



# Northumberland

## County Council

### AUDIT COMMITTEE

DATE: 30 SEPTEMBER 2020

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## REVIEW OF PREPARATION OF THE 2019/20 ANNUAL GOVERNANCE STATEMENT

### Report of the Acting Chief Internal Auditor

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#### **Purpose of report**

The purpose of this report is to provide Audit Committee with an assurance view from Internal Audit regarding the process undertaken in preparation of the Annual Governance Statement, following a request agreed by Audit Committee at its meeting on 29 July 2020.

#### **Recommendations**

It is recommended that the Audit Committee considers and notes the work performed by Internal Audit in reviewing the approach to the preparation of the Annual Governance Statement for 2019/20.

#### **Link to Corporate Plan**

The work of Internal Audit and the Audit Committee contributes to the achievement of all priorities in the Council's Corporate Plan 2018-2021.

#### **Key issues**

At its meeting on 29 July 2020 Audit Committee considered a report from the Executive Director of Finance and Section 151 Officer, entitled 'Annual Governance Review and Annual Governance Statement 2019/20'.

During consideration of the report, Audit Committee members discussed the approach taken by the Executive Director of Finance in preparation of the Annual Governance Statement and the sources of assurance used in its compilation. It was also queried whether independent assurance had been sought on the content, for example from Internal Audit. In the meeting it was explained that:

- The Annual Governance Statement is required to be an evidenced self-evaluation by senior management regarding their view of governance arrangements within the organisation. It was not a statement that should be authored by an auditor (internal or external)
- While senior management may use internal audit, external audit or other inspection bodies' opinions as sources of evidence when preparing the statement, it is not usual for an internal auditor to specifically audit the content of the statement. The

statement will, however, be included within the external auditor's coverage for the 2019/20 year.

- Audit coverage must be based on an assessment of risk and the auditor's judgement on risk and proposed audit coverage may be different to senior management's opinion on what should be included within the Annual Governance Statement. This reflects the independence of the Internal Audit function from the management function within the organisation.
- Whilst Internal Audit could not verify all information contained within the Annual Governance Statement, a high level review of the approach adopted to preparation of the Annual Governance Statement could be undertaken and reported to the next meeting of Audit Committee, to provide the Committee with an independent view on the adequacy of the approach taken to the Annual Governance Statement preparation and to provide assurance on the methodology employed.

It was therefore agreed by Audit Committee that Internal Audit be requested to prepare a report to provide an assurance view on the process undertaken in preparation of the Annual Governance Statement.

### **Background**

The requirement for an Annual Governance Statement originates from the Accounts and Audit Regulations 2015. These regulations require (Section 3) that a local authority must have "a sound system of internal control which

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

Section 6 of the Accounts and Audit Regulations 2015 then require a local authority to, for each financial year, "conduct a review of the effectiveness of the system of internal control required by regulation 3 and prepare an annual governance statement." The annual governance statement must be "prepared in accordance with proper practices in relation to accounts." The Chartered Institute of Public Finance and Accountancy / Local Authority (Scotland) Accounts Advisory Committee 'Code of Practice on Local Authority Accounting in the United Kingdom 2016/17' specifies that the 'proper practices in relation to accounts' for the purpose of the preparation and publication of an Annual Governance Statement comprise the 'Delivering Good Governance in Local Government: Framework (2016)', published by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE).

### *Expected Characteristics of Annual Governance Statement Preparation*

The 'Delivering Good Governance in Local Government: Framework' defines the principles that should underpin the governance of each local authority and requires that individual authorities should test their governance structures and partnerships against the principles by:

- reviewing existing governance arrangements;
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring ongoing effectiveness; and

- 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.

Internal Audit has assessed the approach undertaken within Northumberland County Council to preparation of the Annual Governance Statement 2019/20 with reference to the requirements of the Accounts and Audit Regulations 2015 and the Delivering Good Governance in Local Government: Framework 2016. Our observations are set out below.

### *Approach Adopted to Preparation of Northumberland County Council's Annual Governance Statement*

#### **1) Reviewing Existing Governance Arrangements**

It is important that the Annual Governance Statement should reflect the entire breadth of the Authority's operations and the governance arrangements established therein. It therefore follows that the review of existing governance arrangements reported in the Annual Governance Statement should be based on evidence obtained from a variety of assurance sources, covering all parts of the organisation.

The Annual Governance Statement has been prepared by the Executive Director of Finance, a very senior officer within the organisation, and is ultimately 'owned' by the County Council's Executive Team. The Executive Team have contributed to and challenged the preparation of the Statement at various stages in its evolution and this aspect of the process has therefore been suitably robust.

Very importantly, the views of Directors and Heads of Service on governance matters throughout the organisation have been sought. These views are captured in a series of Service Statements which are summarised within the Annual Governance Statement. This approach is suitably broad ranging and likely to be a helpful way of gathering intelligence from across all aspects of the organisation and its operations.

It is clear however that the review has not relied on management self-assessment alone. As set out in the report to Audit Committee in July 2020, the self-assessment has then been triangulated to other assurance sources, including:

- Internal Audit (the Annual Opinion of the Chief Internal Auditor on the Framework of Governance, Risk Management and Control)
- External Audit
- Work of the Audit Committee
- Work of Overview & Scrutiny Committees
- Performance Management Framework
- Other 'second line of defence' assurance – for example financial management reports.
- Reports from External Inspection Agencies

A working group was established to contribute to the development of both the Local Code of Corporate Governance (described below), and the review of existing governance arrangements. This saw the involvement of key officers drawn from appropriate disciplines within the Authority (e.g. risk management) in the review of existing arrangements. Again, this is a good approach which has drawn on the knowledge of appropriate officers in preparation of the Statement.

Overall, Internal Audit's view is that the approach adopted to preparation of the Annual Governance Statement has sought to draw on a wide variety of appropriate assurance sources covering all aspects of the organisation. The Statement has been appropriately authored and there is evidence of suitable executive management contribution, challenge, oversight and ownership.

## **2) Developing an up to date local code of governance, and arrangements for ensuring ongoing effectiveness**

In preparation for the 2019/20 Annual Governance Statement the County Council's senior management developed a specific 'Local Code of Corporate Governance'. This was attached as Appendix A to the draft Annual Governance Statement presented to Audit Committee in July 2020. This Local Code clearly sets out the framework which the Authority has established to govern its operations and ensures there is clarity regarding this, for preparation of the Annual Governance Statement. This is a good approach, reflective of the proper practices referenced above.

Regarding arrangements for ensuring effectiveness of the Local Code of Corporate Governance, this will need to be kept under review over time and refined accordingly to reflect any changes in the environment within which the Authority operates. As the Local Code has only recently been adopted, arrangements to ensure its ongoing effectiveness will need to be developed over the coming year.

The County Council's Local Code of Corporate Governance presented to Audit Committee in July 2020 clearly follows the recommended CIPFA methodology and on the second page of the document, the three principles from the 'Delivering Good Governance in Local Government: Framework', as detailed above, are explicitly addressed with the approach adopted by the County Council explained.

## **3) Reporting publicly on compliance with the code on an annual basis and how the effectiveness of governance arrangements / planned changes are monitored.**

The County Council reports its Annual Governance Statement publicly every year. The Local Code reported to Audit Committee in July 2020 is new, so an approach to the review of its effectiveness will need to be developed and applied in year.

Planned actions are however reported, followed up and monitored from one Annual Governance Statement to the next; and the sources of assurance outlined at (2) above are used to assess the effectiveness of governance.

Overall Internal Audit consider this to be an appropriate approach to this aspect of the Annual Governance Statement preparation, monitoring and reporting.

### *Conclusion*

The framework of governance in any organisation will constantly change and evolve, either in response to external environmental factors or as changes occur and improvements are identified within the organisation itself. The Annual Governance Statement is a formal mechanism for the organisation to demonstrate the level of its own self-awareness, and the effective of its actions, in understanding and improving the framework of governance and how that framework is responding to changes which will inevitably occur in any entity.

A key role of the Audit Committee is to consider the intelligence it receives during the course of the year and whether the content of the Annual Governance Statement is congruent with the Audit Committee's understanding, based on the range of reports considered from a variety of sources during the year.

Internal Audit's review of the approach adopted to the preparation of the Annual Governance Statement in Northumberland County Council demonstrates that a reasonable and appropriate methodology has been utilised. This methodology bears appropriate executive management oversight and ownership and utilises a range of assurance sources.

The development of a comprehensive Local Code of Corporate Governance, which will need to adapt and flex as the governance framework of the organisation evolves over time, is welcome and is likely to provide further assurance to the Statement's preparation in future.

### **Implications**

<b>Policy</b>	Audit Committee's remit covers all aspects of the County Council's operations and the framework of governance, risk management and control, as set out in the Constitution. Part of Audit Committee's role is reviewing and approving the Annual Governance Statement.
<b>Finance and value for money</b>	The Annual Governance Statement encompasses all aspects of governance and control, including finance and value for money.
<b>Legal</b>	The Annual Governance Statement encompasses all aspects of governance and control, including the legality of the Council's operations.
<b>Procurement</b>	The Annual Governance Statement encompasses all aspects of governance and control.
<b>Human Resources</b>	The Annual Governance Statement encompasses all aspects of governance and control.
<b>Property</b>	The Annual Governance Statement encompasses all aspects of governance and control.
<b>Equalities</b> (Impact Assessment attached) Yes <input type="checkbox"/> No <input type="checkbox"/> N/A <input type="checkbox"/>	None
<b>Risk Assessment</b>	Risk management arrangements have been recognised in the preparation of the Annual Governance Statement.

<b>Crime Disorder &amp;</b>	Section 17 of the Crime and Disorder Act 1998 has been considered, and no implications have been identified.
<b>Customer Consideration</b>	None
<b>Carbon reduction</b>	None
<b>Wards</b>	All

**Background papers:**

- 'Annual Governance Review and Annual Governance Statement 2019-20' report to Audit Committee, 29 July 2020
- The Accounts and Audit Regulations 2015, April 2015
- Delivering Good Governance in Local Government Framework 2016 Edition, Chartered Institute of Public Finance and Accountancy / Society of Local Authority Chief Executives and Senior Managers, April 2016

**Report sign off.**

Finance Officer	N/A
Monitoring Officer/Legal	N/A
Human Resources	N/A
Procurement	N/A
I.T.	N/A
Portfolio Holder(s)	N/A

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