



Northumberland

County Council

COMMITTEE : **AUDIT COMMITTEE**

DATE: **29 JULY 2020**

ANNUAL GOVERNANCE REVIEW AND ANNUAL GOVERNANCE STATEMENT 2019/20

Report of Chris Hand, Executive Director of Finance & Section 151 Officer

Cabinet Member: Councillor Nick Oliver, Portfolio Holder for Corporate Services

Purpose of report

The purpose of this report is to enable the Audit Committee to review the Annual Governance Statement and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

Recommendations

It is recommended that Audit Committee:

- Note the principles of good governance outlined in the 2016 CIPFA/SoLACE Framework
- Note the process and outcomes from the Council's annual governance review, including the progress made against 2018/19 improvement actions (shown in Appendix C) and the significant changes and governance improvements made in each service areas (shown in Appendix B2)
- Approve the updated Local Code of Corporate Governance (shown in Appendix A), which has been updated following the annual governance review.
- Note the further planned improvement actions, to further enhance the Council's governance arrangements (shown in Appendix D) following the annual governance review.
- Approve the draft Annual Governance Statement (shown in Appendix E), that will be published with the draft Statement of Accounts for a period of public inspection.

Link to Corporate Plan

Effective governance arrangements are critical to the delivery of all of the priorities in the Council's Corporate Plan 2018-2021

Key issues

Under the Accounts and Audit Regulations 2015, the Council must ensure that it has a sound system of internal control, which:

- facilitates the effective exercise of its functions and the achievement of its aims and objectives;
- ensures that the financial and operational management of the authority is effective; and
- includes effective arrangements for the management of risk.

The 2015 Regulations also require that the Council reviews (at least annually) the effectiveness of those systems of internal control, to ensure that governance arrangements are up to date and relevant.

The outcome of that review must be considered by a committee of the Council and published in the Annual Governance Statement (AGS), alongside the Statement of Accounts.

The Audit Committee has responsibility for reviewing the Council's corporate governance arrangements against the good governance framework and for considering annual governance reports and assurances.

1. BACKGROUND

- 1.2. Under the Accounts and Audit Regulations 2015, the Council must ensure that it has a sound system of internal control, which:
 - facilitates the effective exercise of its functions and the achievement of its aims and objectives;
 - ensures that the financial and operational management of the authority is effective; and
 - includes effective arrangements for the management of risk.
- 1.3. The 2015 Regulations also require that the Council reviews (at least annually) the effectiveness of those systems of internal control, to ensure that governance arrangements are up to date and relevant.
- 1.4. The outcome of that review must be considered by a committee of the Council and published in the Annual Governance Statement (AGS), alongside the Statement of Accounts.
- 1.5. In 2016 CIPFA¹ and SoLACE² published a guide, “Delivering Good Governance in Local Government: Framework” (the Framework). This provides a framework for good governance in the public sector and provides guidelines for producing Annual Governance Statements. The Framework is intended to assist authorities in reviewing and accounting for their own unique approach to governance.
- 1.6. The Framework outlines that the overall aim of governance arrangements is “*to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities*”. A key focus of governance processes and structures is the attainment of sustainable economic, societal, and environmental outcomes.
- 1.7. The preparation and publication of an Annual Governance Statement in accordance with the 2016 Framework fulfils the statutory requirements for the Council to conduct an annual review of the effectiveness of its system of internal control and to include a statement reporting on that review in its Statement of Accounts.

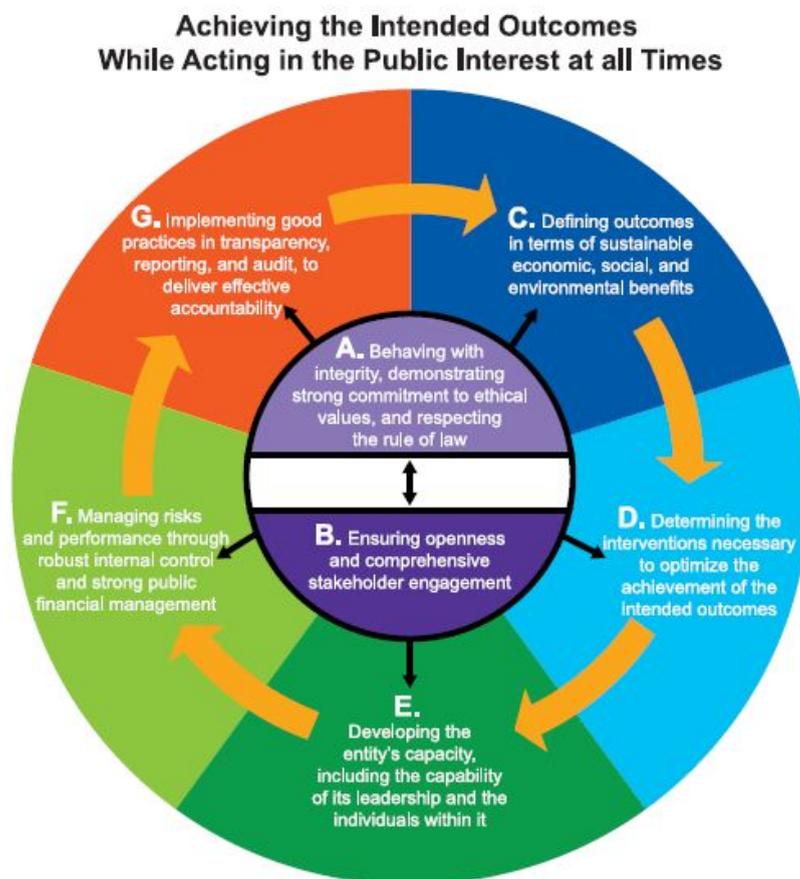
2. GOVERNANCE PRINCIPLES

- 2.1. To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity’s objectives whilst acting in the public interest at all time, consistent with the requirements of legislation and government policies, avoiding self-interest and, if necessary, overriding a perceived organisational interest.

¹ The Chartered Institute of Public Finance & Accountancy

² The Society of Local Authority Chief Executives and Senior Managers

- 2.2. Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and stakeholders.
- 2.3. The 2016 CIPFA/SoLACE Framework defines the principles that should underpin the governance of local government organisations. Local authorities should test their governance structures and partnerships against the Framework’s principles (and sub-principles) by:
- reviewing existing governance arrangements;
 - developing and maintaining an up-to-date local code of governance, including arrangements for ensuring ongoing effectiveness;
 - reporting publicly on compliance with their own code on an annual basis and on how they have monitored the effectiveness of their governance arrangements in the year and on planned changes.
- 2.4. The diagram below illustrates the seven principles of good governance that are outlined in the Framework and how they relate to each other.



- 2.5. Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that organisations as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.
- 2.6. The table below provides further detail on the core principles and sub-principles of good governance described in the Framework.

Principles of Good Governance	Sub-principles	Rationale
<p>A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.</p>	<ul style="list-style-type: none"> ● Behaving with integrity ● Demonstrating strong commitment to ethical values ● Respecting the rule of law 	<p>Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.</p>
<p>B. Ensuring openness and comprehensive stakeholder engagement.</p>	<ul style="list-style-type: none"> ● Openness ● Engaging comprehensively with institutional stakeholders ● Engaging with individual citizens and service users effectively. 	<p>Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.</p>
<p>C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.</p>	<ul style="list-style-type: none"> ● Defining outcomes ● Sustainable economic, social and environmental benefits 	<p>The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available.</p>
<p>D. Determining the interventions necessary to optimise the achievement of the intended outcomes.</p>	<ul style="list-style-type: none"> ● Determining interventions ● Planning interventions ● Optimising achievement of intended outcomes 	<p>Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.</p>
<p>E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.</p>	<ul style="list-style-type: none"> ● Developing the entity's capacity ● Developing the capability of the entity's leadership and other individuals 	<p>Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals</p>

		and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.
F. Managing risk and performance through robust internal control and strong public financial management.	<ul style="list-style-type: none"> ● Managing risk ● Managing performance ● Robust internal control ● Managing data ● Strong public financial management 	<p>Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities. A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.</p> <p>It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.</p>
G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.	<ul style="list-style-type: none"> ● Implementing good practice in transparency ● Implementing good practices in reporting ● Assurance and effective accountability 	<p>Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.</p>

3. GOVERNANCE FRAMEWORK AND LOCAL CODE OF CORPORATE GOVERNANCE

- 3.1. Northumberland County Council's governance framework encompasses all systems, processes and procedures covering a wide range of services to the public.
- 3.2. The governance framework is the system, processes, culture and values by which the Council is directed and controlled and how it accounts to, engages with and leads the community. It enables the Council 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 governing body is the full council.
- 3.3. The Council has adopted the 2016 CIPFA/SoLACE Framework and recognises that effective governance is achieved through the seven core principles it contains.

- 3.4. The Council maintains a Local Code of Corporate Governance that reflects each of the seven core principles of governance, and outlines the governance structures in place locally in the Council against each of these principles.
- 3.5. The Local Code of Corporate Governance is a public statement that sets out the way that the Council will meet its commitment to demonstrating that it has the necessary corporate governance arrangements in place to perform effectively.
- 3.6. The Local Code of Corporate Governance is reviewed each year, and is published on the Council's website along with the Annual Governance Statement (AGS).
- 3.7. Following the 2019/20 governance review, the Local Code of Corporate Governance will be published as a separate document and referred to in the AGS. This allows the AGS to be a briefer and more accessible document, in line with best practice.
- 3.8. The current Local Code of Corporate Governance is attached to this report as Appendix A, which has been updated following the annual governance review.

4. REVIEW OF GOVERNANCE ARRANGEMENTS

- 4.1. The Council is responsible for conducting at least annually a review of the effectiveness of its governance framework. In line with the 2016 CIPFA/SoLACE Framework the Council should test its governance and partnerships against the Framework.
- 4.2. In order to monitor and evaluate the effectiveness of the governance arrangements in place, the Council has undertaken the following steps:

A) Service Level Review of Governance Arrangements

Each Head of Service has completed a Governance Assurance Statement and Improvement Plan for their service area. For each service, this exercise:

- reviewed the governance arrangements in place against each of the seven principles in the Code of Corporate Governance;
- summarised the significant changes and improvements made since the last governance review
- Identified new improvement actions to be implemented that will further enhance the governance arrangements in place in the service area.

The assurance statements and improvement plans submitted by each service area were reviewed by the officer Corporate Governance Group, chaired by the Section 151 Officer, and subsequently reported to the Executive Team.

As part of this review process, the service level assurance statements were summarised and collated into three documents:

- a summary of the service specific governance arrangements in place in each

- service area, against each of the seven governance principles (Appendix B1);
- a summary of the significant changes and improvements since the last review, mapped to the seven governance principles (Appendix B2); and
- a summary of the governance improvement plan for each service area (Appendix B3)

These documents form part of our assessment of the Council's level of compliance with each of the seven principles of the governance framework required for the AGS.

Areas of corporate significance arising from the service level reviews, were incorporated into the updates made to the Local Code of Corporate Governance and reflected in the draft 2019/20 Annual Governance Statement and Improvement Plan.

B) Review of the Corporate Risk Register

The Council has a legal duty under the Accounts and Audit Regulations 2015 to maintain a sound system of internal control, including effective arrangements for the management of risk. A risk hierarchy has been established within the County Council in which risk is managed at corporate, service strategic and operational levels. Risks are reviewed at each level in the hierarchy on an established periodic basis.

The Council has a process to manage risks and assist in the achievement of its objectives, alongside national and local performance targets. The process is reviewed and updated on a regular basis with reference to available good practice and to ensure it reflects the rapidly changing environment in local government.

Substantive improvements to the process to enhance management of risk were rolled out in 2018/19 and, following interim review, further enhancements have been made in 2019/20.

The Senior Leadership Team retains corporate oversight of the risk management process. Corporate risks are formally reviewed and updated twice a year by senior managers and elected members of the Council to inform financial planning and service planning processes. The updated approach has been cascaded to service strategic level with regular review and reporting to executive directors and directorate management teams.

The process includes a hierarchy of corporate, service strategic and operational risk registers and allows for the dynamic escalation and de-escalation of risks, so that risks sit where they are best able to be managed. Project risks may impact and be owned and managed at any level.

Against these arrangements, there is also cross-cutting risk management work addressing specific areas of risk across the Council on a short term basis (e.g. Brexit and COVID-19 response) or through corporate standing groups (e.g. health and safety and information governance).

The Corporate Risk Register plays an integral role in supporting achievement of

priorities as set out in the Corporate Plan. Key risks currently identified and being managed at the corporate level include those relating to finance, alternative service delivery models, regeneration, economic inclusion, response to climate change and COVID-19 response.

C) Review of the Constitution

The key document supporting the Council's governance arrangements is the Constitution, which sets out how the Council operates, how decisions are made and the rules and procedures that must be followed to ensure that work is efficient and transparent and that the Council is accountable to local people.

The Council as a whole is responsible for agreeing the Constitution, and any amendments require the agreement of the Full Council.

In order to maintain the relevance of the Constitution, the Council has established a Constitution Working Group. This is a politically-balanced private members working group. The work of the Group is determined by the areas of review proposed by Members; there is an open invitation to all members to add to the Constitution Working Group's work plan. The reports and recommendations of the Constitution Working Group are reported to Full Council for review and agreement.

Since its establishment in March 2019, the Constitution Working Group has met 3 times and proposed a number of amendments to the constitution, regarding the Council Procedure Rules (Part 5 Chapter 1). These were approved by the Council at the meeting of 6 November 2019.

The Council also accepted the following further recommendations from the Constitution Working Group:

- A detailed review of appointments to all outside bodies should be undertaken and consideration given to developing a protocol for members representing the Authority on outside bodies.
- External training is provided for all members on Overview and Scrutiny Committees.
- Options for holding virtual meetings for bodies with no decision making powers should be explored. This would support the Council's climate change agenda, and would also support members to use their time more efficiently using the latest technology.

The Council also resolved to amend the Constitution to ensure that was gender neutral.

D) Review of the Opinion of the Head of Internal Audit

The Head of Internal Audit's annual opinion on the adequacy and effectiveness of the framework of governance, risk management and control for 2019/20 was that:

"Overall, Internal Audit's work performed during 2019/20 found that the County Council's internal systems of governance, risk management and control are satisfactory overall. This is a positive assessment of the Council's control environment and reflects favourably on the organisation's governance arrangements."

The opinion notes, however, that there is an ongoing need across the Authority to ensure awareness of and compliance with corporate policies and procedures, to ensure that governance processes are effective. In addition, as public services, including Northumberland County Council, continue to embrace channel shift which is likely to see an increasing reliance on computerised systems and 'self-service' by stakeholders, it is also essential that all ICT systems are fit for purpose. This will be a continued area of focus within the Authority.

The Advance Northumberland Group of Companies was established in 2018. In 2017/18, Internal Audit was asked to provide a full internal audit service to its predecessor organisation, the Arch Group of Companies, for the first time. The opinion of the Chief Internal Auditor was qualified at that time. The Advance Group of Companies, which replaced the Arch Group, has similarly received a qualified opinion in 2018/19 and 2019/20. It will be necessary for governance arrangements in the Group to fully embed in order for those responsible for governance to have sufficient confidence in the control environment in operation.

E) Review of External Audit Annual ISA 260 Report

Under ISA 260 (UK and Ireland), 'Communication of Audit Matters With Those Charged With Governance', the External Auditors are required to communicate audit matters of governance interest to those charged with governance.

In the Independent Auditor's report to the members of Northumberland County Council, following the 2018/19 audit, the then External Auditors, Ernst & Young LLP, issued an adverse conclusion with regard to arrangements to secure economy, efficiency and effectiveness in the use of resources.

This report was considered in detail by the Audit Committee meeting on 27 November 2019, along with a detailed report from the Chief Executive outlining inaccuracies in the External Audit report.

The Audit Committee resolved that the External Audit Report and the Report of the Chief Executive should be received and noted without accepting or dismissing the findings therein.

F) Reviewing Reports from External Inspectorates

During 2019/20 the Council received the following reports from external agencies and inspectorates, which have been considered as part of the annual governance review:

- Children's Social Care - In March 2020 the Ofsted inspection report on Northumberland's Children's Services in January 2020 was published with an assessment of 'Good' across the board.

- Northumberland Fire and Rescue Service - In June 2019 Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) published its report on the inspection of Northumberland Fire & Rescue Service in 2018/19. The focus of the inspection was on the service provided to the public, and the way resources available are used. The inspection assessed how effectively and efficiently Northumberland Fire and Rescue Service prevents, protects the public against and responds to fires and other emergencies. It also assessed how well it looks after the people who work for the service. The Northumberland service was given a graded judgement of 'Requires Improvement' in all three areas of Effectiveness, Efficiency and People. An improvement plan has been developed to address the issues highlighted by the inspection and this is monitored by the senior leadership team of Fire & Rescue on a monthly basis, with a summary report being sent to the Chief Executive and portfolio member.

External inspection reports are also considered by the Audit Committee, which receives a report twice-yearly (in May and November) as part of the committee's work programme for the year. This includes, CQC and OFSTED reports relating to Adult's and Children's Services.

G) Review of 2018/19 Improvement Plan

Following the annual governance review carried out in 2018/19, an Improvement Plan was agreed and included in the AGS for that year.

As part of the governance review for 2019/20, progress against each of the actions included in the Improvement Plan was reviewed and the impact on the governance arrangements in place considered. Any remaining incomplete actions were carried forward and reflected in the governance improvement plan for the coming year.

Appendix C outlines each of the actions included in the 2018/19 Governance Improvement Plan and the progress made to date.

H) Review of Subsidiary Companies

The Council's wholly owned subsidiary, Advance Northumberland, carried out its own annual review of governance for 2019/20, which was considered by the company's Audit Committee and Board of Directors.

The content of Advance's governance review was taken into consideration during the Council's own annual governance review, reflecting the additional governance risks the subsidiary presents to the group entity. The review noted weaknesses in Advance's governance arrangements identified through a review of fundamental financial systems, carried out by Internal Audit.

Progress made by Advance in completing the agreed management actions, to address the weaknesses identified by the audit, will be monitored through the Shareholder Assurance Group. Follow-up reviews of fundamental financial systems will be

undertaken by Internal Audit during 2020/21 to assess the effectiveness of the new controls put in place by Advance.

In January 2020, Cabinet approved the establishment of a group holding of up to 10 limited companies to support the expansion of commercial business opportunities being developed by the Council.

Once established, the group holding company will have Directors and a Secretary appointed as a minimum in line with the proposed company structure. The appropriate project management systems will be put in place to assure that the formation of the proposed company structure is robust, compliant with all the necessary regulations and statutory responsibilities; this will include business planning processes and financial projections for each potential venture opportunity. Before each company commences trading, the business plan and governance assurance (including arrangements to deal with conflicts of interests arising from roles of members and officers as directors), will meet with the approval of Cabinet.

5. GOVERNANCE ASSURANCE

5.1. The Council gains assurance on the effectiveness of its governance arrangements from a number of different systems and processes that are in place:

A) Internal Audit (Shared Service)

A professional, independent and objective internal audit service is one of the key elements of good governance in every public sector organisation. The Internal Audit team is statutorily required by the Accounts and Audit Regulations 2015 to undertake an effective internal audit to evaluate the effectiveness of risk management, control and governance processes throughout the organisation.

Internal audit is defined as an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Compliance with the Public Sector Internal Audit Standards is mandatory for all Internal Audit service providers in local government, including the shared Internal Audit service.

As required by the Public Sector Internal Audit Standards, the Internal Audit service reports functionally to the Audit Committee which fulfils the role of the 'Board' under those Standards.

The mission for Internal Audit, set by the Public Sector Internal Audit Standards, is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Under the Accounts and Audit Regulations 2015, Internal Audit has a statutory right of access to all information necessary for the purposes of internal audit. Any officer or member of a relevant authority must, if required to do so for the purposes of the internal audit—

- (a) make available such documents and records; and
- (b) supply such information and explanations;

as are considered necessary by those conducting the internal audit

B) Work of the Audit Committee

Our Audit Committee is a key component of Northumberland County Council's corporate governance arrangements. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our Audit Committee is to provide independent assurance to those charged with governance of the adequacy of the risk management framework and the internal control environment.

It provides independent review of Northumberland County Council's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

The Audit Committee's responsibilities with regards to governance, risk and control are:

- To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
- To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
- To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- To monitor the effective development and operation of risk management in the Council.
- To monitor progress in addressing risk-related issues reported to the Committee.
- To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
- To monitor the counter-fraud strategy, actions and resources.

A self-assessment evaluation of the effectiveness of our Audit Committee was carried out during 2019/20, led by Internal Audit in conjunction with the chair of the committee. The review considered the requirements of CIPFAs best practice guidance, Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition). All serving members of the Audit Committee were invited to one to one meetings, where best practice and the current arrangements in place within the Council were discussed to identify any improvements and actions required. The final report following this review will be considered by the full Audit Committee. The Audit Committee will also consider undertaking this review on an annual basis, and to provide an annual report to Cabinet on the performance and effectiveness of the Audit Committee.

Currently, Advance Northumberland (the Council's wholly owned subsidiary) has its own audit committee. In order to strengthen the Council's arrangements for audit and oversight of its subsidiaries, consideration will also be given to the County Council Audit Committee taking on a 'Group' audit committee role, so that the audit of all existing and new subsidiary entities are under its remit.

In January 2020, the Audit Committee considered a report of the Chief Executive, concerning matters directly relevant to the County Council's framework of governance, risk management and control. The report outlined significant matters of concern relating to the discharge of specific aspects of the Council's Planning function. The Audit Committee received and evaluated the information in the report as part of its ongoing consideration of the Council's framework of governance, risk management and control, in accordance with the Committee's Terms of Reference and the Constitution.

The issues of concern were initially identified following a whistleblowing disclosure in 2017/18, by an individual in relation to the Planning function. During the course of the initial whistleblowing investigation further matters of concern were identified and also during further subsequent relevant investigations.

The report to the Audit Committee outlined the actions which have since been taken by senior management to address a substantial number of serious significant weaknesses identified in the systems of control relating to planning. The report also set out the context and the difficult circumstances in which senior staff and members had been operating, whilst seeking to ensure that the poor practice of individuals has been eradicated, and that open and transparent processes become embedded.

Swift action was taken by senior management to address and correct all irregularities, once identified, and new senior personnel and supervisory arrangements were introduced within the Council's Planning Department. Adherence to proper systems and processes is being carefully monitored and enforced, and the Director of Planning will ensure that all the necessary steps are taken to strengthen systems of control. Where the conduct of a number of senior officers previously employed by the County Council was identified as falling short of the Council's expected standards of behaviour, conduct and ethics, these significant concerns were raised with Northumbria Police and referred to the relevant professional body.

There are a limited number of actions outstanding which will be addressed during 2020/21, and these have been included in the Governance Improvement Plan.

C) External Audit

The External Auditors review and report on the Council's financial statements, providing an opinion on the accounts and use of resources, concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion).

External Audit also review the Annual Governance Statement to assess if it accurately reflects their understanding of the Council.

D) Work of the Overview and Scrutiny Committees

The Council also has four Overview and Scrutiny Committees who support the work of the cabinet and the council as a whole. They allow citizens to have a greater say in council matters by holding inquiries into matters of local concern.

Overview and scrutiny committees also monitor the decisions of the Cabinet. The scrutiny process allows for a decision made by the cabinet, but not yet implemented, to be 'called in'. This enables them to consider whether the decision is appropriate. Members may recommend the cabinet reconsider the decision. They may also be consulted by the Cabinet or the Council on forthcoming decisions and the development of policy.

Overview and scrutiny committees must report annually to the council on their workings and make recommendations for future work programmes and amended working methods if appropriate.

E) Performance Management System

The Council's performance management framework is published on the website and performance information is updated regularly. The data is input to the corporate system by services and publicly available reports map the information to services, Corporate Plan priorities, Cabinet member portfolios and overview and scrutiny committees.

The Council benchmarks its services against a number of national and regional comparators and each service includes details of its benchmarking in its annual service statement.

With regard to financial performance, Finance officers meet regularly with budget holders across the Council and prepare a monthly financial monitoring statement which is shared with the Executive and reported to the Cabinet.

The Workforce Committee (an officer group) continues to provide regular scrutiny, challenge and accountability for all workforce related improvement initiatives. Monthly

publication of workforce intelligence data and performance reports is used to monitor and steer improvement actions.

6. FINANCIAL MANAGEMENT AND VALUE FOR MONEY

- 6.1. The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.
- 6.2. The Council's Corporate Plan, "A Council that works for everyone", was approved in February 2018 and is the Council's main strategic planning document, providing a framework for the delivery of all services. It is a clear statement of the Council's vision, strategic aims and policies for the period to 2021 and informs the Medium Term Financial Plan.
- 6.3. The Council approved the Medium Term Financial Plan for 2021-2022 in February 2020 to support the objectives contained within the Corporate Plan whilst implementing budget efficiency measures of £21.8m over the same period.
- 6.4. For the 2019/20 financial year the Council set a balanced budget, which was agreed by Council in February 2019. The outturn position against this budget was an underspend of £1.5m, and included delivery of £11.3m of savings.
- 6.5. In December 2019 CIPFA published a Financial Resilience Index for all English local authorities. This information is publically available (via CIPFA's website). The index does not produce one overall single 'league table' score. Instead the index is made up of financial ratios across 9 primary indicators and a further 7 secondary indicators. The Financial Resilience Index for NCC shows lower levels of risk for 7 of the 9 primary indicators:



- 6.6. The Executive Director of Finance is responsible for the proper administration of the Council's financial affairs, as required by Section 151 of the Local Government Act 1972, and our financial management arrangements are compliant with the governance requirements set out in the Chartered Institute of Public Finance and Accountancy's 'Statement on the Role of the Chief Financial Officer in Local Government' (2016).
- 6.7. There are robust arrangements for effective financial control through our accounting procedures, key financial systems and the Finance and Contract Rules. These include established budget planning procedures, which are subject to risk assessment, and budget monitoring reports to Cabinet.
- 6.8. Our Treasury Management arrangements, where the Council invests and borrows funds to meet its operating requirements, follow professional practice and are subject to regular review.
- 6.9. Through the Procurement Shared Service with the NHS, and procurement strategy 2017-2021, the Council provides a sustainable cost effective procurement service for both stakeholders. The shared objectives for the procurement service are:
- To deliver a value adding sustainable professional procurement service
 - To maximise collaborative spend and savings opportunities
 - To increase economic benefits for Northumberland
- 6.10. The shared procurement service leverages its combined procurement expertise and purchasing power to secure value for money for taxpayers. Procurement as a function is uniquely placed to provide an important contribution to the development of new service delivery models, control costs, achieve savings and deliver value for money solutions.
- 6.11. Following recruitment and establishment of an Innovation and Improvement Team during 2019/20, a programme of eight work streams has been established that will be carried out during 2020/21 and beyond, as a cycle of continuous review and improvement. The eight workstreams are: Digital; Service Reviews; Place Based Shaping; Workforce; Quality and Complaints; Cultural and Engagement, Business Development and Income Generation; and Climate Change. The work of the Innovation Team will support the Council to deliver efficient, sustainable and value for money services for its residents.

7. 'BREXIT'

- 7.1. The UK formally left the EU on 31 January 2020. While the UK agreed the terms of its EU departure, both sides are yet to agree a future relationship on trade and other issues.
- 7.2. Currently, the UK and EU are in a transition period (or implementation period) which is due to end on 31 December 2020. At the time of writing, we have passed the point at which a formal extension to the transition period could be requested and granted.

During this period, the UK continues to follow all EU rules, whilst negotiations on a potential, future trade deal are ongoing.

- 7.3. If a trade deal and agreement on other issues cannot be agreed before 31 December 2020, the default position would be tariffs on goods travelling between the UK and EU and other trade barriers, based on World Trade Organisation rules.
- 7.4. In addition to trade, other key issues to be agreed on the future UK-EU relationship include:
 - Law enforcement, data sharing and security;
 - Aviation;
 - Access to fishing waters;
 - Energy supplies;
 - Licensing and regulation of medicines.
- 7.5. The ongoing UK-EU negotiations could have potentially significant implications for Northumberland's economy and communities as well as the organisation itself.
- 7.6. The Council will continue to keep track of the negotiations and assess likely impacts on the county. This will be done through reporting to the Council's Executive Team, with reports to the Council's Cabinet as required.
- 7.7. Where appropriate, the Council will engage with the UK Government on these matters either directly or through relevant representative bodies (e.g. the North of Tyne Combined Authority, Local Enterprise Partnership, Local Government Association).
- 7.8. The Council will monitor whether any potential impacts resulting from the transition period require actions or responses under the Council's formal resilience planning arrangements and will activate these if needed.

8. CORONAVIRUS (COVID-19)

- 8.1. On 12 January 2020 it was announced that a novel coronavirus had been identified. The World Health Organisation (WHO) confirmed the name of the new coronavirus as COVID-19. The Prime Minister addressed the nation on 23 March 2020 and a national lockdown was announced during his address. Coronavirus has remained a live, national risk since this time, and there remains no vaccine or cure. Therefore, the Council is continuing to respond to the ongoing profound challenges arising from the virus.
- 8.2. The Coronavirus pandemic has required a strategic and operational co-ordinated crisis response by significantly shifting the focus of Council activities to support those residents who are most vulnerable. This has been done by the Council using its own resources, working with wider agencies, voluntary and community sector colleagues and also as part of the wider Northumbria Local Resilience Forum (LRF) public service response to the emergency.

- 8.3. Council services have been prioritised to support our most vulnerable residents. Many resources, functions, plans, programmes and work have had to be reorganised and reprioritised on a regular basis (sometimes day by day) in order to ensure that Northumberland as a county has had a safe response and that the Council has been able to respond to a wide range of guidance and legislation.
- 8.4. The Annual Governance Statement assesses the governance that was in place during 2019/20. Consequently, much of the financial year was unaffected by coronavirus. The annual governance review and conclusions made therefore reflect normal Council operations.
- 8.5. However, coronavirus did impact upon the governance of the Council during March 2020 and at the time of the publication of the draft AGS the pandemic undoubtedly has had a greater impact. COVID-19 has had a range of impacts upon Council activities including:
- Delivery of services and business continuity
 - Additional COVID-19 response activities
 - Conduct of meetings
 - Decision making arrangements
 - Funding challenges
 - Health and safety and risk management
 - Human resource management
 - Procurement and supply chain management
- 8.6. A paper outlining a summary of the Council's work to date on its COVID-19 response was presented at the Cabinet meeting on 23 June 2020, and will be subject to post-scrutiny.
- 8.7. The Council's Governance Improvement Plan includes an action to conduct a review of its response to the COVID-19 crisis, to identify any lessons learned and any areas of improvement required in its contingency planning and governance arrangements.
- 8.8. While there is a possibility that there may be secondary outbreaks and pandemic peaks, recovering from COVID-19 will set the context for future community and Council planning and decision-making in the county.

9. GOVERNANCE IMPROVEMENT ACTIONS

- 9.1. The review of our governance framework has identified a number of improvement opportunities which will be addressed during 2020/21.
- 9.2. The table included as Appendix D summarises the corporate areas of improvement identified during the 2019/20 annual governance review and outlines the planned actions that will be completed in order to enhance the Council's governance

arrangements. The content of this improvement plan is included as part of the Annual Governance Statement for the year ended 31 March 2020.

- 9.3. Whilst a number of opportunities to further enhance the Council's governance arrangements were identified during the 2019/20 governance review process, no significant assurance issues were found. Where areas of improvement were identified, actions have been agreed in each service area that will address these issues and further enhance the Council's overall governance arrangements.

10. ANNUAL GOVERNANCE STATEMENT (AGS)

- 10.1. Local authorities are required to prepare an annual governance statement in order to publicly report on the extent to which they comply with their own code of governance. This includes how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming year.
- 10.2. In essence the AGS is an accountability statement from the Council to its stakeholders on how well it has delivered on governance over the course of the previous year.
- 10.3. The AGS should provide a meaningful but brief communication regarding the review of governance that has taken place. It should be high level, strategic and written in an open and readable style.
- 10.4. The AGS does not need to describe in detail the key elements of an authority's governance arrangements if they are already easily accessible by the public, such as through the authority's code of governance.
- 10.5. The annual governance statement should include:
- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance
 - reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the executive, the audit committee, internal audit and others as appropriate
 - an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework
 - an agreed action plan showing actions taken, or proposed, to deal with significant governance issues
 - reference to how issues raised in the previous year's annual governance statement have been resolved
 - a conclusion – a commitment to monitoring implementation as part of the next annual review

- 10.6. The AGS should be signed by the Chief Executive and Leader of the Council, and approved by a resolution of a committee or full council.
- 10.7. Local authorities are required to publish the AGS with their statement of accounts, and it must be kept up to date at the time of publication.
- 10.8. The Council's draft AGS is attached as Appendix E.

11. CONCLUSION

- 11.1. Any system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, that material errors or irregularities are either prevented or would be detected within a timely period, and that significant risks impacting on the achievement of the Council's objectives have been mitigated.
- 11.2. The outcome of the review of the governance arrangements in place at the Council provided the necessary assurance that these remain fit for purpose, and that the Council has the appropriate systems and processes in place to ensure that good governance is maintained.
- 11.3. Good progress has been made against the governance improvement plan identified during the 2018/19 governance review, and where actions have not yet been fully completed they will continue to be progressed and are not considered to have materially affected the adequacy of the governance arrangements in place during the last year.
- 11.4. Whilst a number of opportunities to further enhance the Council's governance arrangements were identified during the 2019/20 governance review process, no significant assurance issues were found. Where areas of improvement were identified, actions have been agreed in each service area that will address these issues and further enhance the Council's overall governance arrangements.
- 11.5. As a result of reviewing the evidence the Executive has taken the view that, as a whole, the governance arrangements in operation during 2019/20 within the Council were adequate.

12. RECOMMENDATIONS

- 12.1. It is recommended that Audit Committee:
 - Note the principles of good governance outlined in the the 2016 CIPFA/SoLACE Framework
 - Note the process and outcomes from the Council's annual governance review, including the progress made against 2018/19 improvement actions (shown in

Appendix C) and the significant changes and governance improvements made in each service areas (shown in Appendix B2)

- Approve the updated Local Code of Corporate Governance (shown in Appendix A), which has been updated following the annual governance review.
- Note the further planned improvement actions, to further enhance the Council's governance arrangements (shown in Appendix D) following the annual governance review.
- Approve the draft Annual Governance Statement (shown in Appendix E), that will be published with the draft Statement of Accounts for a period of public inspection.

Implications

Policy	Effective corporate governance supports the delivery of the Council's priorities, as outlined in the Corporate Plan 2018-21 'A Council that Works for Everyone'.
Finance and value for money	There are no direct financial implications associated with this report. However, financial planning and management are key components of effective corporate governance.
Legal	The governance review process and publication of an Annual Governance Statement ensures that the Council discharges its statutory duties under the Local Government Act 1999 and the Accounts and Audit Regulations 2015. The Local Code of Corporate Governance enables the Council to demonstrate how it complies with the CIPFA/SoLACE 'Delivering Good Governance In Local Government Framework (2016)'
Procurement	None
Human Resources	None
Property	None
Equalities (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input checked="" type="checkbox"/>	None
Risk Assessment	There are no direct risks associated with this report, but the assessment of corporate risk is a key component of the Council's governance arrangements.
Crime & Disorder	None

Customer Consideration	None
Carbon reduction	None
Health and Wellbeing	None
Wards	All Wards

Background papers:

N/A

Report sign off.

Authors must ensure that officers and members have agreed the content of the report:

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