

## **GWYNEDD COUNCIL**

COMMITTEE	<b>AUDIT COMMITTEE</b>
DATE	<b>18 JULY 2013</b>
TITLE	<b>GWYNEDD COUNCIL'S ANNUAL GOVERNANCE STATEMENT FOR 2012/13</b>
PURPOSE OF REPORT	<b>TO PRESENT THE ANNUAL GOVERNANCE STATEMENT (INCORPORATING THE STATUTORY STATEMENT ON INTERNAL CONTROL) FOR 2012/13 TO THE AUDIT COMMITTEE FOR APPROVAL</b>
AUTHOR	<b>DEWI MORGAN, SENIOR MANAGER AUDIT AND RISK</b>
ACTION	<b>TO APPROVE THE STATEMENT AND ALLOW IT TO BE SIGNED BY THE COUNCIL LEADER AND THE CHIEF EXECUTIVE</b>

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### **I. INTRODUCTION – WHAT IS THE PURPOSE OF THE ANNUAL GOVERNANCE STATEMENT?**

I.1 There is a statutory requirement for an Annual Governance Statement as a result of the contents of:

- The Accounts and Audit Regulations (Wales) 2005 (as amended by the Accounts and Audit Regulations (Wales) 2010), which state:

**The local government body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices, when relevant, with any statement of accounts it is obliged to publish.**

- CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (the "SORP")
- CIPFA / SOLACE Framework *Delivering Good Governance in Local Government* and subsequent addenda. The latest addendum was published in December 2012.

I.2 Legislation and guidance in this area have evolved over several years.

I.3 "Proper practice" is defined as CIPFA's Statement of Recommended Practice ("SORP"), the Code of Practice on Local Authority Accounting in the United Kingdom. The SORP in turn states that the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government* is also to be treated as proper practice. This was published in 2007 in order to give clear guidance to local authorities to encourage a consistent approach when dealing with governance issues. Further addenda were published in 2010 and 2012 to contain additional requirements.

- 1.4 The SORP and the CIPFA / SOLACE Framework both now express that there is a need to publish a wider Annual Governance Statement that incorporates the Statement of Internal Control.
- 1.5 The purpose of the Annual Governance Statement is to state that the authority has considered its governance framework, and to report that this remains adequate and continues to operate effectively, and to demonstrate that there are actions planned where any weaknesses in the governance arrangements have been identified.

## 2. PROFILE OF THE STATEMENT

- 2.1 The profile of the Annual Governance Statement is continuously increasing. During the last year, the Wales Audit Office and undertaken a national review of governance, concentrating specifically on the development of the Statement.
- 2.2 The WAO study focussed primarily on what the authority has done to:
- determine the level of assurance required in relation to all aspects of governance reflected in the CIPFA guidance;
  - ensure that the required level of assurance is provided;
  - raise awareness levels amongst those charged with governance of their responsibilities.
- 2.3 Officers from WAO will report on the result of this study to the Committee as a separate item on today's meeting agenda.
- 2.4 In addition to this study, the accountancy firm Grant Thornton undertakes an annual review of governance at local authorities in Wales and England. These reviews contain reference to good practice at some authorities, which have been considered when preparing this Statement.

## 3. ROLE OF THE AUDIT COMMITTEE

- 3.1 Given the key role of the Audit Committee in the context of Council's governance framework, the Committee has a role in challenging the preparation procedures and the contents of the draft Annual Governance Statement, prior to recommending that it is signed by the Council Leader and Chief Executive. In fact, there is an additional clause in the Statement this year as a result of the requirements of the December 2012 Addendum that specifically refers to the Audit Committee's role within the process. When signing the Governance Statement, the Chief Executive and Council Leader confirm:

“We have been advised on the implications of the result of the **review of the effectiveness of the governance framework** by the Audit Committee, and that the arrangements **continue to be regarded as fit for purpose in accordance with the governance framework**. The areas already addressed and those to be specifically addressed with new actions planned are outlined below”.

- 3.2 Therefore, when undertaking this role, the Audit Committee needs to consider:
- What is meant by the “Governance Framework”?
  - Are the arrangements to review the effectiveness of this governance framework fit for purpose?

## 4. THE GOVERNANCE FRAMEWORK

- 4.1 According to the December 2012 Addendum to the CIPFA / SOLACE guidance, the key elements of the systems and processes that comprise an authority's governance include arrangements for:
- identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users
  - reviewing the authority's vision and its implications for the authority's governance arrangements
  - translating the vision into objectives for the authority and its partnerships
  - measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources and value for money
  - defining and documenting the roles and responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication in respect of the authority and partnership arrangements
  - developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff
  - reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality
  - reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability
  - ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained
  - ensuring effective management of change and transformation
  - ensuring the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) and, where they do not, explain why and how they deliver the same impact
  - ensuring the authority's assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact
  - ensuring effective arrangements are in place for the discharge of the monitoring officer function
  - ensuring effective arrangements are in place for the discharge of the head of paid service function
  - undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees: Practical Guidance for Local Authorities
  - ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful
  - whistleblowing and for receiving and investigating complaints from the public
  - identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training
  - establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation
  - enhancing the accountability for service delivery and effectiveness of other public service providers
  - incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements.

- 4.2 It follows, therefore, that the Annual Governance Statement needs to contain reference to the above. However, one of the criticisms that have arisen in national studies is the statements tend to be structured in a way that follows these headings rigidly. Although this provides a useful checklist to ensure that everything has received attention, it can make the Statement inaccessible and difficult to read. This is what has been done in Gwynedd Council in the past (and in 2012 it also followed the structure of the Local Code of Governance), but this year the Statement follows an arrangement that appears more logical, whilst at the same time giving due attention to each of the points in 4.1 above.
- 4.3 The Council's Local Code of Governance was approved by Board on 5 April 2011. This code goes much of the way in explaining the Council's governance arrangements, and therefore goes over much of the same territory as the Annual Governance Statement. It is based upon the six core principles of the CIPFA / SOLACE Framework, which are:
- Core Principle 1: Focusing on the purpose of the authority and on outcomes for the community, creating and implementing a vision for the local area (including citizens and service users)
- Core Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- Core Principle 3: Promoting the authority's values and demonstrating the values of good governance by upholding high standards of conduct and behaviour.
- Core Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risks.
- Core Principle 5: Developing the capacity and capability of members and officers to be effective.
- Core Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability.

## **5. REVIEW OF THE EFFECTIVENESS OF THE GOVERNANCE ARRANGEMENTS**

- 5.1 The Audit Committee needs assurance that the governance arrangements described in Part 3 of the Annual Governance Statement are working as they should. In order to receive this assurance, the Committee will need to consider whether the activities described in Part 4 of the Statement is sufficient to come to a judgment about these governance arrangements.
- 5.2 One of the criticisms of external auditors of Gwynedd Council's arrangements in the past for preparing the Statement was that it tended to be seen primarily as a function for Internal Audit (although such arrangements are were by no means unique to this Council). Such arrangements restrict the ownership of the Statement, increasing the risk that is not seen as a corporate document.
- 5.3 In response to this, and to improve the review of governance arrangements that would result in the 2013 Annual Governance Statement, the Governance Arrangements Assessment Group was formed during the year to give a continuous, more disciplined view of governance issues, raise broader awareness of them, and promote wider ownership of the Annual Governance Statement. The Group Members are a Corporate Director (DOW), the Head of Democracy and Legal, the Senior Manager for Corporate Commissioning and the Senior Manager Audit & Risk.
- 5.4 As part of its work, the Group has met since January 2013 to scan for developments relating to governance, so that they are addressed appropriately in the Statement. 2012-13 was a significant year of course as much work has been undertaken in considering strategic risks as part of the development of the new Strategic Plan.
- 5.5 The draft Governance Statement, subject to some minor modifications, was approved by the Corporate Management Team on 26 June 2013.
- 5.6 Therefore, instead of following the same path as in previous years where, the Statement was drafted by the Senior Manager Audit and Risk, passed around key officials for comment and then presented the Audit Committee for approval, discussions among officials has led to a slightly different route this year. However, it is believed that the new arrangements keep a balance between having efficient procedures and being able to demonstrate that the governance arrangements have received appropriate attention.
- 5.7 Moving forward to 2013/14, the intention is for the Governance Arrangements Assessment Group to meet at least on a quarterly basis throughout the year (perhaps more often at the end of the financial year at the time of preparing the Governance Statement) to consider any work has taken place in the previous period to assess the effectiveness of the governance arrangements. The Group will then report to the Audit Committee.

## **6. RECOMMENDATION**

- 6.1 The Audit Committee is requested to challenge the processes used to assess if the arrangements to review the effectiveness of this governance framework fit for purpose.
- 6.2 The Audit Committee is requested to approve the Annual Governance Statement, incorporating Gwynedd Council's Statement on Internal Control for the 2012/13 financial year and the period since the balance sheet date.