

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

- Accounts and Audit Regulations 2003 (as amended)
- CIPFA/ SOLACE guidance:
Corporate Governance in Local Government: A Keystone for Community Governance
Delivering Good Governance in Local Government Framework

Annexes

Annex 1 – 2006/07 Statement of Internal Control