

**SOUTH HAMS DISTRICT COUNCIL**

<b>NAME OF COMMITTEE</b>	<b>Audit Committee</b>
<b>DATE</b>	<b>14 July 2011</b>
<b>REPORT TITLE</b>	<b>SYSTEM OF INTERNAL CONTROL AND ANNUAL GOVERNANCE STATEMENT 2010/11</b>
<b>Report of</b>	<b>S.151 Officer Monitoring Officer Internal Audit Manager</b>
<b>WARDS AFFECTED</b>	<b>All/Corporate</b>

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**Summary of report:**

The purpose of this report is to provide Members with sufficient information to allow them to:

- Independently examine the draft Annual Governance Statement and the supporting process and evidence; and
- Recommend approval of the Annual Governance Statement to the Council.

The Accounts and Audit (Amendment) (England) Regulations 2006 and 2011 require the Council to publish an Annual Governance Statement.

It will provide a public confirmation that this Council has a sound framework of governance and system of internal control, which facilitates the effective exercise of the Council's functions and includes arrangements for the management of risk.

Overall responsibility for Governance rests with the Council, but monitoring of compliance with the Code is carried out on its behalf by the S.151 Officer, Monitoring Officer and Internal Audit Manager reporting annually to the Audit and Standards Committees.

**Financial implications:**

Within existing budgets.

**RECOMMENDATION:**

**It is RECOMMENDED that Members consider the draft Annual Governance Statement (AGS) for 2010/11 and supporting evidence provided by this report and recommend approval of the Statement to the Council.**

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## **1 BACKGROUND**

### **Introduction to the Annual Governance Statement (AGS)**

- 1.1 The Accounts and Audit Regulations 2003 introduced a new section requiring every local authority, police authority and fire authority in England to publish a 'Statement on Internal Control' and comply by 1<sup>st</sup> April 2003.
- 1.2 Regulation 4(1) of the Regulations state that 'The relevant body (South Hams District Council), shall be responsible for ensuring that financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk'.
- 1.3 Regulation 4(2) goes on to state that 'The relevant body shall conduct a review at least once 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' with any relevant financial statements the body is required to publish.
- 1.4 In 2006, the Accounts and Audit Regulations were amended to replace the Statement of Internal Control with the 'Annual Governance Statement'.
- 1.5 *The 2011 Accounts and Audit Regulations have removed the requirement to publish the AGS within the Council's Statement of Accounts. The Regulations suggest that the AGS should 'accompany' the accounting statements rather than being included with them.*

### **Guidance and Inspection Relating to Corporate Governance and Internal Control**

- 1.6 The System of Internal Control (SIC) process is based on guidance issue by CIPFA and the Audit Commission, and the subsequent CIPFA/SOLACE documents 'Delivering Good Governance in Local Government' suggests a framework for governance and the basis of the annual statement.
- 1.7 The Council is required to show that:
  - It has conducted an annual review of the effectiveness of its governance framework, including the system of internal control, and reported on this in the governance statement;

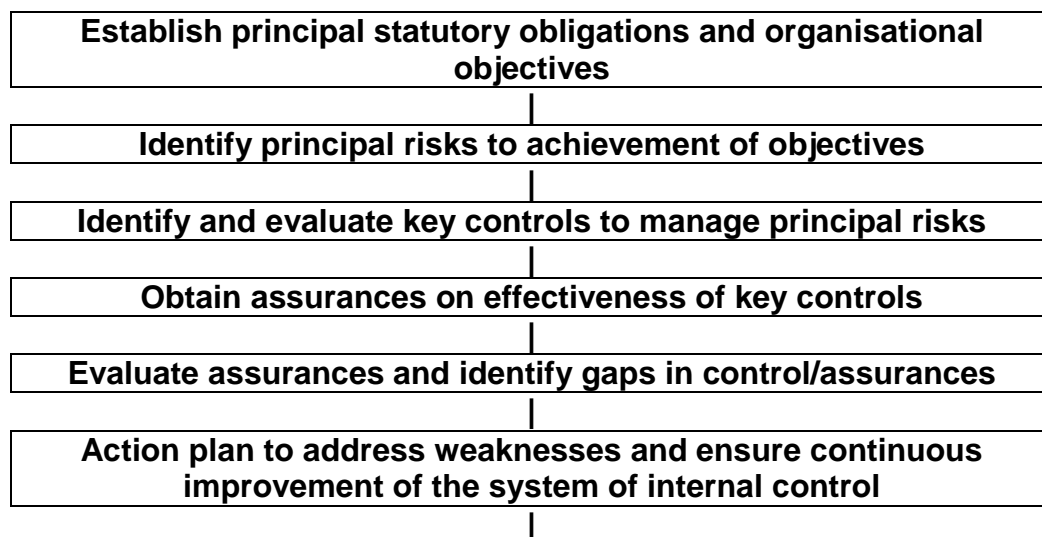
- The assurance framework is fully embedded in the Council's business processes; and
- Governance arrangements with respect to partnerships are subject to regular review and updating.

### Corporate Governance Framework for the Council

- 1.8 A revised Code of Corporate Governance was approved on behalf of the Council by the Executive at their March 2011 meeting (minute E.92/10). The key difference between the 2008 Code and the revised 2011 document was the requirement to reflect the CIPFA *Statement on the Role of the Chief Financial Officer in Public Service Organisations* – June 2009.
- 1.9 The Code of Corporate Governance sets out the requirement for it to be monitored and tested for compliance on an annual basis.
- 1.10 It states that the subsequent report with an action plan for significant governance issues will be presented to the **Audit Committee** whose Terms of Reference include '*to monitor the effective development and operation of risk management and corporate governance in the Council*'; and, the **Standards Committee** who are charged to '*promote and maintain effective processes for governance issues, including the receipt of an annual review of the Council's Code of Corporate Governance and approval of any action plan arising from the review*'.
- 1.11 The results of the compliance review of the Code of Corporate Governance appeared on the agenda of a joint Audit Committee and Standards Committee meeting in April 2011. Each Committee at this meeting made a resolution in line with the Constitution. (A.45/10 and S.38/10)

### System of Internal Control (SIC) - Process

- 1.12 The guidance sets out the key stages for the review of governance internal control and the AGS assurance gathering process as follows:



<b>Annual Governance Statement</b>	
<b>Report to delegated member body.</b>	

## **2. RESPONSIBILITIES FOR CORPORATE GOVERNANCE AND SIC**

2.1 Both sets of guidance set out the responsibilities for the governance framework, including the system of internal control, and these are detailed in a table in Part 4 of the Annual Governance Statement.

2.2 It includes the responsibilities of the:

- Relevant Body' - South Hams District Council;
- Executive;
- Audit Committee as (Delegated Member Body);
- Standards Committee;
- Directors and Managers;
- S.151 Officer and Monitoring Officer;
- Internal Audit Manager
- Risk Management Group
- External Auditor and Other Review Agencies and Inspectorates;
- Head of Finance and Audit;
- Leader and Chief Executive (as most senior member and officer)

2.3 The extract from the CIPFA Finance Advisory Network guidance (Appendix A) sets out a suggested framework for the SIC part of the AGS and the assurance gathering process and as detailed above is broadly followed.

## **3. ASSURANCES TO BE CONSIDERED BY THE AUDIT COMMITTEE**

3.1 The following paragraphs summarise the assurance provided by the various sources as set out in the framework at Appendix A.

### **Compliance Review of the Code of Corporate Governance**

3.2 Overall responsibility for Governance rests with the Council, but monitoring of compliance with the Code is carried out on its behalf by the S.151 Officer, Monitoring Officer and Internal Audit Manager reporting annually to the Audit and Standards Committees.

3.3 The result of the 2010/11 compliance review is generally satisfactory with issues raised only for Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles: Minutes A.45/10 & S.38/10 refer.

3.4 The findings and a statement by members, relating to the governance arrangements for shared services, have been taken to the AGS.

## **Effectiveness of the System of Internal Audit**

- 3.5 A report has been presented to the Audit Committee (14th June 2011) meeting summarising the activities and key findings of Internal Audit (IA).
- 3.6 In this report the Internal Audit Manager gave his 'Opinion on the Adequacy of Internal Control'. *He concluded that the Council's overall control environment is adequate and effective for the purposes of the AGS.* This opinion is based on the work done on the risk based annual audit plan for 2010/11, which was approved by the Audit Committee.
- 3.7 The Internal Audit Manager also reviewed the effectiveness of the system of internal audit, which was the subject of a separate report to the 14<sup>th</sup> June 2011 Audit Committee, covering:
- Compliance with the standards set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government;
  - Effectiveness of the Audit Committee;
  - Reliance on Internal Audit;
  - Client and management opinion; and
  - Extent to which IA adds value and helps delivery of corporate objectives.

The results are considered to be satisfactory.

## **Statutory Officers**

### *S.151 Officer*

- 3.8 As required by the guidance, the S.151 Officer has provided signed assurance that the systems and procedures of internal control were in operation and effective in 2010/11.
- 3.9 The S.151 Officer raised the following significant issue:  
The Council is continuing on a programme of shared services with West Devon Borough Council.
- 3.10 It is already generating significant financial savings (£1.6m between both Councils over the past four years). These are anticipated to increase as more services are shared. If these savings are not generated or maintained, this would threaten future resource availability and consequently service provision.

### *Monitoring Officer*

- 3.11 As required by the guidance, the Monitoring Officer has provided signed assurance that the systems and procedures of internal control were in operation and effective in 2010/11.

- 3.12 The Monitoring Officer has raised only issues that have been identified from other assurance sources, in particular governance issues relating to shared services as reported to the Audit and Standards Committees.

### **Heads of Service (Managers)**

- 3.13 Heads of Service have recorded their service functions, obligations and improvement objectives, and risks to achieving these objectives in a 'Service Plan', which is linked to the Council's Priorities.
- 3.14 Their service plans enable service objectives to be formally linked to risk and include controls to mitigate the risks. The risk element of the Service Plans feeds the Council's operational risk register maintained by the Risk Management Group.
- 3.15 An element of this Service Planning round requires managers to carry out an assessment of the controls in place to mitigate the risks, and provide assurance to the management group drafting the AGS that controls were in place and operating satisfactorily.
- 3.16 Heads of Service are required to make available evidence to demonstrate that the controls to mitigate the risks to their objectives are in place and operating satisfactorily. This may constitute a paper or computer file, containing documents such as internal audit reports, working papers, meeting agendas and minutes linked to the service plan.
- 3.17 Heads of Service that identified significant weaknesses or issues have been identified for inclusion in the AGS.

### **Performance Management**

- 3.18 Mechanisms are in place to establish corporate objectives:
- Consultation with stakeholders on priorities and objectives;
  - The Council's priorities and objectives have been agreed and communicated to all staff; and
  - Objectives are reflected in departmental plans and matched with associated budgets;
- 3.19 Performance management arrangements are in place:
- Effective performance management systems operate routinely;
  - Key performance indicators are established and monitored;
  - The Council knows how it is performing against its planned outcomes;
  - Performance achieved is used to support decisions and drive improvements; and
  - Performance management is continuously improved.

3.20 For 2010/11 no significant weaknesses or risks have been identified.

### **Risk Management Group**

3.21 The Council's risk management process is in place and is monitored by the Risk Management Group and Audit Committee on a quarterly basis, as well as Internal Audit and the Council annually.

3.22 For 2010/11 no significant weaknesses or risks have been highlighted that were not identified elsewhere.

### **External Audit and other Inspections**

3.23 The External Auditor also contributes to the assurance for the Annual Governance Statement through their suite of reports to management and the Audit Committee.

3.24 The reports did not raise any significant issues for the AGS for 2010/11 other than those already raised by the Council's senior managers.

### **Last Year's Annual Governance Statement (2009/10)**

3.25 Last year the Annual Governance Statement reported the following issues. The following list includes the progress made:

#### *From the 2009/10 Compliance Review of the Code of Corporate Governance*

3.26 The progress made on the issues raised in the 2009/10 AGS from the Compliance Review of the Code of Corporate Governance was discussed in the 2010/11 Compliance Review of the Code of Corporate Governance report to the Joint Audit and Standards Committee meeting of April 2011, Minutes A.45/10 & S.38/10 refer.

#### *From the System of Internal Control:*

<b>Issue Raised - Published 2009/10 AGS</b>	<b>Progress on Action Plan to Date</b>
<i>Recruitment and Retention of Staff</i> Council services are at risk if it is unable to attract and retain employees with the right knowledge and skills.	The shared service with West Devon Borough Council has been developed, a new recruitment policy introduced and a management change policy is in place. The Council continues to monitor and develop the knowledge and skill of its employees.
<i>Shared Services</i> The Council has embarked on a programme of shared services with West Devon Borough Council etc.	Ongoing process. Updated statement included in the 2010/11 AGS.

*Continued overleaf*

Issue Raised - Published 2009/10 AGS	Progress on Action Plan to Date
<p><i>Corporate Priority - Affordable Homes</i> Delivery against the Council's top corporate priority CP1 (affordable homes) may fail to meet the demand etc.</p>	<p>CP1 to CP6 have been in place for 10 years. As part of the shared services arrangements the two Councils have spent the last 12 months developing four new shared priorities. Both Councils are currently engaging a wide range of stakeholders to develop detailed delivery plans to support the priorities. It is anticipated that the new administration will review the priorities and consider the action plans during July 2011. Former priorities CP1 to CP6 will no longer be the key corporate drivers.</p>
<p><i>Corporate Priority – Good Jobs</i> Delivery against the Council's corporate priority CP2 (good jobs): may fail to meet the demand etc.</p>	<p>As previous paragraph on Corporate Priority 1.</p>
<p><i>Winter Boat Storage</i> Health and safety, together with environmental issues, have been identified with regard to the Council's boat storage operation. A more permanent solution to these issues needs to be found to reduce the risk of accident and avoid damage to the Council's reputation.</p>	<p>The Council has taken the whole activity in-house rather than sub-contracting the lifting of boats. The lifting operation is now carried out by a slipway hoist which has replaced the aging pick and carry crane.</p>
<p><i>Single Status Review</i> On 16 July 2009, the Executive accepted a recommendation from the Personnel Panel that no further progress on a revised pay and grading structure could be made at the current time etc.</p>	<p>Updated statement included in the 2010/11 AGS.</p>
<p><i>Local Development Framework (LDF)</i> The LDF system is proving to be slow to deliver against government objectives etc.</p>	<p>Ongoing process. Updated statement included in the 2010/11 AGS.</p>
<p><i>Sherford New Community</i> There remains a risk that agreement will not be reached and therefore there is the potential for appeal etc.</p>	<p>Ongoing process. Updated statement included in the 2010/11 AGS.</p>

### **The Annual Governance Statement (AGS) (Appendix B)**

- 3.27 The Statement is a corporate document and is owned by all members and senior officers of the Council.
- 3.28 A draft AGS for 2010/11 appears at Appendix B to this report, based on the pro-forma statement supplied in the original and updated guidance.
- 3.29 The Statement includes an action plan to address any significant governance and internal control issues, which have been identified through the assurance processes described above.



3.30 The guidance states that these practices need to take place throughout the period under review.

#### **4. LEGAL IMPLICATIONS**

4.1 The Accounts and Audit (Amendment) (England) Regulations 2006 and 2011 require the Council to publish an Annual Governance Statement.

#### **5. FINANCIAL IMPLICATIONS**

5.1 Within existing budgets.

#### **6. RISK MANAGEMENT**

6.1 The risk management implications are:

<b>Opportunities</b>	<b>Benefits</b>
<p>The Council is able demonstrate that the policies, processes, tasks, behaviours and other aspects of the Council, taken together:</p> <ul style="list-style-type: none"><li>• Facilitate effective and efficient operation by enabling an appropriate response to significant business, operational, financial, compliance and other risks to achieving the Council's objectives (including the safeguarding of assets from inappropriate use, loss or fraud, and ensuring that liabilities are identified and managed);</li><li>• Help ensure the quality of internal and external reporting.</li><li>• Help ensure compliance with applicable laws and regulations, and internal policies with respect to the conduct of business.</li></ul>	<p>Monitoring compliance of the Code of Corporate Governance and the System of Internal Control will feed the Annual Governance Statement (AGS) process and provide assurance to the community that a good governance framework is in place.</p>

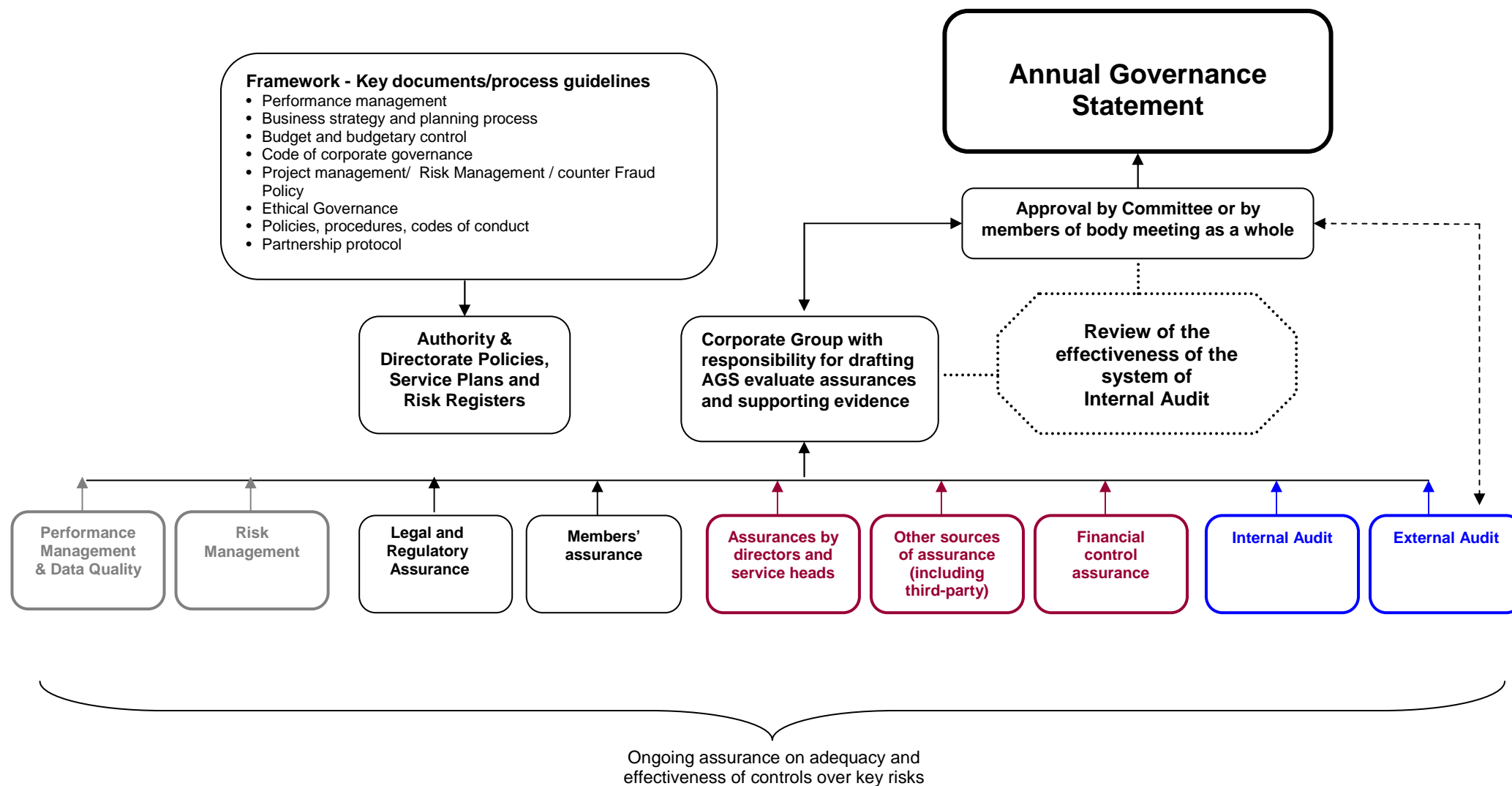
<b>Issues/Obstacles/Threats</b>	<b>Control measures/mitigation</b>
<p>Senior managers may be unable to demonstrate that they have set their service objectives linked to those of the Council, identified the risks to achieving these service objectives and assessed the controls in place to mitigate the risks.</p>	<p>Service planning guidance reminds managers that the service plan process is the basis for the System of Internal Control supported by a formal assessment of controls, with evidence of their satisfactory operation.</p>

<b>Issues/Obstacles/Threats</b>	<b>Control measures/mitigation</b>
Risk that the Council does not have the system in place to produce a meaningful AGS to be included in the accounts; or that the process does not satisfy the requirements under the Accounts and Audit Regulations 2003/2006/2011.	AGS completed through the annual reviews of the Code of Corporate Governance and System of Internal Control, in line with all the relevant national guidance, and subject to review by the external auditor.
Risk that if the Corporate Governance process is not formalised and brought together, some aspects may fall by the wayside. The Council may not approve the AGS nor the Leader and Chief Executive be able to sign because issues are identified.	The Annual Governance Statement will include an action plan to address any issues identified by the compliance monitoring of Corporate Governance, and will be reviewed by the Council's external auditors and inspectors.

<b>Corporate priorities engaged:</b>	All/Corporate
<b>Statutory powers:</b>	Section 111, Local Government Act 1972; and Accounts and Audit Regulations 2006 and 2011.
<b>Considerations of equality and human rights:</b>	There are no specific equality and human rights issues arising from this report.
<b>Biodiversity considerations:</b>	There are no specific biodiversity issues arising from this report.
<b>Sustainability considerations:</b>	There are no specific sustainability issues arising from this report.
<b>Crime and disorder implications:</b>	There are no specific crime and disorder issues arising from this report.
<b>Background papers:</b>	Code of Corporate Governance for South Hams District Council 2008 CIPFA/SOLACE (2007) Delivering Good Governance in Local Government – incl. Guidance Note for English Authorities Accounts and Audit (Amendment) (England) Regulations 2006 Independent Commission on Good Governance in Public Services (2005): The Good Governance for Public Services CIPFA/SOLACE document: Corporate Governance in Local Government: A Keystone for Community Governance: CIPFA (2001)
<b>Appendices attached:</b>	<b>Appendix A</b> – Framework for the System of Internal Control <b>Appendix B</b> – Annual Governance Statement for 2010/11



## ANNUAL GOVERNANCE STATEMENT FRAMEWORK



## South Hams District Council

### Annual Governance Statement

#### 1. Scope of Responsibility

South Hams District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also 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, having regard to a combination of economy, efficiency and effectiveness.

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

South Hams District Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Council's code is available on our website Your Council/Policies and Strategies/Council Policies/Code of Corporate Governance, or can be obtained from the Internal Audit Manager, South Hams District Council, Follaton House, Plymouth Road, Totnes TQ9 5NE.

This statement explains how South Hams District Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 and 2011 in relation to the publication of a statement on internal control.

#### 2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which 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 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 South Hams District 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 efficiently, effectively and economically.

The governance framework has been in place at South Hams District Council for the year ended 31 March 2011 and up to the date of approval of the statement of accounts.

### 3. The Governance Framework

The key elements of the systems and processes that comprise the Council's governance arrangements follow under the headings *(italics)* suggested by the CIPFA/SOLACE guidance:

**Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users:**

Elected members set the Strategic direction and this is communicated to the community through a booklet sent with all Council Tax and Business Rates bills, a formal annual report sent to all households in the Council's magazine, as well as the Council's web-site.

The booklet includes a statement from the Leader of the Council, and sets out the Council's achievements and opportunities against the Priorities.

**Reviewing the authority's vision and its implications for the authority's governance arrangements:**

The vision and strategic direction is periodically reviewed by members. The consideration of the Corporate Priorities, by the Executive in January 2008, confirmed the retention of the 6 Priorities and 3 Cross Cutting Themes that supports the Aim (Vision) following consultation.

The Leader of the Council also reviews the aspirations against the Priorities at the start of the Council year.

The December 2010 meeting of the Council approved four new high level priorities: Community Life, Economy, Environment and Homes. Detailed delivery plans for each of the new priorities are to be developed for adoption by the new Council following the May 2011 election.

The Leader also presented a report to the March 2011 meeting of the Council recommending that the Shared Services and Beyond document be formally adopted and 'South Hams Voice' be developed as the means by which the Council increases engages with the voluntary/community sector, business sector and the community at large.

The implication for the governance arrangements is considered by an annual compliance review of the Code of Corporate Governance with the results reported to a joint meeting of the Audit and Standards Committees (April 2011). The report and minutes are available on the Council's web-site.

**Measuring the quality of services for users, for ensuring they are delivered in accordance with the Council's objectives and for ensuring that they represent the best use of resources:**

The 'Towards and Beyond Excellence Plan' is the Council's key internal corporate overarching improvement plan and contains the Improvement Vision: 'As a valued resident, you will receive the most cost-effective, consistent and efficient service possible'. Although the Vision has an external focus, the Towards & Beyond Excellence Plan is about considering internal processes in order to improve the way we work. It is about providing the right services, to the people who need those services in the most efficient manner.

The Plan provides information for internal service performance and will ensure that each of the improvement initiatives is considered in a co-ordinated and informative way as part of a continuous improvement process. It includes improving access to services and information.

This Data Quality Assurance Strategy outlines the approach that is needed to maintain the highest possible standards, controls and validation throughout all of the data processes that result in performance information, measures and indicators, both local and statutory. It clearly indicates the role each individual has to play in the production and analysis of data.

Performance information is also reflected in the Council Tax booklet sent with all bills, a formal annual report sent to all households in the Council's magazine, and the Council's web-site. Key indicators are monitored throughout the year by members and senior officers.

Each Head of Service draws up a service plan setting out, for the coming year, the obligations and objectives of their area of responsibility linked to the Council's priorities. The Service Plans also link to the budget setting process, risk management framework and the system of internal control.

The Council also publishes on its web-site annually a Medium Term Financial Strategy covering the following five years, 2011/12 to 2015/16 reported to the Executive in September 2010.

Inspectorate reports are received and acted upon. The external auditors' reviews and reports on the Council's Statement of Accounts, governance arrangements, and value for money are summarised in an Annual Audit Letter to members, which is presented with other reports to the Audit Committee.

**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:**

Parts 2 and 3 of the Council's Constitution, which is available on the Council's web-site and Intranet, defines and documents the roles and responsibilities of the executive, non executive, scrutiny and officer functions, and contains clear delegation arrangements.

Part 5 of the Constitution includes a Protocol on Councillor/Officer Relations. The Protocol is a guide to Members and Officers in their dealings with each other, and applies equally to co-opted members of Council bodies in their dealings with officers where appropriate. It seeks to reflect the respective codes of conduct.

Protocols for effective communication are in place including a Corporate Communications Policy.

**Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff:**

Part 5 of the Constitution sets out the Code of Conduct for elected members (2007).

There is also a Code of Practice for Members considering Planning matters. Its aim is to ensure that in the planning process there are no grounds for suggesting that a decision has been biased, partial or not well founded. It links to the Code of Conduct.

An Officer's Code of Conduct also appears in Part 5 of the Constitution and the Staff Pages of the Council's Intranet.

The Codes require interests, and, gifts and hospitality for both members and officers to be reported to the Monitoring Officer who maintains a Register.

Training on the Code of Conduct is provided to members, and officers also receive training on their Code and the wider ethical framework as part of induction and other internal training.

**Reviewing and updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks:**

Part 3 of the Council's Constitution contains a Scheme of Delegation to Officers, which together with the Contract Procedure Rules & Finance Procedure Rules, supporting procedure notes and manuals form a key part of the Council's control environment. These are reviewed annually and updated as required;

The formal management of risk is in place and subject to annual internal audit, external inspection through the Audit Commission, and reporting to the Audit Committee quarterly and annually to the Council. The risk management process includes an approved Strategy, a Risk Management Group, risk registers, systems for identifying emerging risks, consideration of risk and opportunities in reports to members and project management.

**Ensuring that the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer.**

For 2010/11 the Council appointed the Strategic Director (Resources) as the designated officer responsible for the proper administration of the Council's financial affairs as required under Section 151 of the Local Government Act 1972 (the 'S.151 Officer'). This appointment is reflected in the Article 12 of the Constitution.

A review of the Council's arrangements concluded that governance of financial management conformed with the CIPFA Statement on the Role of the Chief Financial Officer.

**Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities:**

Article 10 of the Constitution sets out the functions of the Audit Committee, which is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance and to oversee the financial reporting process and the effectiveness of the Treasury Management function

The Terms of Reference are based on the CIPFA document: Audit Committees – Practical Guidance for Local Authorities;

Part 4 of the Constitution includes 'Rules for Other Bodies of the Council', sets out the membership requirements for the Audit Committee.



**Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful:**

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Article 1 confirms that the local authority will act within the law and the Provisions of the Constitution.

Some of the services provided are statutory, whilst others are a matter for the Council to decide upon. There is a process to ensure that any new legislation is identified and acted upon, which includes letters to the Chief Executive from the Department for Communities and Local Government, and Monitoring Officer reviews of their web-site.

Part 3 of the Council's Constitution includes both the Responsibility for Functions (Local Choice and Council) and the Scheme of Delegation to Officers.

Article 12 of the Constitution sets out the statutory functions of the Monitoring Officer includes ensuring lawfulness and fairness in decision making. These responsibilities are reflected in the related job description and specification. The Scheme of Delegation to Officers reflects statutory provisions.

A system of consultation of other professionals in advance of presentation of reports to Members is in place, particularly where a recommendation requires the input of more than one profession e.g. legal advice, financial advice etc.

**Whistle-blowing and for receiving and investigating complaints from the public:**

Also published on both the Council's website and Intranet is:

- A formal confidential reporting (whistle blowing) system, and grievance procedure that enables officers to formally complain about issues of concern in respect of behaviour etc., without fear of reprisal;
- An Anti-fraud and Corruption Strategy and Response Plan;
- A Complaints and Suggestions page which outlines to the public the procedure for making a complaint;
- Links to the Local Government Ombudsman; and
- A Local Code of Conduct – Complaints Procedure enables people to complain about members who may have breached the Code.

**Identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training:**

Article 2 of the Constitution states that "Councillors will develop and maintain a working knowledge of the authority's services and policies and take advantage of appropriate training and development opportunities to enable them to fulfil their role";

Immediately after any elections, a comprehensive Induction Programme is delivered for newly elected members and a manual containing relevant information is provided. Specialist and other ad hoc training is also made available as required;

A politically balanced Member Development Steering Group has been formed and the group's terms of reference were agreed. A Member Development Strategy was approved by the Council and has contributed to the 2011 induction programme.

In February 2010 the Steering Group wrote to all Members asking them to complete a survey on skills and training to enable evaluation of current training and design a future programme. This has been completed and results fed into the Learning Needs Framework, example areas identified for development being Finance and ICT. Training sessions have been held accordingly. A formal training plan has been set up for Members of the Development Management Committee

Article 12 of the Constitution details the Management Structure of the Council, including functions of the S.151 Officer and the Monitoring Officer. A Scheme of Delegation to Officers reflects statutory provisions;

The responsibilities of each management post are reflected in the related job descriptions and specifications. A programme of training is provided to these officers that is linked to the corporate employee appraisal and competency scheme, which includes identification of one off training requirements as well ongoing professional training.

**Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation:**

Article 3 of the Constitution sets out what citizens can expect from their Council and what rights they have. This includes the right to attend meetings of the Council, the Executive and other bodies of the Council except where confidential or exempt information is likely to be disclosed.

Part 4 of the Constitution includes the Council's 'Access to Information Procedure Rules' which requires the Council to provide the public with access to Agenda and Reports. Meetings of Member bodies are scheduled using a calendar of meetings, and recorded through a system of Agendas and Minutes. These are available to view on the Council's web-site and Intranet, with links supplied to the press, libraries and Town/Parish Councils.

The Constitution Part 4 also contains the Rules of Procedure for all formal meetings and Forward Plans detail issues to be considered at future meetings. It is also available on the Council's web-site.

The Local Development Framework (LDF) sets out the Councils future plans and the Core Strategy contains the strategy and vision to 2016. As part of the LDF, a Statement of Community Involvement in the process was adopted by the Council in June 2006.

The Council's own Community Involvement Policy is also reflected in the Sustainable Community Strategy 2007-11 and was produced in association with the LDF with the purpose of increasing community participation. A new Community Engagement Strategy is being developed for both South Hams and West Devon, which will again link with the LDF.

The Council has also published a Social Inclusion Policy & Strategy 2007/2012 and action plan. Work is being carried out to include this and related policies into a single equalities document and action plan, 'Forward Together'.

In addition there are numerous other arrangements through which the Council engages with local people and other stakeholders, including input to the budget planning process, surveys, various fora, town and parish cluster meetings, South Hams Connect, the magazine etc.

A more comprehensive, but not exclusive, list was included in the compliance review of the Code of Corporate Governance presented to the Audit and Standards Committees (April 2011). The report and minutes are available on the Council's web-site.

**Incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements:**

Article 11 of the Constitution allows members and officers to enter into joint arrangements with other bodies in order to promote the economic, social or environmental well-being of the Council's area.

The Executive approved the adoption of a Partnership Policy and Guidance document, which contains Appendices to guide officers in considering the purpose of joining a partnership, risk management, governance arrangements, information sharing, monitoring and scrutiny.

It also includes the requirement for an annual report to Members for significant partnerships covering an appraisal of the outputs/achievements/outcomes, a review of the aims and objectives and an evaluation of whether they align with the Council's objectives and priorities, cross-cutting themes and commitments and an appraisal of the financial commitment/staff input and whether the partnership continues to provide value for money for the Council. The partnership risk register is also be reviewed annually by Members.

#### **4. Review of Effectiveness**

South Hams District Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control.

The effectiveness of the governance framework is considered by an annual compliance review of the Council's Code of Corporate Governance with the results reported to a joint meeting of the Audit and Standards Committees (April 2011).

This and the review of effectiveness of the system of internal control is informed by the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Internal Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework including the system of internal control for 2010/11 is as follows:

<b>Responsibility</b>	<b>Responsible Party</b>
<ul style="list-style-type: none"> <li>Oversee the effective management of risk by officers of the Council.</li> <li>Maintain a system of internal control.</li> <li>Review system of internal control annually.</li> <li>Evaluate assurance and conclude as to the independence and objectivity of the various sources of assurance before coming to an overall conclusion. This can be delegated to an appropriate member body to recommend approval, although approval remains with the Council.</li> <li>Approve the Annual Governance Statement.</li> </ul>	<p>'The Relevant Body' - South Hams District Council</p>
<ul style="list-style-type: none"> <li>Propose the budget and policy framework to the Council, including the Code of Corporate Governance, Risk Management Strategy etc.</li> </ul>	<p>The Executive</p>
<ul style="list-style-type: none"> <li>Review and scrutinise the performance of the Council in relation to its policy objectives, performance targets and particular service areas.</li> </ul>	<p>Scrutiny</p>
<ul style="list-style-type: none"> <li>Promote and maintain effective processes for governance issues including maintaining high standards of conduct by the Councillors and Co-opted members of the authority,</li> <li>Receipt of an annual review of the Council's Code of Corporate Governance and approval of any action plan arising from the review.</li> </ul>	<p>Standards Committee</p>
<ul style="list-style-type: none"> <li>Monitor the effective development and operation of risk management and corporate governance in the Council.</li> <li>Consider the Council's arrangements for corporate governance and to ensure compliance with best practice.</li> <li>Consider internal audit's annual report and opinion, and summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements;</li> <li>Carry out an annual self assessment of the effectiveness of the Committee;</li> <li>Oversee the production of the Council's Annual Governance Statement and recommend its adoption to the Council.</li> </ul>	<p>Audit Committee (Delegated Member Body)</p>
<ul style="list-style-type: none"> <li>Establish principal obligations and objectives, identify risks to these obligations and objectives and key controls to mitigate these risks.</li> <li>Provide assurance through routine monitoring of internal controls as an integral part of the risk management process.</li> <li>Regularly report on the operation of internal controls to elected members through the management team.</li> </ul>	<p>Directors and Managers</p>

Responsibility (Continued)	Responsible Party
<ul style="list-style-type: none"> <li>These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective.</li> <li>With the Internal Audit Manager complete a compliance review of the Code of Corporate Governance and System of Internal Control and produce the Annual Governance Statement.</li> </ul>	S.151 and Monitoring Officers
<ul style="list-style-type: none"> <li>With the S.151 and Monitoring Officers complete a compliance review of the Code of Corporate Governance and System of Internal Control.</li> <li>Review the effectiveness of the system of internal audit annually and report results to the Audit Committee.</li> <li>Subject to complying with the Code of Practice for Internal Audit in Local Government, provide independent and objective assurance across the whole range of the Council's activities.</li> <li>The annual internal audit report to the Council (Audit Committee) to include an opinion on the overall adequacy and effectiveness of the internal control environment, providing details of any weaknesses that qualify this opinion and issues relevant to the preparation of the Annual Governance Statement.</li> </ul>	Internal Audit Manager
<ul style="list-style-type: none"> <li>Provide explicit assurance on the control environment and governance arrangements in relation to their area of responsibilities.</li> </ul>	Risk Management Group External Auditor Other Review Agencies/Inspectorates

## 5. Significant Governance Issues

Overall the Council's governance arrangements are satisfactory for 2010/11. However, the following action plan has been drawn up to address the weaknesses identified and ensure continuous improvement of systems or to deal with governance issues:

***From the Compliance Review of the Code of Corporate Governance (Joint Meeting of Audit and Standards Committees April 2011):***

*Gaps for Principle 2: Members and officers working together to achieve a common purpose with clearly defined functions and roles:*

The Joint Meeting of Audit and Standards Committees April 2011 wished to record the following paragraph in the Annual Governance Statement 2010/11:

***The April 2011 Joint Meeting of the Audit and Standards Committees noted that the governance of the Council is in the process of change and recognised the imperative of such change.***

***However, the Committees wish to stress that the risks to the governance framework must be identified and addressed as a matter of urgency to ensure that accountability is not undermined.***

***From the Compliance Review of the Code of Corporate Governance (Continued)***

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><i>Shared Services</i></p> <p>The Council has entered into shared working arrangements with West Devon Borough and Teignbridge District Councils under which some officers services are shared. These officers have Shared Service Operating Agreements by means of which their services are made available to the partner authorities as well as their employer. It is likely that some Operating Agreements will no longer be valid following the current senior management review.</p> <p>The Monitoring Officer's report to the March 2011 Council meeting advised Members that the Scheme of Delegation will need to be revised following the outcome of the senior management review.</p> <p>All of the new Directors and Shared Heads of Service will be working across both Councils. They must be formally empowered to act by means of a resolution of each Council because it is essential that there is no doubt that they have proper authority, particularly (for example) where formal notices or permissions are issued or contracts signed.</p> <p>Interim measures have been accepted by Members pending a review of the Constitution when senior managers are in post.</p>	<p>Fresh Operating Agreements should be completed with the new Heads of Service appointed under the senior management review within six weeks of appointment.</p> <p>Once the outcome of the Senior Management Review is known, a further detailed report should be presented to a future meeting of Council, which will seek approval to amend and update the Scheme of Delegation and other relevant parts of the Constitution to reflect the management and other changes (such as new legislation).</p>	<p>Monitoring Officer Implemented</p> <p>Monitoring Officer 30 September 2011</p>

***From the System of Internal Control:***

The system of internal control is described in section 2 above.

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><i>Single Status Review</i></p> <p>No formal job evaluation scheme is in place which may lead to potential equal pay claims as bonus payments are made to predominantly male occupational groups.</p>	<p>It is still the Council's intention to reach an agreement with the trade unions to remove these potentially discriminatory bonus payments.</p> <p>Through the 'Transformation Programme' the Council will be addressing the convergence of employee Terms &amp; Conditions and Pay &amp; Grading with West Devon Borough Council.</p>	<p>Head of Corporate Services 2011/12</p>

***From the System of Internal Control (Continued):***

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><i>Shared Services</i></p> <p>The Council has embarked on a programme of shared services with West Devon Borough Council. It is already generating significant financial savings (£1.6m between both Councils over the past four years). These are anticipated to increase as more services are shared.</p> <p>By summer 2011 all service will be shared at Head of Service level, with the challenge to deepen the level of sharing, where appropriate, at all levels to capitalise on the savings that may be secured and draw on best practice to raise the quality of services. All Heads of Service are accountable to each authority separately and much work has been done to ensure that each Council is paying for the resources it uses.</p> <p>Changes in the organisation are moving at pace and there is need to ensure that all aspects of the financial and legal governance of the shared services are reviewed.</p>	<p>The shared Services Joint Steering Group at their June 2011 meeting agreed a project brief which provide a foundation for the initiation of a Governance project around shared services.</p> <p>This project will consider the Governance arrangements for shared services, so that the arrangements are robust and transparent. This new project has been initiated due to the new Senior Management Structure being implemented in April 2011.</p> <p>The project will be delivered and reported to the Audit Committees of both Councils by December 2011.</p>	<p>Project Lead: Head of Finance and Audit supported by named officers and Members from both Councils. December 2011</p>
<p><i>Sherford New Community</i></p> <p>The current economic circumstances have made the resolution of the planning agreement challenging. There remains a risk that agreement will not be reached and therefore there is the potential for appeal. Any appeal is likely to involve significant costs to defend the Council's position due to the complexity of the scheme.</p> <p>Furthermore the nature of the scheme in terms of public profile, as well as emerging ecological issues, means that there remains an ongoing risk of judicial review, which the Council is seeking to manage.</p>	<p>Section 106 negotiations continue with a view to attaining a result which conforms with the Council's objectives for Sherford, but also remains a viable and deliverable scheme.</p> <p>This is also disclosed in more detail the 2010/11 Statement of Accounts as a Contingent Liability.</p>	<p>Corporate Director (AR) 2011/12</p>
<p><i>Local Development Framework (LDF)</i></p> <p>Nationally the LDF system is proving to be slow to deliver against government objectives. The Council, however, has made good progress, adopting the following documents:</p> <p>South Hams LDF Core Strategy 2006; Sherford Area Action Plan in 2008; Affordable Housing Development Plan Document (DPD) in 2008; Development Policies DPD 2010; and Site Allocations (DPDs) Spring 2011.</p>	<p>Priorities over the next twelve months will be to develop the Council's approach to the Community Infrastructure Levy and to monitor the implementation of the various LDF documents. In due course, there will also be a need to review the Core Strategy.</p> <p>The issue of provision for gypsies and travellers will also need to be addressed.</p>	<p>Senior Management Team Head of Planning and Community Delivery 2011/12</p>

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

**Signed and Dated:**

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**Leading Member & Chief Executive on behalf of  
South Hams District Council**