

**DERBYSHIRE COUNTY COUNCIL****AUDIT COMMITTEE MEETING****10 May 2016****Report of the Chief Executive****ANNUAL GOVERNANCE STATEMENT & SYSTEM OF INTERNAL CONTROL****1 Purpose of the Report**

To inform Members of progress on the review of the County Council's compliance with Best Practice requirements in respect of the annual review of the system of internal control and the production of the Draft Annual Governance Statement (AGS). In accordance with previously stated aims the AGS now also includes details of the Council's compliance with International Auditing Standards.

To request that Members consider the Draft Annual Governance Statement and recommend its inclusion in the Authority's Statement of Accounts for 2015-16.

**2 Information & Analysis**

Regulation 6 of the Accounts and Audit Regulations 2015 requires a relevant body to "conduct a review of the effectiveness of the system of internal control" and "prepare an annual governance statement in accordance with proper practices". Cipfa/Solace have produced a framework Delivering Good Governance in Local Government which is supplemented by an Application Note specifically developed to advise on Cipfa's Statement on the Role of the Chief Financial Officer.

The Cipfa/Solace framework outlines the approach which should be taken to review existing governance arrangements and produce an Annual Governance Statement. The Draft Annual Governance Statement for 2015-16 is attached as Appendix 1 to this Report.

Members will recall that a Governance Group is established to conduct an ongoing review of key systems and processes operated within the County Council to ensure that they deliver effective Corporate Governance. This is undertaken utilising an objective assessment process prescribed by the Cipfa/Solace Framework, which provides a checklist of best practice standards against which compliance can be assessed.

The Annual Governance Statement once approved will be included in the Council's Statement of Accounts for 2015-16.

The External Auditors have specific duties placed on them under International Auditing Standards relating to fraud in the audit of financial statements, laws and regulation and litigation and claims. The Council's assurance is detailed in Appendix 2.

### **3 Legal Considerations**

Regulation 6 of the Accounts & Audit Regulations 2015 requires the Authority to produce an Annual Governance Statement.

### **4 Other Considerations**

In preparing this report the relevance of the following factors has been considered: financial, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property and transport considerations.

### **5 Officer's Recommendation**

That Members consider the information provided in this Report as evidence of the Authority's effective compliance with the statutory requirement to produce an Annual Governance Statement and recommend it for inclusion in the Authority's Statement of Accounts.

IAN STEPHENSON

Chief Executive

---

## ANNUAL GOVERNANCE STATEMENT

---

### Scope of Responsibility

Derbyshire County Council has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised and is responsible for ensuring that its business is conducted in accordance with the law and relevant standards, that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

In discharging this overall responsibility, the County Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, including arrangements for the management of risk.

The County Council has approved and adopted a Code of Corporate Governance which is consistent with the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* and demonstrates its commitment to corporate governance stating that “good corporate governance underpins credibility and confidence in our public services”.

This Statement explains how the County Council has complied with the Code and also meets the requirements of Regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of an annual governance statement. The Code is available on the Authority’s website.

### The Purpose of the Governance Framework

The governance framework comprises the systems, processes and values by which the Authority is directed and controlled and the activities through which it accounts to, engages with and leads the community. It enables the Authority 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 system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the County Council’s policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically.

The governance framework has been in place at the County Council for the

year ended 31 March 2016 and up to the date of the Statement of Accounts being certified by the Director of Finance.

## **Key Elements of the Governance Framework and their Contribution to Overall Effectiveness**

### *Policy and Plans*

The Council Plan sets out key priorities to help the Authority achieve its ambitions and is supported by resource strategies, Departmental Service Plans and other strategies, policies and plans. The Authority monitors and reports on progress on an ongoing basis against a range of identified targets. The Council Plan was approved by Council in April 2014 and has most recently been reviewed and updated by the Council at its Annual General Meeting in April 2016.

The Authority operates Financial Regulations and Standing Orders in Relation to Contracts which are subject to annual review by the Audit Committee. Codes of Conduct defining the standards of behaviour for Members and officers have been established and complaints in this arena in relation to Members are the responsibility of the Standards Committee. The Authority operates an Equality and Diversity Policy, Confidential Reporting Code (Whistleblowing Policy) and a Complaints Procedure. In addition the Authority has an Anti-Fraud and Anti-Corruption Strategy and a Fraud Response Plan which are subject to annual review. The Authority has in place an effective risk management framework and business continuity plans. The Strategic Risk Register is subject to regular review and project specific risk registers are in place for major projects and partnerships which are subject to ongoing review. Emerging risks are identified by the reviews and from ongoing audit work.

### *Leadership*

To ensure effective leadership throughout the Authority, Members and officers work together to deliver a common purpose with clearly defined functions and roles. The County Council's Constitution includes details of the roles and responsibilities of the Executive, Committees, full Council and Strategic Directors and Directors and the rules under which they operate. Policy and decision making are facilitated by a clear framework of delegation set out in the Council's Constitution which provides for delegation to officers within the framework laid down by the Authority. The Constitution is subject to ongoing review. The Authority's political structure and the roles and responsibilities of Cabinet Members are also detailed on the Council's website.

Strategic Directors and Directors play a key role in implementing policy decisions. The Chief Executive is the designated Head of Paid Service and has overall corporate management and operational responsibility for leading the work of all Council employees providing services across the county. The Director of Legal Services is the designated Monitoring Officer with responsibility for ensuring the lawfulness of decisions taken by the Council, Cabinet, its Committees and officers, providing support and advice on the

maintenance of ethical standards and advising the Standards Committee. The Director of Finance is the nominated Section 151 Officer and is responsible for the proper administration of the Authority's financial affairs and certifies the Accounts ready for external audit.

The Authority's Head of Internal Audit carries out an annual review of the Authority's corporate governance arrangements. Based on the evidence from audit work, the Head of Internal Audit produces an Annual Report which is considered by the Audit Committee and highlights both significant areas of good practice and those where improvements can be made. The Annual Report includes the formal Assurance Statement by the Head of Internal Audit on the effectiveness of the Authority's systems of internal control. The Authority's assurance arrangements substantially conform to the governance requirements of the Cipfa Statement on the Role of the Head of Internal Audit (2010).

#### *Role of the Audit Committee*

The Authority has an Audit Committee which operates in accordance with prescribed terms of reference, its function being defined in the Constitution. It is responsible for ensuring the continued adequacy and effectiveness of the Authority's internal control framework and for undertaking an annual review of the regulatory framework which is comprised of:-

- Financial Regulations and Standing Orders in Relation to Contracts
- Codes of Conduct for both Members and officers
- Confidential Reporting Code (Whistleblowing Policy)
- Anti-Fraud and Anti-Corruption Strategy
- Fraud Response Plan

The Audit Committee receives, approves and monitors the Audit Plans for both internal and external audit and receives internal and external audit reports. It also monitors the effectiveness of the Authority's risk management arrangements.

The Audit Committee plays a key role in monitoring and reviewing the effectiveness of the system of internal control, systems established to combat fraud and corruption and ensuring that an adequate risk management framework is in place.

#### *The Internal Control Framework*

The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The Authority has established a Governance Group of senior officers, chaired by the Director of Legal Services, to review and monitor the Authority's governance arrangements. This review is supported by the work of Strategic Directors and Directors which, together with the work of Audit Services, demonstrate that good governance practices are embedded throughout the Authority. Further assurance is provided by the Head of Internal Audit's Annual Report, and also by comments made by the external

auditor and other review agencies and inspectorates e.g. Ofsted and the Care Quality Commission.

Previous Annual Governance Statements have identified the development of departmental assurance through the production of Governance Matrices as a future improvement for the County Council. Progress to date includes the development of a comprehensive set of matrices with supporting information to help Strategic Directors understand what is required from a departmental perspective. The matrices will be piloted in the Corporate Resources Department during the year with the intention to roll out to the rest of the organisation for completion in 2016-17.

#### *The Chief Financial Officer*

The Authority's financial management arrangements substantially conform to the governance requirements specified in the Cipfa Statement on the Role of the Chief Financial Officer in Local Government (2010). The Director of Finance, as Section 151 Officer, has the key role in assessing and developing financial skills within the Council, supported by the Director of Human Resources. Training has continued throughout the year for staff, especially in relation to the use of the Council's financial systems and for Members in relation to the Pension Fund, accounts, audit and risk management matters as well as wider financial planning. The Council continues to support staff in the development of more formal qualifications. A formal schedule of training is being developed to cover a four year cycle. A review of Financial Regulations is nearing completion; a large part of this review has examined the major changes made in 2014 to ensure they have been effective.

#### *Role of Audit Services*

The effectiveness of the Authority's internal controls is examined in detail through the work of Audit Services. The Unit has a Strategic Audit Plan from which the Annual Audit Plan is formulated based on key risks identified in the Authority's Strategic Risk Register and through consultation with the Chief Executive, Strategic Directors, Directors, external audit and other key stakeholders. The plan is flexed within the year to address emerging risks and to optimise the Authority's Audit resource. Audit findings are reported to the relevant Strategic Directors and Senior Managers, together with recommendations for improvement in the form of prioritized action plans. Checks are undertaken by Audit Services to ensure agreed recommendations have been implemented and regular progress reports on the work of Audit Services are considered by the Audit Committee.

A detailed annual review of the effectiveness of the system of internal audit is a requirement under the Accounts and Audit Regulations and such reviews have previously been conducted in-house by the Director of Finance. These requirements have been extended by the Public Sector Internal Audit Standards which require that an independent, external review is conducted on a five yearly cycle. The first such review was undertaken by PricewaterhouseCoopers in 2014 and the results reported to the Audit Committee which provided positive assurance on the work of Audit Services.

Audit Services carry out a wide range of audit work on both financial and operational systems within the Authority, including an annual review of corporate governance arrangements, and report the outcome of their work on a regular basis. In addition external audit and other external agencies e.g. Ofsted contribute to the review of the Authority's compliance with its policies, laws and regulations.

#### *Role of Improvement and Scrutiny*

Improvement and Scrutiny Committees support the work of the Executive and the Authority as a whole, by reviewing and/or scrutinising decisions, producing reports and making recommendations and considering the call-in of decisions made prior to implementation. The role of Improvement and Scrutiny is defined in the Constitution and reports produced by the Committees can be accessed via the County Council's website.

#### *Role of Standards Committee*

The Standards Committee has a duty to monitor and review the operation of the Constitution and the ethical framework. The Monitoring Officer (Director of Legal Services) has a key role in making recommendations to ensure that the Constitution achieves its purposes. Changes to the Constitution are only made following approval by full Council. The role of the Standards Committee is defined in the Constitution and reports considered by the Committee can be accessed via the County Council's website.

#### *Member Development*

The Authority continues to review its arrangements for Member training and development through the Member Development Working Group as recommended following an Improvement and Scrutiny review. This has overseen and implemented a structured framework for Member development and induction. The Council in June 2015 agreed a Member Development Strategy and committed to achieving the externally assessed Councillor Development Charter.

Role profiles have recently been agreed for Members and these will provide the focus for Personal Development Plan (PDP) reviews. Learning needs identified through PDPs will inform the design of future Member Development programmes to inform the allocation of training budgets and more effective evaluation practices. There are regular training events and briefings to support the development of Members on subjects/issues agreed by the Member Development Group.

#### *Staff Development*

The Council has continued to support the development of its staff in the provision of generic and specific skills training including supporting the maintenance of professional standards and qualification training.

The Council has in place a Leadership Job Family which sets out role profiles which link to associated standards and includes specific reference to financial

and risk management, and with an emphasis on performance management. The Council has agreed performance management and induction policies to support performance management and improvement through the “employment life cycle”.

The corporate learning and development programme provides development opportunities for all employees on core policies and procedures. There is also specific development for managers at first line, middle and senior levels. These development programmes are supplemented by “on-line” resources through the corporate e-learning platform. The e-learning platform provides a blended approach to staff development, and includes e-learning on key policy areas, which is recorded in personal training records and is reported upon to ensure completion of mandatory modules. This corporate provision provides a basis for induction plans, supplemented by specific professional and/or departmental requirements.

### *Consultation and Delivery in Partnership*

The Authority’s vision and intended outcomes are communicated to citizens through a range of media including the Authority’s website and Your Derbyshire magazine.

The Authority ensures that clear channels of communication are in place with all sections of the community and other stakeholders e.g. employee groups, Citizens’ Panel, Youth Council, 50+ Forum, BME Forum, Local Area Fora, School Councils and service user groups. Corporate communications are managed by staff of the Chief Executive’s Office.

The Authority operates a partnership protocol, toolkit and database; specific requirements of partnership working are defined in Financial Regulations and partnership arrangements are subject to annual review by Audit Services. The Authority believes that by working with other public and voluntary sector organisations it can deliver more than each body can achieve separately and provide those services which meet the needs of local people.

### *Response to Reports on the Governance Failings in Rotherham*

The reports into failings at Rotherham MBC have prompted consideration of the findings of those reports and how they compare to practices within the Council. This work was identified as one of the future improvements in last year’s Annual Governance Statement and remains in progress. The findings have been considered by both Audit Committee and senior officers within the Council.

### *Future Challenges*

The Council has approved a revised Five Year Financial Plan which identified the need to make further significant savings over the period 2016-17 to 2020-21 and, as part of the achievement of the savings required, reports have been presented to Council and Cabinet detailing much of the reductions necessary. Currently the Council is examining the Government’s offer of guaranteed minimum level of funding around three grant streams as part of a Multi-Year



Settlement proposal. A final decision whether to accept or not will have to be made by the 5 October 2016.

In order to ensure the delivery of savings is achieved, the budget monitoring process, agreed by Audit Committee, has been supplemented with additional reporting of progress on the achievement of agreed reductions. There is an established monthly “Performance Clinic” with the Chief Executive which involves Strategic Directors reporting progress on the achievement of budget reductions to a group which also includes the Assistant Chief Executive and the Director of Finance. This well established approach includes more detailed recording of the achievement of performance targets leading to improved reporting to Members.

The achievement of budget reductions of the size facing the Council requires a considerable transformation in approach to service delivery. The Council’s Innovation Programme acts as a focal point to deliver on this agenda with the aim of protecting service delivery whilst delivering new and improved methods of working. The approach to innovation and transformation will continue to be developed alongside the identification of income generating opportunities, a North Midlands Combined Authority and devolution deal and different approaches that help communities thrive.

### **Future Improvements**

The reviews of effectiveness undertaken by internal audit have advised that the Authority’s overall financial management and corporate governance arrangements are sound, subject to the satisfactory, prompt implementation of recommendations made and accepted during the year; no significant governance issues have been raised by this work.

A review of the Authority’s governance arrangements has been undertaken in order to produce this Statement utilising an objective assessment process recommended by the Chartered Institute of Public Finance and Accountancy. Whilst we recognise the need to refresh this process in the medium term, opportunities have been identified to further strengthen present arrangements which include continuing to work on the:-

- Implementation of Governance Matrices;
- Further consideration of the governance implications arising from the Report of Inspection of Rotherham Metropolitan Borough Council (Casey Report) published by the Department for Communities and Local Government.

The responsibility for monitoring progress in this regard is undertaken by the Governance Group.

We have been advised on the implications of the results of the review of the effectiveness of the governance framework by the Audit Committee and that a plan to address weaknesses and ensure continuous improvement of the

system is in place.

We propose over the coming year to take steps to address those opportunities for improvement highlighted above so as to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements which were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

**Ian Stephenson**  
**Chief Executive**

**Councillor Anne Western**  
**Leader of the Council**

Date

Date

On behalf of Derbyshire County Council

## **AUTHORITY'S PROCEDURES RELEVANT TO COMPLIANCE WITH INTERNATIONAL AUDITING STANDARDS**

### **ISA 240**

#### **Objective**

Management assessment of the risk that Financial Statements may be misstated due to fraud and the Council's processes for identifying and responding to these risks.

#### **Procedures in Place**

The County Council's control framework which includes:

- Financial Regulations and Procedures
- Standing Orders relating to Contracts
- Strategic Departmental Risk Registers supplemented by Project Risk Registers
- Project Management Toolkit
- Partnership Protocol
- Schemes of Delegation
- Ongoing activities of the Governance Group
- Continuous Internal Audit process driven by Strategic and Annual Audit Plans which are kept under continuous review to reflect changing risk profiles and emerging risks and overseen by the Audit Committee
- Audit Services Audit Manual
- Regular bank reconciliations
- Regular reconciliations of all feeder systems and interfaces
- Budget monitoring procedures
- Procurement controls

#### **Objective**

Communication to employees of business practice and ethical behaviour.

#### **Procedures in Place**

- Induction process
- Code of Conduct for Employees
- Anti-Fraud/Anti-Corruption Strategy Policy statement
- Confidential Reporting Code
- Workforce articles and payslip messages
- Financial Regulations
- Dnet
- Procedure notes and manuals

## Objective

Communication to those charged with governance the processes for identifying and responding to fraud.

## Procedures in Place

- Audit Committee Terms of Reference
- Audit Committee training
- Regular review by the Audit Committee of:
  - the Annual Governance Statement, Action Plan and work of the Governance Group
  - Financial Statements
  - detailed progress reports against Plan of the activity of Audit Services
  - Audit Services Annual Report and Assurance Statement
  - External Audit reports
  - the Authority's Strategic Risk Register
  - annual reports on the effectiveness of Internal Audit
  - annual reviews of Financial Regulations and Standing Orders, the Anti-Fraud Anti-Corruption Policy Strategy Statement, Confidential Reporting Code, Codes of Conduct for Officers and members
  - specific reports on the Authority's progress in relation to specific initiatives eg Schools Financial Value Standard and National Fraud Initiative
- Review and approval of Internal and External Audit Plans

## Objective

Awareness of any actual or alleged instances of fraud.

## Procedures in Place

- Specific requirements of Financial Regulations
- Anti-Fraud Anti-Corruption Strategy Policy statement
- Confidential Reporting Code
- Protocol for consideration of Audit Reports following Special Investigations
- Audit Services Audit Manual
- Membership of National Anti-Fraud Network
- Membership of Better Governance Forum
- Membership of national, regional and County Audit Groups and other professional groupings
- Role of the Monitoring Officer and the Standards Committee
- Audit Services distribute letters to Chief Officers on potential frauds, scams etc.

**ISA 250****Objective**

Requires that auditors understand how management gain assurance that all relevant laws and regulations are complied with.

**Procedures in Place**

All Member Reports must include legal considerations which reflect the impact of statutory/regulatory requirements. The Monitoring Officer (Director of Legal Services) has a specific responsibility to ensure that the Authority operates lawfully. Legal officers are present at Member meetings to provide advice and the inclusion in identified posts for office holders to maintain an up-to-date knowledge of appropriate legislation eg Strategic Directors, Director of Finance, Director of Legal Services (Monitoring Officer), Assistant Director of Finance (Audit) & RIPA Monitoring Officer.

**ISA 501****Objective**

Requires that auditors obtain confirmation from management around the potential for litigation and claims that would affect the Financial Statements.

**Procedures in Place**

- The Director of Finance seeks specific assurance from the Chief Executive and Director of Legal Services whether or not there are material claims or potential claims which would affect the Financial Statements.
- The Director of Legal Services also raises this as an item at his Departmental Management Team.
- Should the potential for any such claim be identified by Audit Services this would be raised directly with the Director of Finance.
- As part of Audit Services review of insurance the procedures for identifying potential claims/risk exposure and potential mitigation are reviewed.