

## ITEM NO: 9

<b>DECISION-MAKER:</b>	AUDIT COMMITTEE		
<b>SUBJECT:</b>	ANNUAL GOVERNANCE STATEMENT AND STATEMENT ON INTERNAL CONTROL 2006-07 ACTION PLAN: STATUS REPORT		
<b>DATE OF DECISION:</b>	24 <sup>TH</sup> JANUARY 2008		
<b>REPORT OF:</b>	EXECUTIVE DIRECTOR OF RESOURCES		
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### STATEMENT OF CONFIDENTIALITY

NOT APPLICABLE.

### SUMMARY

For the financial year 2007/08 the Council is required to complete an Annual Governance Statement ('AGS') which will replace the former Statement on Internal Control ('SIC'). The production of an AGS is a mandatory requirement under the Accounts and Audit Regulations as updated in 2006.

The AGS is a key corporate document and should provide an accurate representation of the corporate governance arrangements in place during the year and highlight those areas where improvement is required.

It is anticipated that the transition from a SIC to an AGS should not be too onerous and that the 'assurance gathering process' created to support the SIC can be further developed in line with the Chartered Institute of Public Finance and Accountancy ('CIPFA') guidance to support development of the AGS for 2007/08.

### RECOMMENDATIONS:

The Audit Committee is asked to:-

- (i) Note the change in requirement from the SIC to the AGS with effect from 2007/08;
- (ii) Approve the assurance gathering process with the Controls Assurance Corporate Group being the main focus for this process (Appendix 1);
- (iii) Note the Audit Committee's role in the AGS process and to approve a change to the terms of reference for the Audit Committee to remove reference to the 'SIC' and replace with the 'AGS' (Appendix 2);
- (iv) Approve the revised Terms of Reference for the Controls Assurance Management Group' (Appendix 3); and
- (v) Note the content of the 'SIC 2006-07 Action Plan: Status Report' (Appendix 4).

## **REASONS FOR REPORT RECOMMENDATIONS**

1. The Audit Committee has responsibility to provide independent assurance to the Standards and Governance Committee on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the statement on internal control (the AGS for 2007-08). This responsibility extends to receiving and reviewing the draft SIC (AGS), and where necessary challenging the sources of assurance, prior to the draft document being reported to Standards and Governance Committee for approval.
2. The Audit Committee therefore needs to be aware of the nature and scope of the assurance gathering process that will be undertaken to support the development and production of a robust AGS.
3. Although the SIC is to be replaced it is appropriate for the Audit Committee to be appraised of, and monitor progress, against the agreed actions to address the 'significant control weaknesses' identified in 2006-07 SIC.

## **CONSULTATION**

4. The 'assurance gathering process' for the AGS has been developed in consultation with the Controls Assurance Group and in accordance with the relevant CIPFA guidance.
5. The content of the 'SIC 2006-07 Action Plan: Status Report' is based on responses received from the relevant 'lead officers' and members of the Controls Assurance Group as appropriate.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

6. No alternative options have been considered.

## **DETAIL**

7. Regulation 4 (2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment)(England) Regulations 2006 requires local authorities to "conduct a review at least once a year of the effectiveness of its system of internal control" and "to prepare a statement on internal control "in accordance with proper practices.
8. In August 2006, the Department for Communities and Local Government issued circular 03/2006 and Section 7 stated that proper practice in relation to internal control relates to guidance contained in two documents:
  - Statement on Internal Control in Local Government; meeting the requirements of the Accounts and Audit Regulations 2003, published by CIPFA in 2004; and
  - Corporate Governance in Local Government; A Keystone for Community Governance (Framework and Guidance Note), produced by CIPFA/SOLACE in 2001 (updated in 2007).
9. The new CIPFA/SOLACE governance framework requires an annual governance statement and CIPFA has also confirmed that the annual governance statement will replace the SIC with effect from 2007/8 reporting year (i.e. from 1<sup>st</sup> April 2007).

10. Although the new CIPFA/SOLACE Governance Framework is a discretionary code the council is judged against it as part of the Comprehensive Performance Assessment. The Framework outlines six core principles of good governance focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and leads the community. The degree to which the council follows the six core principles is required to be declared in the AGS.
11. The Audit Commission has previously commented that the council has “a sound annual effectiveness review process to support the SIC and councillors’ roles in scrutinising and approving the SIC are clear”. CIPFA has published a ‘rough guide for practitioners’ in respect of the AGS and this states that “for those organisations who had already considered and compiled their SIC as a corporate document the transition to an AGS should not be a great one”. The existing processes and procedures initially developed to support the SIC will therefore been further developed to support the AGS.
12. The purpose of the AGS is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where gaps or improvements are required.
13. CIPFA/SOLACE has defined governance as “how local government bodies ensure that they are doing the right things, in the right way, for the right people in a timely, inclusive, open, honest and accountable manner. It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities”.
14. The review of the effectiveness of the organisation’s overall corporate governance arrangements requires the sources of assurance which the council relies on, to be brought together and reviewed with gaps in assurance being recorded and disclosed within the AGS.
15. Overall assurance on the adequacy and effectiveness of the overall governance framework is sought from the following sources: Internal Audit, External Audit, Risk Management, Legal and Regulatory Assurance, Assurances provided by Executive Directors, Performance Management and external inspection or review and reports. The foregoing sources of assurance are underpinned by a range of corporate policies and procedures.
16. To support the process the existing ‘Controls Assurance Framework’ document (which identifies and brings together the various elements of the overall ‘assurance framework’ and comments on any gaps) and the ‘Controls Assurance Self Assessment Questionnaires’ (completed by Executive Directors) will be reviewed and updated to reflect the wider remit of the AGS (most notably in relation to joint working arrangements and partnerships and a greater focus on risk management).

17. At the centre of the review process there is a corporate group who are given ultimate responsibility for drafting the AGS, evaluating assurances and the supporting evidence and assessing whether or not there is consistency with existing policies and the authority's governance framework. This 'Controls Assurance Management Group' currently consists of the Executive Director of Resources (as Section 151 Officer), the Monitoring Officer and the Chief Internal Auditor. It is proposed that this composition of this group is extended to include both the Chair of the Audit Committee and the Head of Corporate Policy and Performance. This is to reflect the corporate nature of the exercise and the need for input from members. The terms of reference have also been amended to now refer to the AGS and to recognise the need for this group, at appropriate periods, to review progress in respect of action plans to address any identified significant control weaknesses.
18. As per the SIC, the AGS is presented to the Audit Committee for review and approval prior to being submitted to the Standards and Governance Committee for final approval. The AGS is then forwarded to the Chief Executive and Leader of the Council for signing.

## **FINANCIAL/RESOURCE IMPLICATIONS**

### **Capital**

19. None.

### **Revenue**

20. None.

### **Property**

21. No specific property implications have been identified in this report.

### **Other**

22. None.

## **LEGAL IMPLICATIONS**

### **Statutory power to undertake proposals in the report:**

23. The Audit Commission Act 1998 and the Accounts and Audit Regulations 2003 require the Council to adopt Good Governance arrangements in respect of the discharge of its functions. The above arrangements are intended to meet those responsibilities.

### **Other Legal Implications:**

24. None.

## **POLICY FRAMEWORK IMPLICATIONS**

25. None.

**SUPPORTING DOCUMENTATION**

**Appendices**

1.	Annual Governance Statement 2007-08: Process and Timelines
2.	Draft revised Terms of Reference for the 'Audit Committee'
3.	Draft revised Terms of Reference for 'Controls Assurance Management Group'
4.	SIC 2006-07 Action Plan: Status Report

**Documents In Members' Rooms**

1.	None.
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**Background Documents**

Title of Background Paper(s)

Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)

1.	CIPFA / SOLACE – Delivering Good Governance in Local Government	
2.	CIPFA Finance Advisory Network – AGS Rough Guide for Practitioners	

**Background documents available for inspection** Internal Audit Office, North Block Basement, Civic Centre

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**FORWARD PLAN No:** N/A

**KEY DECISION?** N/A

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**WARDS/COMMUNITIES AFFECTED:**

NOT APPLICABLE