

Report to Audit committee
 23 July 2013
Report of Head of internal audit and risk management, LGSS
Subject Draft annual governance statement 2012-13

Item

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Purpose

To review the effectiveness of the council's governance arrangements and approve the draft annual governance statement for 2012-13.

Recommendations

To:

- (1) review the effectiveness of the council's governance arrangements;
- (2) approve the draft annual governance statement for 2012-13.

Corporate and service priorities

The report helps to meet the corporate priority Value for money services.

Financial implications

None directly.

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

Contact officers

Paul Clarke, Head of internal audit and risk management, 01604 367130
LGSS

Steve Dowson, audit manager – Norwich, LGSS 01603 212575

Background documents

None

Report

Background

1. One of the requirements in the Accounts and Audit Regulations 2011 is for the reporting of an annual governance statement (AGS) for 2012-13. The governance statement provides public assurance that the council's governance framework is adequate and effective.
2. In 2001 CIPFA and SOLACE produced a framework of good governance for use in local government. The framework recommended that local authorities review their existing governance arrangements and report annually on their effectiveness in practice.
3. The framework states that "good governance leads to good management, good performance, good stewardship of public money, good public engagement, and, ultimately, good outcomes for citizens and service users. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk."
4. Using the principles in section three of the framework the council adopted a revised code of governance in October 2008.
5. Both the framework and the CIPFA code of practice on local authority accounting in the United Kingdom 2012-13 state that the governance statement should cover all significant corporate systems, processes and controls, including in particular those designed to ensure that:
 - the authority's policies are implemented in practice
 - high quality services are delivered efficiently and effectively
 - the authority's values and ethical standards are met
 - laws and regulations are complied with
 - required processes are adhered to
 - performance statements and other published performance information are accurate and reliable
 - human, financial and other resources are managed efficiently and effectively.
6. In 2012, CIPFA and SOLACE reviewed the framework and produced an addendum which needs to be reflected in the AGS for 2012-13. There are a number of additions to the key elements of the governance arrangements, which have been included in section 3 of the AGS.
7. The full addendum is attached at **annex 1** for information, with the additional elements highlighted on pages 6 and 7.
8. The draft statement and supporting evidence have already been considered by the corporate leadership team and the head of law and governance (as monitoring officer).

9. The draft annual governance statement accompanies the statement of accounts which has to be published by 30 June, but may subsequently be amended following review by the Audit Commission's appointed auditor.

The annual review of the effectiveness of governance arrangements

10. The framework requires that the council should undertake regular, at least annual, reviews of its governance arrangements to ensure continuing compliance with best practice as set out in the framework. It is important that such reviews are reported on both within the council, in the council's case to corporate leadership team and audit committee, and externally with the published accounts, to provide assurance that:
- governance arrangements are adequate and operating effectively in practice, or
 - where reviews of the arrangements have revealed gaps, action is planned that will ensure effective governance in future.

11. The Audit Commission has commented that

“..authorities need to recognise that this is a corporate issue, affecting everyone in the organisation. It is also important to recognise that the purpose of the annual governance statement is not just to be ‘compliant’, but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required. This will also demonstrate to stakeholders what those arrangements are.”

The draft annual governance statement

12. The draft annual governance statement for 2012-13 is part of the unaudited statement of accounts for the year ending 31 March 2013 – as this is on today's agenda it was felt to be unnecessary to also attach the draft AGS to this report.
13. The draft AGS can be found on pages 102 to 114 of the statement of accounts (please note this refers to page numbers in the accounts, not the agenda page numbers).
14. A ‘good’ governance statement is an open and honest self-assessment of the council's performance across all of its activities, with a clear statement of the actions being taken or required to address any areas of concern.
15. The format and contents follow the guidance in the CIPFA/SOLACE framework and addendum. The statement also complies with the requirements of the CIPFA code of practice on local authority accounting in the United Kingdom 2012-13.

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in Local Government: Framework

Addendum

December 2012



CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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SOLACE (the Society of Local Authority Chief Executives and Senior Managers) is the representative body for senior strategic managers working in the public sector. The Society promotes public sector management excellence and provides professional development for its members who come from all areas of the public sector. Whilst the vast majority of its members work in local government it also has members operating in senior positions in health authorities, police and fire authorities and central government. SOLACE spans all of the UK, having membership in Northern Ireland, Wales, Scotland and England.



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INTRODUCTION

Following extensive research and consultation, the CIPFA/SOLACE Joint Working Group issued *Delivering Good Governance in Local Government: Framework* and an accompanying guidance note in 2007. The principles and standards set out in the Framework are aimed at helping local authorities to develop and maintain their own codes of governance and discharge their accountability for the proper conduct of business. The Framework is helping authorities to improve their performance, give local people better local services and provide stronger leadership for communities.

The Framework emphasises the importance of good governance to the wider outcomes of good management, good performance, and good public engagement. It puts high standards of conduct and leadership at the heart of good governance, placing responsibility on members and officers to demonstrate leadership by behaving in ways that exemplify high standards of conduct, and so set the tone for the rest of the organisation.

To ensure the Framework remains fit for purpose, the CIPFA/SOLACE Joint Working Group has reviewed the Framework and has issued an addendum. The Working Group has also developed a revised guidance note.

PURPOSE OF THE ADDENDUM

Delivering Good Governance in Local Government: Framework has been given ‘proper practices’ status by the Department for Communities and Local Government through non-statutory guidance in respect of the requirement for local authorities to prepare an annual governance statement which must accompany the statement of accounts.

The supplement to the Framework includes an example annual governance statement. For the purpose of this addendum, the example has been updated to give an increased emphasis on a strategic approach. The example has also been updated to reflect Regulation 4(3) of the Accounts and Audit Regulations 2011, which requires all relevant bodies to prepare an annual governance statement rather than a statement on internal control.

It should be stressed that it is an example and that authorities will need to think through their own approach carefully so that it communicates clearly the assurance on their own arrangements.

This addendum replaces the *Application Note to Delivering Good Governance in Local Government: Framework* issued in 2010. The tables from the Application Note have been incorporated into the revised guidance note published in Autumn 2012 to accompany the Framework.

REPORTING

Delivering Good Governance in Local Government: Framework urges local authorities to prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the corporate governance and internal control framework.

The annual governance statement should provide a brief communication regarding the review of governance that has taken place and the role of the governance structures involved (such as the authority and the audit and other committees). It should be high level, strategic and written in an open and readable style. It should be focused on outcomes and value for money and relate to the authority's vision for the area.

As a matter of best practice, the annual governance statement should normally be approved at the same time as, and certainly no later than, the statement of accounts.

The preparation and publication of an annual governance statement in accordance with *Delivering Good Governance in Local Government: Framework* fulfils the statutory requirement in England for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its statement of accounts. This requirement is reflected in the *Code of Practice on Local Authority Accounting in the United Kingdom* (CIPFA/LASAAC).

THE GOVERNANCE FRAMEWORK

The following table lists the key elements of the typical systems and processes that comprise an authority's governance arrangements. An authority's review of the effectiveness of its governance arrangements will need to make appropriate reference to these elements.

Key elements of the systems and processes that comprise an authority's governance include arrangements for:

- identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users
- reviewing the authority's vision and its implications for the authority's governance arrangements
- translating the vision into objectives for the authority and its partnerships
- measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources and value for money
- defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements
- developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff
- reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality
- reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability
- ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained
- ensuring effective management of change and transformation
- ensuring the authority's financial management arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* (2010) and, where they do not, explain why and how they deliver the same impact
- ensuring the authority's assurance arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit* (2010) and, where they do not, explain why and how they deliver the same impact
- ensuring effective arrangements are in place for the discharge of the monitoring officer function
- ensuring effective arrangements are in place for the discharge of the head of paid service function
- undertaking the core functions of an audit committee, as identified in CIPFA's *Audit Committees: Practical Guidance for Local Authorities*
- ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

- whistleblowing and for receiving and investigating complaints from the public
- identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training
- establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation
- enhancing the accountability for service delivery and effectiveness of other public service providers¹
- incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships,² and reflecting these in the authority's overall governance arrangements.

1. In England this includes powers granted to local authorities under the Health and Social Care Act 2012 and the Police Reform and Social Responsibility Act 2011.

2. *Governing Partnerships: Bridging the Accountability Gap* (Audit Commission, 2005).

Example annual governance statement

SCOPE OF RESPONSIBILITY

[The authority] 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 authority] 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 a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, [the authority] is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

[The authority] has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the authority's code is on our website at [...] or can be obtained from [...]. This statement explains how [the authority] has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads its communities. 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 services and value for money.

The system of internal control is a significant part of that 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 authority's] policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at [the authority] for the year ended 31 March 20xx and up to the date of approval of the [annual report] and statement of accounts.

THE GOVERNANCE FRAMEWORK

The annual governance statement should include a brief description of the key elements of the governance framework the authority has in place.³

REVIEW OF EFFECTIVENESS

[The authority] 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 executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Briefly describe how the effectiveness of the governance framework has been evaluated.

I/we have been advised on the implications of the result of the **review of the effectiveness of the governance framework** by the executive/audit committee/overview and scrutiny committee/risk management committee (*amend list as appropriate*), and that the arrangements **continue to be regarded as fit for purpose in accordance with the governance framework**. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

[Include an outline of the actions taken, or proposed, to deal with significant governance issues in relation to the authority achieving its vision.]

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: _____

Leading Member (or equivalent) and Chief Executive (or equivalent) on behalf of [the authority].

3. The governance framework should contain the key elements outlined in the addendum but the annual governance statement does not need to describe them in detail if, for example, they are set out in the authority's code of governance and that is publicly available.