



Northumberland

County Council

COMMITTEE : AUDIT COMMITTEE

DATE: 22 SEPTEMBER 2021

ANNUAL GOVERNANCE REVIEW AND ANNUAL GOVERNANCE STATEMENT 2020/21

Report of Jan Willis, Interim Executive Director of Finance & Section 151 Officer

Cabinet Member: Councillor Richard Wearmouth, Deputy Leader and Portfolio Holder for Corporate Services

Purpose of report

The purpose of this report is to enable the Audit Committee to review the draft 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:

- Approve the draft Annual Governance Statement (shown in Appendix A), that will be published with the draft Statement of Accounts for a period of public inspection.
- Note the further planned improvement actions, to further enhance the Council's governance arrangements following the Annual Governance Review.
- Agree proposed updates to the Local Code of Corporate Governance set out at paragraph 3.7.

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

- 1.1. 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.
- 1.2. 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.
- 1.3. 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.
- 1.4. 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 approaches to governance.

¹ The Chartered Institute of Public Finance & Accountancy

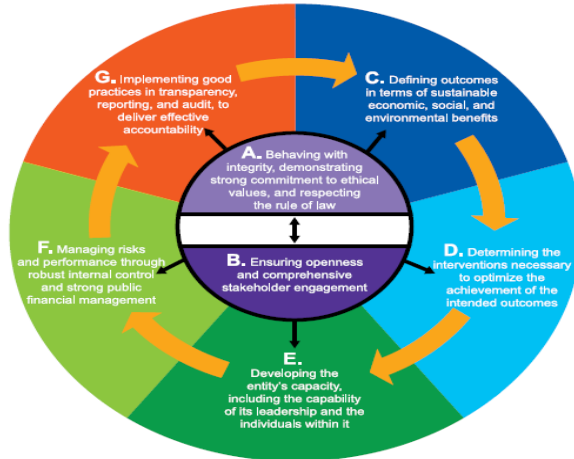
² The Society of Local Authority Chief Executives and Senior Managers

- 1.5. 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.
- 1.6. 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 times, consistent with the requirements of legislation and government policies, avoiding self-interest and, if necessary, overriding a perceived organisational interest.
- 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.

**Achieving the Intended Outcomes
While Acting in the Public Interest at all Times**



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
A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.	<ul style="list-style-type: none"> Behaving with integrity Demonstrating strong commitment to ethical values Respecting the rule of law 	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.
B. Ensuring openness and comprehensive stakeholder engagement.	<ul style="list-style-type: none"> Openness Engaging comprehensively with institutional stakeholders Engaging with individual citizens and service users effectively. 	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.
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.	<ul style="list-style-type: none"> Defining outcomes Sustainable economic, social and environmental benefits 	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>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 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.</p>
<p>F. Managing risk and performance through robust internal control and strong public financial management.</p>	<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>
<p>G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.</p>	<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 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. The current Local Code of Corporate Governance was agreed in 2020 and is attached as Appendix B, Following the annual governance review, we propose only minor updates to the Code. These are:
 - Include the most recent examples of consultations in the 'consultation' section (page 7 of the Local Code), to include consultation on the Council's budget in 2020-21;
 - Update the reference to the Internal Audit Service (page 8 of the Local Code) to reflect changes to the shared service arrangement;
 - Once the planned refresh of the Corporate Plan is complete, references to the Corporate Plan throughout the Code to be updated;
 - Change the reference to the Shared Procurement Service to reflect the ending of the shared service arrangement.

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. As part of this the Council has:
 - Undertaken service level review of Governance arrangements;
 - Reviewed the Corporate risk Register;
 - Reviewed the Constitution;
 - Reviewed the opinion of the Head of Internal Audit;
 - Reviewed reports from External Inspectorates;
 - Reviewed the 2019-20 Improvement Plan;
 - Reviewed governance arrangements of subsidiary companies.
- 4.2. These reviews are reflected in the relevant sections of the Annual Governance Statement Document (AGS) (Appendix A).
- 4.3. The Committee are asked to note that at the time of writing the Council has not received the external auditor's value for money opinion for 2019-20. Further changes may be required to the Annual Governance Statement should any additional matters be raised by the external auditors in their final ISA260 report.

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.
- 5.2. The Council's Governance Assurance Framework, based on the 'Three Lines of Defence' model, is set out in the AGS document.

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. Following the Council elections in May 2021, the Corporate Plan is being refreshed.

- 6.3. The Council approved the Medium-Term Financial Plan for 2022-2023 in February 2021 to support the objectives contained within the Corporate Plan.
- 6.4. 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).
- 6.5. 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.

7. GOVERNANCE IMPROVEMENT ACTIONS

- 7.1. The review of our governance framework has identified a number of improvement opportunities which will be addressed during 2021/22. These are set out in the AGS document.

8. ANNUAL GOVERNANCE STATEMENT (AGS)

- 8.1. 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.
- 8.2. 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.
- 8.3. 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.
- 8.4. 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.

- 8.5. 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. The Constitution delegates authority from Council to the Audit Committee to approve the Annual Governance Statement.
- 8.6. 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.
- 8.7. The Council's draft AGS is attached as Appendix A.

9. CONCLUSION

- 9.1. 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.
- 9.2. 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.
- 9.3. Good progress has been made against the governance improvement plan identified during the 2019/20 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.
- 9.4. A number of opportunities to further enhance the Council's governance arrangements were identified during the 2020/21 governance review process, Actions have been agreed in each service area that will address these issues and further enhance the Council's overall governance arrangements.
- 9.5. As a result of reviewing the evidence the Executive has taken the view that, as a whole, the governance arrangements in operation during 2020/21 within the Council were adequate.

10. RECOMMENDATIONS

- 10.1. It is recommended that Audit Committee:
 - Approve the draft Annual Governance Statement (shown in Appendix A), that will be published with the draft Statement of Accounts for a period of public inspection.

- Note the further planned improvement actions, to further enhance the Council's governance arrangements following the annual governance review.
- Agree updates to the Local Code of Corporate Governance (set out at paragraph 3.7).

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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