



AUDIT COMMITTEE – 27th MARCH 2013

ANNUAL GOVERNANCE REVIEW 2012/13

1. Purpose of the Report

- 1.1 This report outlines the detailed guidance that has been issued to senior management within the Authority to review the Council's governance arrangements and prepare the statutory Annual Governance Statement (AGS) for 2012/13.
- 1.2 The consideration of the Council's wider governance arrangements and the statutory Annual Governance Statement are key responsibilities of the Audit Committee.

2. Recommendation

- 2.1 **It is recommended that the Audit Committee consider the Governance framework and the guidance, and satisfy itself that if applied as proposed, the Annual Governance Review (AGR) process will provide sufficient evidence upon which the Audit Committee can refer the Annual Governance Statement (AGS) for Council approval in September.**

3. Background

- 3.1 The Audit Committee will be familiar with the AGR process having 12 months ago considered the AGS 2011/12 guidance, and in December, a monitoring report on the 2011/12 AGS action plan.
- 3.2 In order for the Audit Committee to gain assurances from the actual AGS as a document, it is important for the Audit Committee to have assurance from the process used to prepare the Statement.

4. The AGS Process and Guidance 2012/13

- 4.1 The process was initially developed with reference to the guidance issued by CIPFA and SOLACE. Over the last years the process has been further enhanced to ensure as far as possible there is a broader base for the evidence to support assurances regarding the Authority's controls and governance arrangements. The process also includes the concept of 'do once / use many', with information arising from the AGR process being utilised for example for service delivery plans, strategic and operational risk management, appraisals and audit planning.
- 4.2 The Internal Control and Governance Assurance self assessment questionnaire has again been refined after consultation with the relevant lead officers.

- 4.3 The Corporate Responsibilities Framework for all Executive and Assistant Directors and Assistant Chief Executives includes all the aspects of internal control and governance within the governance framework. This means that the consideration of the AGR will contribute significantly to the evidence required to demonstrate compliance.
- 4.4 Significant progress has been made to enable the integration of governance arrangements in schools to contribute to the the overall AGS. A modified Internal Control & Governance Assurance self assessment questionnaire has been introduced to schools and these will be available for review by 31st May.
- 4.5 The Audit Committee are asked to consider the guidance to satisfy itself that the process is sufficiently robust that if applied as planned, will provide a reasonable basis for the evidence to support the AGS.
- 4.6 The guidance provides a step by step process to follow over the next few weeks to contribute to the preparation of the draft AGS document that will be presented to the Audit Committee at its meeting in July and then subsequently in final form to the September meeting and Council.
- 4.7 Rather than describe the aspects of the guidance in a covering report, it is proposed to run briefly through the guidance to assist Audit Committee members to understand and appreciate the process and the assurances contained within it. The guidance is attached to this covering report.
- 4.8 The appendices to the guidance have not been included within this report due to their length but can be made available to members should they wish. However, it may be helpful to 'see' the corporate governance framework and the AGR process in particular. This diagram has therefore been appended to this report.

5. Background Papers

- 5.1 CIPFA / SOLACE Guidance
Previous Audit Committee reports
Accounts and Audit Regulations 2010

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**ANNUAL
GOVERNANCE REVIEW**

2012/2013

GUIDANCE

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Annual Governance Review

Guidance

1. Background

- 1.1 In order to ensure greater transparency and accountability for the governance arrangements of local authorities, the Accounts and Audit Regulations 2003 and as amended in 2010 place a statutory obligation for all local authorities to prepare and publish an annual statement on the wider governance arrangements.
- 1.2 The Annual Governance Statement will be referred to as the AGS in this guidance.
- 1.3 To enable the preparation of the AGS it is necessary to undertake an annual review of the Authority's governance arrangements.
- 1.4 The Audit Committee oversee the Annual Governance Review process guidance necessary to both produce the AGS and ensure there is a robust process to independently challenge the assurances provided by senior managers and other aspects of the internal control framework.

2. What is the AGS?

- 2.1 The AGS is itself an assurance statement, following a recommended format, that describes the Authority's internal control and governance framework, how that framework is reviewed and assessed and highlights and comments on any key weaknesses, areas for improvement or risks the review and assessment process identifies.
- 2.2 The AGS document is the end of this Annual Governance Review process that aims to promote and challenge the internal control and governance framework of the Authority and in so doing properly assign responsibility and accountability to the Authority's senior managers for it.
- 2.3 Appendix B is a diagram to depict the whole Governance Framework through which the AGS is produced. The framework comprises various elements each covered in this guidance.
- 2.4 A key aspect of the Annual Governance Review process is the independent challenge and scrutiny Internal Audit will bring to the overall process. This independent review needs to take place before the actual AGS is prepared and so provision in the timescale of activity has been made. The Audit Committee, Chief Executive and Leader will use that independent review to provide the assurance needed to approve and sign the AGS.
- 2.5 The AGS for 2011/12 is attached for information as Appendix A and to it the updated action plan showing progress against the areas for improvement as at November 2012.

3. What is needed

3.1 Various actions are necessary over the next few weeks by various people. This is summarised below

Who	What	When by	Time Allowed
All	Annual Governance Review (AGR) Guidance	To read as soon as possible	
All	App A – 2011/12 AGS & Action plan	To read as soon as possible	
All	App B – Governance Framework Diagram	To read as soon as possible	
ICGF Lead Officers	App C - ICGF	To complete by 12 th April	4 weeks
All ADs / Heads of Service	App E – ICG Questionnaire	To complete by 12 th April	4 weeks
ICGF Lead Officers	App D – ICGF Review Statement	To complete by 24 th May	4 weeks (after completion of App.E)
All EDs / ACE's	App F – ICG Assurance Statement	To complete by 24 th May	4 weeks (after completion of App E)
All	App G – AGR Timetable	To read as soon as possible	

3.2 Although the AGS is no longer required to be part of the statutory accounts, the governance review timescales are set and determined by the statutory accounts process. As such each stage must be completed on time in order to meet the overall timetable.

3.3 The accountability framework for all Executive and Assistant Directors and Assistant Chief Executives includes all the corporate responsibilities of internal control and governance. This means that the consideration of the governance framework will contribute significantly to the evidence required to demonstrate compliance with corporate responsibilities.

4. Internal Control and Governance Framework (Appendix C) [To be completed by the ICGF Lead Officers]

4.1 The Internal Control and Governance Framework (ICGF) is the collective term for the various regulating and guiding policies and procedures of the Authority. Such policies and procedures include all HR policies, IT usage policies, financial regulations, financial system procedures, contract standing orders, the constitution as a whole as well as policies on equalities and diversity, health and safety, risk management and other corporate processes like service and financial planning.

4.2 These are the fundamentals of all authorities and, in various forms, all large organisations. When effective, these policies and procedures act as a major control to maximise the chances of good operational effectiveness and efficiency, and high standards of stewardship and accountability. If ineffective or non-existent a culture of fraud, waste, extravagance and general poor accountability can thrive.

- 4.3 It is therefore important that the Authority's senior managers and members can be assured that the ICGF exists, is effective, accessible by all and contributes to the success and achievement of the organisation consistently across all services.
- 4.4 This aspect of the Annual Governance Review process identifies lead 'owners' for each element of the ICGF and requires them annually to consider the need for reviewing, updating, refreshing or re-publicising the policy or procedure they 'lead'.
- 4.5 This consideration does not mean that every aspect of the ICGF undergoes a full re-write. What it does mean though is that each element will have some thought applied to it as to whether say changes in legislation, or changes to the operating systems or structure of the Authority now mean an update or detailed review is required. Consideration should also be given as to the accessibility of the policies and procedures and the means by which compliance is or can be assessed.
- 4.6 A full list of the ICGF documents is attached as Appendix C. ICGF owners are required to update this document where necessary and return in to Diane Mills by **12th April**.

5. Annual Review Statement (Appendices D) [To be completed by the ICGF Lead Officers]

- 5.1 The Annual Governance Review process not only tests and challenges the existing governance arrangements, it is also intended to support lead officers by providing information and the basis for considering areas for improvement. This is an opportunity for lead officers to assess corporate compliance with the ICGF.
- 5.2 Key evidence to support and assist lead officers in providing their assessments will come from the Internal Controls and Governance questionnaires (App E) completed by every Assistant Director (and some Heads of Service / other senior managers where relevant). Provision has been made in the timetable to allow the lead officers access to the questionnaires.
- 5.3 Internal audit will also provide details of audit findings within the previous year relating to the specific elements of the ICFG to support the self assessment questionnaires and assist the lead officers to assess the adequacy of governance arrangements.
- 5.4 The directorates' questionnaires, internal audit findings and ICGF lead officer experience will inform each lead officer of potential areas for improvement. It is important that the assessments are accurate and reflect practical experience. By way of example, last year's AGS process highlighted that in a number of services they had scored their compliance with Procurement controls highly in the Questionnaire (Appendix E) and did

not report any weaknesses whereas audit reports had raised significant control weaknesses throughout the Authority.

5.5 The output from the consideration of the ICGF will be a statement from the 'lead' officer (using a pro-forma template) which states, either:-

[A] The policy / procedure has been considered and it has been deemed **not necessary** to undergo a detailed review at this time.

This statement will be made after concluding that there have **not** been any material changes to the underlying environment that means the provisions of the policy / procedure or the means by which the policy / procedure is accessed remain relevant and therefore do not require updating, refreshing or re-publicising, or

[B] The policy / procedure has been considered and it has been concluded that **it is necessary** to undergo a detailed review.

This statement will be made after concluding that there **have** been material changes to the underlying environment that means the provisions of the policy / procedure and/or the means by which the policy / procedure is accessed are no longer relevant and therefore do require updating / refreshing / re-publicising. In this case it will be necessary to provide details of the relevant process and timescale that will be followed in undertaking the policy / procedure review.

5.6 There is not necessarily a timescale within which full reviews should be undertaken – this needs to be determined by the lead officer taking into account the significance of the changes / action needed.

5.7 As part of the revised Annual Governance Review process all Lead officers' statements will be challenged and any appropriate actions for improvement will be monitored throughout the year.

5.8 In order to contribute in a timely manner to the overall Annual Governance Review process it will be necessary for the ICF owners to complete their statements (Appendix D) and send them to Diane Mills – Governance Manager) by **24th May**.

6. Internal Controls and Governance Self Assessment (Appendices E) [To be completed by all ADs / Heads of Service]

6.1 A self-assessment questionnaire has been developed to prompt consideration of how well each element of the ICGF is working in each operational and support area of the Authority. The questionnaire is attached as Appendix E.

6.2 This self assessment should capture in one place and at one point in time the extent of understanding, effectiveness and compliance with the Authority's standards of internal control and governance.

- 6.3 This questionnaire comprises 14 areas each with a number of questions. Each question requires an assessment as to the extent to which each statement / question is agreed with.
- 6.4 The questionnaire has been refined again this year and some of the questions have been changed after consultation with the relevant ICGF lead officers. In particular the section relating to Financial Management has been significantly changed to reflect the Financial Competency Framework.
- 6.5 For each question, the self assessment offers examples of where evidence of compliance may be available where a statement is agreed with. Evidence to support compliance should be highlighted where different from the examples provided. As before there is no requirement for supporting documents or files to be prepared, working instead on the basis of simply signposting such evidence for the purposes of independent audit review.
- 6.6 In some instances inadequacies in the application of controls will be highlighted. Clearly the extent to which a statement is not agreed with should prompt an explanation as to why and an outline of the action proposed to correct this.
- 6.7 Any control or governance weaknesses identified should be recorded on the pro-forma action plan and any items raised should be followed up to ensure that action is being taken.
- 6.8 To make the process of completing the self assessment easier senior management are encouraged to review last year's questionnaire and any resulting action plans before attempting to complete this year's. Any queries regarding the questions within the document should be referred directly to the relevant ICGF lead officer.
- 6.9 The self assessment questionnaire(s) and action plans should be returned to the appropriate Executive Director or Assistant Chief Executive and copied to Diane Mills (Governance Manager) by **12th April**.

7 Annual Assurance Statement (Appendix F)

[To be completed by all EDs, ACXs]

- 7.1 The preparation of chief officer internal control and governance assurance statements is highlighted in guidance as perhaps the most significant element of the Annual Governance Review process.
- 7.2 Whilst there is no doubt that all chief officers understand that internal control is their responsibility, it is easy and common for the focus of attention to be on operational issues with an assumption that the control and governance framework within which these operations exist is working properly. Although most policies and procedures are determined by 'corporate services' they are applied, operated and the responsibility of service management across all services of the Authority.

- 7.3 As each Executive Director and Assistant Chief Executive is accountable to Cabinet it is a requirement for each of these officers to complete an internal controls and governance assurance statement for their Directorate / Department using the evidence from the questionnaires completed by Assistant Directors (or other senior managers). The specimen statement is attached as Appendix F.
- 7.4 This assurance statement states either:
- [A]** *There are **no significant matters arising** which would require to be raised specifically in the assurance you are required to give, or*
- [B]** *I would draw your attention to the following **matters that you may wish to consider in preparing the assurance statement** (and attach list / details).*
- 7.5 Internal Audit will review a sample of the assurance statements, including the supporting questionnaires / AD responses and the evidence or otherwise they identify.
- 7.6 Given the aim to try and have the Annual Governance Review process dovetail with other corporate processes it is important that issues arising from this process are able to be reflected in Service Delivery / Business Plans. As the service based questionnaires will have been completed by **12th April** it is expected that any 'controls or governance' related improvements will be integrated into the 2013/14 SDP, required by May 1st and included in the overall SDP monitoring process through the year.
- 7.7 It will be necessary for the EDs and ACEs to send their assurance statements to Diane Mills (Governance Manager) by **24th May**.

8. Local Code of Corporate Governance Review

- 8.1 Another key and perhaps the over-riding element of the Annual Governance Review process is the review against the Local Code of Corporate Governance (as recommended by the CIPFA/Solace guidance). This Code serves as an over-arching statement of commitment by the Authority of the key principles of governance that it seeks to demonstrate.
- 8.2 The Code sits at the 'top' of the governance structure and the Annual Governance Review process will therefore show how its constituent parts feed into to support and demonstrate compliance with it.
- 8.3 Whilst the Annual Governance Statement remains the statutory requirement, the local code will serve as a clear statement of the Council's commitment to good and effective corporate governance. This will be reviewed alongside the AGS by the Audit Committee.

9. Internal Audit Annual Report

- 9.1 The new Public Sector Internal Audit Standards, which have the basis of statutory best practice, requires the Head of Internal Audit to prepare an annual report that summarises the results of Internal Audit work and provides a wider assurance statement beyond the traditional financial control environment.
- 9.2 The Annual Report will incorporate the results of the Annual Governance Review process and the evidence from the relevant questionnaires, assurance and review statements as described above. It will also cover a review of the Authority's risk management arrangements which to a large extent will be influenced by the responses in the internal control and governance assurance questionnaires. The amended Accounts and Audit Regulations also added a statutory requirement for Authority's to review the effectiveness of their Internal Audit function. The results of this annual review will also be included in the annual report.
- 9.3 This annual report will be presented to the Audit Committee in early June to contribute to the drafting of the AGS by the Governance Assurance Group. This annual report requires other stages of the Annual Governance Review process to have been completed.

10. Statement on the Role of the Head of Internal Audit (HoIA)

- 10.1 CIPFA have issued this Statement recognising the role in assisting the authority to achieve its objectives by giving assurance on its internal control arrangements and playing a key role in promoting good corporate governance. The Statement advocates that the HoIA needs to review the whole system of control, both financial and non-financial, and focus on the areas where assurance is most needed. The HoIA also has to give an annual opinion on the adequacy and effectiveness of the control environment; this is used as a primary source of evidence for the Annual Governance Statement. CIPFA recommend that this Statement be included in the Annual Governance Statement.

11. Risk Management Annual Report

- 11.1 In much the same way as Internal Audit, a broader annual report will be provided for consideration to ensure adequate coverage of both corporate and service based risk management arrangements. This will specifically cover the evaluation of the strategic risk register as well as operational / service and project risk registers for both existence and fitness for purpose, highlighting where improvements are required or any areas of non-compliance.
- 11.2 The risk management annual report will need to be completed by **30th April** in order for inclusion in the Internal Audit annual report following review.

12. Statement on the Role of the Chief Financial Officer (CFO)

- 12.1 The role of the CFO is a fundamental building block of good corporate governance, holding the financial reins and ensuring that resources are used wisely to secure positive results. The global financial crisis and national economic downturn have highlighted the fundamental importance of the role.
- 12.2 In order to support CFOs in the fulfilment of their duties and to ensure that local authorities have access to effective financial advice at the highest level, CIPFA has introduced a 'comply or explain' requirement in the annual statement of accounts. This Statement sets out how the requirements of the legislation and professional standards should be fulfilled by the CFO in the carrying out of their role and is based on five principles around the organisation, the role and the individual. CIPFA also recommend that this Statement be included in the Annual Governance Statement.

13. Health and Safety / Business Continuity Planning (BCP) Annual Report

- 13.1 The annual report produced covering the Authority's H&S record each year will also be considered for AGS purposes.
- 13.2 Business continuity planning (BCP) is a further area where an annual assessment of how effective the Authority's arrangements are is necessary. It is therefore recommended that alongside the Health & Safety annual report there is a report on the Authority's overall BCP arrangements, again highlighting where improvements are required or any areas of non-compliance. Assurances regarding services and corporate BCP arrangements will have been considered in the internal controls and governance questionnaire and will therefore be utilised.

14. External Sources of Assurance

- 14.1 The Authority has a number of external scrutinisers and commentators. Reports such as the Audit Commission's Annual Audit Letter and Governance Report and other supporting and more detailed reports serve as a vital and independent view of the Authority's control and governance arrangements.
- 14.2 Whilst other inspection activity is largely 'service' focused this may still provide independent evidence regarding the adequacy and effectiveness (or otherwise) of broader internal control and governance arrangements.
- 14.3 External reports will need to be collated and considered extracting where relevant evidence to support the AGS. Work to collate relevant items needs to be completed by **24th May** ready for consideration by the CAG in preparing the AGS.

15. Corporate and Ombudsman Investigated Complaints

- 15.1 Complaints and matters referred to and investigated by the Ombudsman may also provide useful information as to the adequacy of the Authority's corporate governance and internal control systems and therefore the effectiveness of the overall ICGF, positively as well as negatively.
- 15.2 The annual report prepared by the Assistant Chief Executive Legal & Governance will identify any underlying issues and weakness that are threatening any aspect of the ICGF. This report will be considered by the Audit Committee contributing to the Annual Governance Review process. Given the timing of when the Ombudsman annual report is issued the most relevant information available will be used for AGS purposes.

16. Corporate Assurance Group (CAG)

- 16.1 It is recommended in the CIPFA guidance that a number of senior officers consider the various aspects of assurance and prepare the draft AGS for the Senior Management Team's consideration and passage to the Audit Committee and Council.
- 16.2 The preparation of the AGS, based upon the self assessments, assurance statements from EDs and ICGF Lead Officers and other sources of assurance (see Appendix B) will be undertaken by the CAG.
- 16.3 Given the recent and continuing changes in the senior management of the Authority, the composition of the Corporate Assurance Group will require review. However, as a starting point the following attendees are suggested:-

- ACE Legal & Governance
- ACE Finance, Property & Information Services
- ACE HR, Performance & Partnerships and Communications
- AD Audit and Risk Management
- AD nomination from CYPF
- AD nomination from Adults & Communities
- AD nomination from DEC
- Governance Manager

- 16.4 The CAG will consider all assurance aspects of the Annual Governance Review process and draft the contents of the AGS. A brief covering report will also be prepared for submission to the Audit Committee by **28th June**.

17. Senior Management Team

- 17.1 SMT will receive and consider the draft AGS before its referral by the ACE Legal & Governance. This will need to be done in order to meet the Audit Committee meeting date of 24th July. The SMT meeting on 9th July has been earmarked for this purpose.

18. Audit Committee

- 18.1 The Audit Committee will, and in accordance with good practice, have the responsibility for recommending the AGS to full Council. This responsibility falls naturally into the terms of reference of the Audit Committee.
- 18.2 It is proposed that the Audit Committee will receive and consider the draft AGS at its meeting on 24th July 2013 for comment.
- 18.3 The final AGS will be received and considered by the Audit Committee on 23rd September prior to being approved by Council on 26th September.

19 Timetable

- 19.1 In many respects the timetable has to work backwards from when the statement of accounts needs to be approved at full Council as the AGS will be presented at the same meeting.
- 19.2 It is essential that all aspects of the Annual Governance Review process and timetable are met.
- 19.3 A separate timetable is attached as Appendix G.

20. List of Appendices

- 20.1 Appendix A – 2011/12 Annual Governance Statement and Action Plan
Appendix B – Diagram of Annual Governance Review process
Appendix C – Internal Control and Governance Framework Lead Officers
Appendix D – Internal Control and Governance Framework Review Statement
Appendix E – Internal Control and Governance Assurance Self Assessment Questionnaire
Appendix F – Internal Control and Governance Assurance Statement
Appendix G – Timetable

21. Contact Officers

- 21.1 The following officers are available for assistance in completing the necessary tasks.

Diane Mills	Governance Manager	3186
Rob Winter	Assistant Director of Finance (Audit and Risk Mgt.)	3241
Andrew Frosdick	Assistant Chief Executive Legal & Governance	3001

Framework Diagram for the Authority's Annual Governance Review Process



