

AUDIT COMMITTEE – 23 SEPTEMBER 2016

ANNUAL GOVERNANCE STATEMENT – 2015/16

1.0 INTRODUCTION

- 1.1 As prescribed by the Accounts and Audit Regulations 2015, the Council is required to produce an Annual Governance Statement (AGS) following an assessment of its governance framework.
- 1.2 The Leader of the Council and the Head of Paid Services (Chief Executive) are required to sign the AGS and be satisfied that the document is supported by reliable evidence. It is published with the Annual Financial Report.
- 1.3 The draft AGS 2015/16 was approved by Audit Committee in June 2016 and provided to the external auditors for review.

2.0 THE ANNUAL GOVERNANCE STATEMENT (AGS)

- 2.1 Whilst the AGS covers the period 1st April 2015 to 31st March 2016, the document remains open for update until it is approved at the end of September 2016 and can make reference to any significant matter that has arisen.
- 2.2 Internal Audit has not recommended any changes to the draft statement and no changes have been recommended to date by the external auditor.
- 2.3 The statement has been reviewed by the Executive Management team. The final AGS for 2015/16 is attached in Appendix 1.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no financial consequences arising directly from this report.

4. EQUALITIES & DIVERSITY AND ENVIRONMENTAL MATTERS

- 4.1 There are no equalities & diversity or environmental matters associated with this report.

5.0 CRIME & DISORDER IMPLICATIONS

- 5.1 There are no crime and disorder issues arising directly from this report.

6.0 CONCLUSIONS

- 6.1 The Annual Governance Statement reports that the Council has sound levels of internal control and good governance arrangements.
- 6.2 The statement does identify some areas for improvement and these will be managed by the Council's Executive Management Team.

7.0 RECOMMENDATIONS

- 7.1 That the Audit Committee approve the Annual Governance Statement for the Financial Year ended 31st March 2016 as reported in Appendix 1.

- 7.2 That the Leader of the Council and Head of Paid service sign the AGS 2015/16
- 7.3 That the AGS 2015/16 be published on the Councils' website, ensuring ease of access.

For Further Information Contact

Alan Bethune
Service Manager – Finance & Audit
Alan.bethune@nfdc.gov.uk

Grainne O'Rourke
Executive Head – Governance and
Regulation
Grainne.orourke@nfdc.gov.uk

Background Papers

Code of Good Governance – 23/3/08

**THE ANNUAL GOVERNANCE STATEMENT
NEW FOREST DISTRICT COUNCIL
2015/16**

1. Scope of Responsibility

New Forest District Council is responsible for ensuring that its business is conducted in accordance with the law, proper standards are adhered to and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It 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 best value. In discharging this overall responsibility New Forest District Council is required to have in place proper arrangements for the Governance of the Council's affairs, facilitating the effective exercise of its functions and arrangements for the management of risk.

New Forest District Council has approved and adopted a code of good governance, which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". This statement explains how New Forest District Council has complied with the code and also meets the requirements of regulation 13 of the Accounts & Audit Regulations 2015 in relation to the publication of a statement of corporate governance.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective service.

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 Council's policies, aims and objectives, to evaluate the likelihood of those risks materialising and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. The Governance Framework

The Local Code of Corporate Governance describes the Council's governance framework in relation to the six core principles below. A review of compliance against this Local Code has been reported separately, with opportunities for improvement recorded within a separate action plan.

1. Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and Officers working together to achieve a common purpose with clearly defined functions and roles;

3. Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk;
5. Developing the capacity and capability of members and officers to be effective; and
6. Engaging with local people and other stakeholders to ensure robust public accountability.

The Council aims to deliver high quality services that provide value for money and which are aligned to the needs and priorities of the local community. The Council's overarching vision, values and strategy for the year 2015/16 was contained in the Corporate Plan "Delivering for our Communities" which set out what the Council aimed to achieve for the period 2012 - 2016. 2015/16 is the last year for this plan and the development of the Council's new Corporate plan 2016-2020 has been undertaken and is effective from April 2016.

The Council has in place a delivery plan of corporate plan aims, for which responsibility rested with Heads of Service during 2015/16 to deliver with their teams. The Executive Management Team oversees the performance and progress made against the delivery plan.

The Council is concerned to ensure quality of service delivery and uses a variety of mechanisms to assess this, including consultation. This helps inform future service delivery.

The Council has Medium Term Financial Plan (MTFP) which sets out the Council's spending plans, on a rolling basis.

The Council has also developed over the years a number of successful joint or collaborative working arrangements with the public and other agencies. This has continued into 2015/16, for example, with the New Forest National Park Authority (with regards to financial services, IT services, HR and Payroll, and continued joint working and assets sharing arrangements at the Ringwood Gateway (which includes Hampshire County Council and Ringwood Town Council) and continued management arrangements for Internal Audit within three Dorset Councils.

The Council's Constitution sets out how the Council operates, including the roles, responsibilities and relationships between Council, the Executive (Cabinet), Audit Committee and other bodies such as the Overview and Scrutiny Panels and Officers (Delegations) in respect of policy and decision-making processes. The Constitution also sets out details on Codes of Conduct and key policies such as Financial Regulations and Contract Standing Orders as to Contracts. It is important that the Council operates efficiently and transparently and is accountable to the local people.

The Constitution is reviewed and updated where opportunities for improvement are identified.

The Risk Management Framework is in place to ensure that risks to the Council in achieving its strategic objectives, both at a corporate and service level, are more consciously identified, assessed and managed. It aligns risk with existing arrangements, in particular the performance management framework with an assessment of risk forming part of the Service Planning processes.

During 2014 the Local Code of Good Governance framework was reviewed and updated by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the International Federation of Accountants (IFAC). Following further consultations it was identified that CIPFA and SOLACE would also develop a further joint Good Governance Framework for the Public Sector during 2015. This has now been completed however this was not published until April 2016. The Council's Good Governance Framework will be reviewed and updated in line with the 2016 edition of the Good Governance Framework.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Officers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

This Council has always maintained a strong internal control environment. It has long established principles on the way its business is conducted enabling good governance and control of risk. Factors that influence the control environment include; integrity, ethics, operating style and the way management and members assign responsibility and authority.

The review concluded;

1. The Constitution and other Council Policies were reviewed and improvements made including;
 - Updating Procurement Rules following the Public Contract Regulation 2015.
 - Development of the Local Plan
 - Developed new Corporate Plan 2016-2020
 - Introduced the Respect Campaign
 - Updated the Capability Procedure for employees

2. The Chief Executive has undertaken a review of the senior management team, including the roles of the Executive Management Team and Heads of Service. The relevant issues that formed the basis of the review are:
 - Ensuring service continuity and resilience following staffing changes in senior management.
 - Establishing a structure which is coherent, with clear lines of accountability and that works cross-service to achieve a shared direction.
 - Helping ensure the New Forest as a special "place" is reflected within the operations of the Council.
 - Contributing towards the requirements of the Medium Term Financial Plan. Helping to improve capacity within the leadership team.
 - Seeking to locate services in places where they can have the best effect and where existing synergies can be exploited.

This has resulted in a new team comprising of 4 Executive Heads with 18 Service Manager posts with the deletion of a number of senior posts within the Council. An update of Financial Authorisations, Roles and Responsibilities to reflect the new structure is now required following the completion of this review.

3. The Council's arrangements for financial management and reporting are sound and are well documented. All proposals for expenditure and income are supported by a business case. These are scrutinised initially by the service Portfolio Holder prior to inclusion as a formal bid to Cabinet and the Council. The planning process also includes a review of proposals by the relevant Overview and Scrutiny Panels, before final proposals and the council tax levels are considered and approved by the Council each year. It is recognised that the Councils Financial Regulations need to be reviewed, this has been included within the action plan.
4. Financial monitoring is achieved by regular budgetary control reports to nominated budget holders, Executive Management Team, the relevant Portfolio Holder, and the Cabinet. All elected Members have access to Cabinet Agendas and the financial reports; a process is in place to enable members to request additional, more detailed information and question any financial issues. Strong Overview and Scrutiny arrangements in place with an annual report published to Cabinet.
5. In line with the continuous improvement culture of the Council, it is recognised that all Members and Officers of the Council must have the skills, knowledge and capacity that they need to discharge their responsibilities effectively. Formal training for Members was provided following the elections in May 2015.
6. Following appointment in October the responsibility of S151 (Responsible Financial Officer) remained with the Chief Executive. This responsibility will be changing during 16/17 with the new appointment of the Finance and Audit Service Manager. The Executive Head of Governance and Regulation is the Monitoring Officer. All committee reports are reviewed by members of the Executive Management Team, as well as being provided to the Executive Head of Governance and Regulation also the Councils Solicitor, prior to any decisions being made. This safeguards the Council to ensure legal decisions are taken and that decisions consider the Council's corporate priorities and risks.
7. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
8. The Performance Management framework ensures strategic monitoring with a focus on organisational indicators and the achievement of the Corporate Plan. Performance indicators are reviewed during the year.
9. The Audit Committee met regularly and training has been provided. Training is available to all members to ensure they are clear in their responsibilities in providing an independent assurance to the Council in relation to the effectiveness of the Council's internal control environment, in accordance with Regulation 6 of the Accounts and Audit (England) Regulations 2015.
10. Internal Audit forms part of the internal control framework. It is a mandatory function whose primary aim is to ensure that the Chief Financial Officer's responsibilities to maintain proper control over the Council's financial affairs, as defined by Section 151 of the Local Government Act 1972, are fully met. The Audit Committee has reviewed and approved the risk based audit plan and progress reports against the audit plan throughout the year. This risk based audit plan was also approved by the Section 151 Officer following consultation with the Heads of Service. The Committee has also received reports and updates from the External Auditor.

11. The Internal Audit team operates to the Standards as set out in the Public Sector Internal Audit Standards. Internal Auditors are trained and have acted independently, objectively and ethically at all times. The Internal Audit Charter was approved during the year.
12. The Principal Auditors annual opinion report, concluded that whilst Internal Audit are unable to give absolute assurance, the results of the reviews completed during the year have resulted in an overall opinion that;
 - Arrangements are in place to ensure there is an adequate and effective framework of governance, risk management and control in place
 - Systems and internal control arrangements continue to be effective and agreed policies and regulations have been complied with in the majority cases. There have been weaknesses identified during the year; however recommendations have been made to address these with progress of their implementation monitored. Internal Audit is content that management are implementing the required actions to strengthen controls. These actions have been taken into account whilst forming the overall opinion. Where delay of high priority audit recommendation implementation is identified these are reported regularly to Audit Committee.
 - Managers are therefore aware of the importance of maintaining internal controls and accept recommendations made by Internal Audit to improve controls
 - Arrangements are in place to deter and detect fraud however these need to be improved to comply with the CIPFA Counter Fraud Code of Practice.

This Opinion report, presented to the Executive Management Team and Audit Committee further comments on the control environment against the agreed Assurance Framework.

13. Ernst & Young acts as the Council's independent external auditor. The Section 151 Officer and Chair of Audit Committee have responded openly to the External Auditor under the requirements of the International Auditing Standards.
14. There has been no significant governance or internal control issues raised by Senior Management.
15. All organisations, worldwide face increasing cyber related threats. The Council maintains sound standards and continually reviews opportunities to further strengthen these. ICT and Internal Audit will work together to review and develop the ICT Security Policy to include emerging Cyber Security risks.
16. Internal Audit has reported an adequate opinion on the overall control environment, however the following audit areas have received high priority recommendations that have not been resolved promptly.
 - Payment Card Industry Data Security Standard Accreditation
To ensure compliance with the Data Security Standards.
The Council's Executive Management Team is due to receive a report detailing the work that the Council needs to put in place in order to meet the Data Security Standards
 - Asset Management.

It was recommended that the service (Estates and Valuations) undertake a reconciliation to ensure all expected leases had been charged and that the charges had been raised correctly.

This is now in hand and work is progressing to ensure this is actioned.

- **Business Continuity**

To ensure that all business units, that are deemed to have Critical Activities, have up to date Business Continuity and Disaster Recovery Plan.

The Service Manager responsible for Business Continuity will now progress this recommendation.

5. Significant Governance Issues

Whilst there have been a number of improvements made throughout the year, the Council constantly strives for continuous improvement. The following areas will be included in the action plan:

1. Completion of the Financial Regulations review (Section 4, point 3)
2. Implementation of uncompleted high priority audit recommendations (Section 4, point 16)
3. That the Council's Good Governance Framework be reviewed and updated in line with the 2016 edition of the Good Governance Framework (Section 3)
4. To update Financial Authorisations, Roles and Responsibilities to reflect the new Management structure of the Council (Section 4, point 2)
5. Improvements to Counter Fraud arrangements (Section 4, point 12)
6. Review and develop the ICT Security Policy to include emerging Cyber Security risks. (Section 4 , point 16)

6. Certification

To the best of our knowledge, governance arrangements, as defined above, have been in place at New Forest District Council for the year ended 31st March 2016 and up to the date of approval of the annual report and statement of accounts.

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

Signed:

Leader of the Council

Signed:

Chief Executive

Date:

Date:

Annual Governance Statement 2015/16 Action Plan

Financial Regulations	To review and update Financial Regulations.	Financial Services Manager (S151 Officer)	Dec 2016
Audit Recommendations	Implementation of uncompleted high priority audit recommendations	Service Managers	Sep 2016
Governance Framework	That the Council's Good Governance Framework be reviewed and updated in line with the 2016 edition of the Good Governance Framework.	Executive Head of Governance & Regulation (Monitoring Officer) Principal Auditor	Mar 2017
Management Structure	To update Financial Authorisations, Roles and Responsibilities to reflect the new Management structure of the Council	Financial Services Manager (S151 Officer) Executive Head of Governance & Regulation Principal Auditor	Dec 2016
Improve Counter Fraud Arrangements	To review and update Counter Fraud and Whistleblowing Policies	Principal Auditor	Mar 2017
ICT Security Policy/ Cyber Risk	Review and develop the ICT Security Policy to include emerging Cyber Security risks.	ICT Security Manager Principal Auditor	Mar 2017