

Audit Committee – 29 June 2010**SYSTEM OF INTERNAL CONTROL AND ANNUAL GOVERNANCE STATEMENT 2009/10 FOR SOUTH HAMS DISTRICT COUNCIL****Report of the Strategic Director (Resources) and the Monitoring Officer**

Statutory Powers: Section 111 Local Government Act 1972; and
Accounts and Audit Regulations 2006.

Financial Implications: None: within existing budgets.

Purpose

1. 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.

Link to ‘Aim and Priorities’: CP6: Improve core service performance in a cost-effective way.

RECOMMENDATION

It is recommended that Members consider the draft Annual Governance Statement (AGS) for 2009/10 and supporting evidence provided by this report and RECOMMEND approval of the Statement to the Council.

Background**Introduction**

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 1st April 2003.
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’.
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.

4. In 2006, the Accounts and Audit Regulations were amended to replace the Statement of Internal Control with the 'Annual Governance Statement'.

Guidance and Inspection Relating to Corporate Governance and Internal Control

5. 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.
6. Many aspects of Corporate Governance, SIC, and the linked Risk Management processes, form a part of the Audit Commission's inspection under the Comprehensive Area Assessment (CAA) Use of Resources self assessment (the Council received information from the Commission in May 2010 that work has been stopped on the CAA).
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.

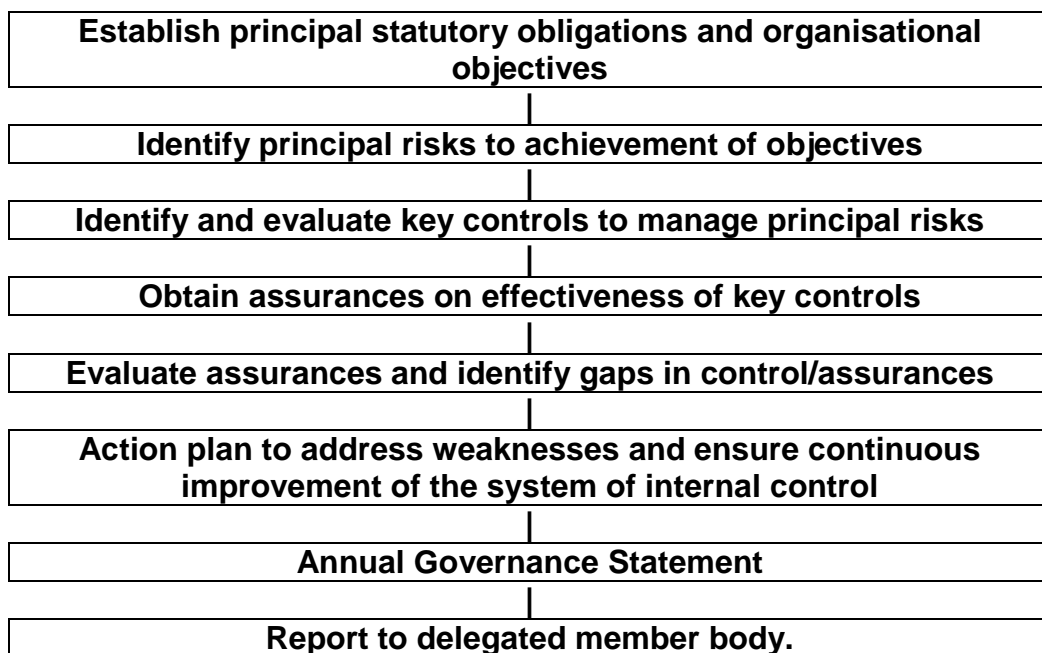
Corporate Governance Framework for the Council

8. A Code of Corporate Governance was approved on behalf of the Council by the Executive at their May 2008 meeting.
9. The 'Good Governance Standard for Public Services' sets out six core principles it says should underpin the governance arrangements of all bodies and which form the basis of the Council's 2008 Code of Corporate Governance:
 - Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;
 - Members and officers working together to achieve a common purpose with clearly defined functions and roles;
 - Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;

- Developing the capacity and capability of members and officers to be effective; and
 - Engaging with local people and other stakeholders to ensure robust public accountability.
10. Attached to the six principles is a series of supporting principles, each of which in turn translates into a range of specific requirements of the Council under the Code.
 11. The Code of Corporate Governance sets out the requirement for it to be monitored and tested for compliance on an annual basis.
 12. 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'*.
 13. 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 2010. Each Committee at this meeting made a resolution in line with the Constitution.

System of Internal Control (SIC) - Process

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



Responsibilities for Corporate Governance and SIC

15. Both sets of guidance set out the responsibilities as follows:

Responsibility	Responsible Party
<ul style="list-style-type: none"> • Oversee the effective management of risk by officers of the Council. • Maintain a system of internal control. • Review system of internal control annually. • 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. • Approve the Annual Governance Statement. 	<p style="text-align: center;">‘The Relevant Body’ - South Hams District Council</p>
<ul style="list-style-type: none"> • Propose the budget and policy framework to the Council, including the Code of Corporate Governance, Risk Management Strategy etc. 	<p style="text-align: center;">The Executive</p>
<ul style="list-style-type: none"> • Monitor the effective development and operation of risk management and corporate governance in the Council. • Consider the Council’s arrangements for corporate governance and to ensure compliance with best practice. • 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; • Oversee the production of the Council’s Annual Governance Statement and recommend its adoption to the Council. 	<p style="text-align: center;">Audit Committee (Delegated Member Body)</p>
<ul style="list-style-type: none"> • 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. 	<p style="text-align: center;">Standards Committee</p>
<ul style="list-style-type: none"> • Establish principal obligations and objectives, identify risks to these obligations and objectives and key controls to mitigate these risks. • Provide assurance through routine monitoring of internal controls as an integral part of the risk management process. • Regularly report on the operation of internal controls to elected members through the appropriate corporate management team. 	<p style="text-align: center;">Directors and Managers</p>
<ul style="list-style-type: none"> • These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective. • 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. 	<p style="text-align: center;">S151 Officer and Monitoring Officer</p>

Responsibilities for Corporate Governance and SIC (Continued)

Responsibility	Responsible Party
<ul style="list-style-type: none"> • With the S.151 and Monitoring Officers complete a compliance review of the Code of Corporate Governance and System of Internal Control. • Review the effectiveness of internal audit annually and report results to the Audit Committee. • 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. • 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. 	Internal Audit Manager
<ul style="list-style-type: none"> • Provide explicit assurance. 	Risk Management Group External Auditor Other Review Agencies/Inspectorates
<ul style="list-style-type: none"> • Review the Statement at an early stage. 	Head of Finance
<ul style="list-style-type: none"> • Following the recommendation by the Delegated Member Body to approve, sign the Annual Governance Statement. 	Leader and Chief Executive (as most senior member and officer)
<ul style="list-style-type: none"> • Publish the Annual Governance Statement with the Council's financial statements. 	Strategic Director (Resources)

16. 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.

Assurance for the AGS to be Considered by the Audit Committee

17. 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

18. 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.
19. The result of the 2009/10 compliance review is generally satisfactory with only a small number of issues identified against 3 of the 6 Principles. Minutes A.48/09 & S.44/09 refer.
20. The findings have been taken to the AGS.

Effectiveness of the System of Internal Audit

21. A report has been presented to the Audit Committee (15th June 2010) meeting summarising the activities and key findings of Internal Audit (IA).
22. 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 2009/10, which was approved by the Audit Committee.
23. The Internal Audit Manager also reviewed the effectiveness of the system of internal audit 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

S151 Officer

24. As required by the guidance, the S151 Officer has provided signed assurance that the systems and procedures of internal control were in operation and effective in 2009/10.
25. The S151 Officer statement covered:
 - Financial Regulations and Contract Standing Orders;
 - Treasury Management;
 - Anti Fraud and Corruption Strategy;
 - Internal Audit;
 - Corporate Governance; and
 - Risk Management.
26. The S.151 Officer raised the following significant issue:
The Council has embarked on a programme of shared services with West Devon Borough Council.
27. It is already generating significant financial savings. 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

28. 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 2009/10.
29. The Monitoring Officer's statement covered:
 - Responsibilities for statutory obligations are formally established;
 - Record held of statutory obligations;
 - Effective procedures to identify, evaluate, communicate, implement, and comply with monitor legislative change exists and are used;
 - Committee charged with governance responsibilities;
 - A whistle blowing policy in place which has been formally approved, regularly reviewed and widely communicated to all relevant staff;
 - There are codes of conduct in place which have been formally approved and widely communicated to all relevant staff;
 - A register of interests is maintained, regularly updated and reviewed; and
 - Where a scheme of delegation has been drawn up, it has been formally approved and communicated to all relevant staff.
30. The Monitoring Officer has raised only issues that have been identified from other assurance sources.

Heads of Service (Managers)

31. 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.
32. Their service plans, produced annually, 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.
33. 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 the management group drafting the AGS with assurance and evidence that controls were in place and operating satisfactorily.
34. All Heads of Service signed the assurance statement, which includes the identification of significant areas of weakness or issues that may impact on internal control and confirmation that:
 - The statutory obligations and service objectives for which the Head of Service is responsible for achieving have been clearly defined in

a Service Plan in March 2009 and 2010, and are linked to the Corporate Priorities;

Risks to Objectives

- In the Service Plan, the risks to achieving these service objectives and the controls to mitigate the risks have been identified;
- The effect of any significant changes which have been made during the year to the service in terms of risks likely to arise from such change and have arranged for the Council's risk register to be updated accordingly;
- The content of the current risk register in respect of the service has been reviewed and changes made as necessary recognizing evolving risks and/or internal controls that require strengthening or review.

Controls to Mitigate Risks

- An assessment of the internal controls to mitigate the risks to my service objectives has been carried out and it is considered that throughout 2009/10 controls have been adequate to enable reasonable assurance to be provided of their effective and efficient operation in all material respects throughout this period;
 - Significant weaknesses and action needed to improve the internal controls are detailed;
 - This statement is supported by evidence of the assessment;
 - Where relying upon the work of internal audit, external audit or any other review agency (internal or external) as part of my assessment, it can be confirmed that agreed actions arising from feedback have been, or are in the process of being carried out;
 - The Data Protection registration(s) for areas of responsibility have been reviewed, are up to date and cover all relevant data held.
35. Heads of Service are also required to produce evidence to demonstrate that the controls to mitigate the risks to their objectives are in place and operating satisfactorily. This constitutes a paper or computer file, updated annually, containing documents such as internal audit reports, working papers, meeting agendas and minutes linked to the service plan.
36. The files for all Heads of Service are held by the Internal Audit Manager and are available for members to view. It is expected that they will also be reviewed by the Council's external auditor as part of their audit of the AGS process.
37. Heads of Service that identified significant weaknesses or issues have been identified for inclusion in the AGS.

Performance Management

38. 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;
39. 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.
40. For 2009/10 no significant weaknesses or risks have been identified.

Risk Management Group

41. Progress has been made on improving the Council's risk management process:
- Risk Management (RM) Strategy and Strategic Risk register updated and approved by the Executive;
 - RM Member Champion appointed;
 - Risk workshops undertaken;
 - Risk registers maintained, including for operational risks, and have been 'loaded' into the performance management system;
 - A process developed for updating the risk registers with emerging risks;
 - Regular meetings of the Risk Management Group quarterly, and increasing the Group's membership to include relevant officers;
 - Risk assessment included in all reports to members;
 - Training for members and officers;
 - Publicity for formal Risk Management on the Intranet and notice boards;
 - RM approach linked to System of Internal Control; and
 - RM progress monitored to Audit Committee on a quarterly basis.
42. For 2009/10 no significant weaknesses or risks have been highlighted that were not identified elsewhere.

External Audit and other Inspections

43. The External Auditor also contributes to the assurance for the Annual Governance Statement through their:
- Accounts and Systems Audit 2008/09 - Audit Committee December 2009;

- Use of Resources - Audit Committee December 2009;
- Annual Governance Report 2008/09 - Audit Committee December 2009;
- Audit Opinion Plan - Audit Committee April 2010;
- Certification of Claims and Returns - Audit Committee April 2010;
- Annual Audit Letter 2008/09 - Audit Committee April 2010; and
- Audit Progress Summary to each Audit Committee during the year to April 2010.

44. The reports did not raise any significant issues for the AGS for 2009/10 other than those already raised by the Council's senior managers.

Last Year's Annual Governance Statement

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

From the System of Internal Control:

Issue Raised in the 2008/09 AGS	Progress on Action Plan to Date
Shared services with West Devon Borough and Teignbridge District Councils.	Ongoing process. Updated statement included in the 2009/10 AGS;
Delivery against the Council's top corporate priority CP1 (affordable homes) may fail to meet the demand.	Ongoing process. Updated statement included in the 2009/10 AGS;
Delivery against the Council's corporate priority CP2 (good jobs): may fail to meet the demand.	Ongoing process. Updated statement included in the 2009/10 AGS;
Sherford New Community Section 106 agreement.	Ongoing process. Updated statement included in the 2009/10 AGS;
Local Development Framework (LDF) is proving to be slow to deliver against government objectives.	Ongoing process. Updated statement included in the 2009/10 AGS;
Council services are at risk if it is unable to attract and retain employees with the right knowledge and skills.	Updated statement included in the 2009/10 AGS;
The Council' Single Status project continues, with the aim of harmonising terms and conditions of employment across the Authority.	Single status issues have been addressed through the implementation of new HR policies. Updated statement included in the 2009/10 AGS;
No comprehensive Protocol on Councillor/ Officer Relations appears in the Council's Constitution, although Codes of Conduct exist for both members and officers.	The Protocol on Councillor/ Officer Relations was recommended to the Council for approval by the Standards Committee at their meeting of 15 December 2009, with Council approval given on the 17th December 2009.
The transfer of the management of housing benefits debt to the benefits team and the recovery of sundry debts to Corporate Finance.	Implemented.

From the Compliance Review of the Code of Corporate Governance

46. The progress made on the issues raised in the 2008/09 AGS from the Compliance Review of the Code of Corporate Governance was discussed in the 2009/10 Compliance Review of the Code of Corporate Governance report to the Joint Audit and Standards Committee meeting of April 2010, Minutes A.48/09 & S.44/09 refer.

The Annual Governance Statement (AGS) (Appendix B)

47. The Statement is a corporate document and is owned by all members and senior officers of the Council as discussed above.
48. A draft AGS for 2009/10 appears at Appendix B to this report, based on the pro-forma statement supplied in the original guidance.
49. 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.
50. The guidance states that these practices need to take place throughout the period under review.

Risk Assessment

Opportunity	Issues / Obstacles	Benefits/Mitigated by
<p>The Council can demonstrate that the policies, processes, tasks, behaviours and other aspects of the Council, taken together:</p> <ul style="list-style-type: none"> 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); Help ensure the quality of internal and external reporting. 	<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>Risk that the Council does not have the system in place to produce a meaningful AGS to be included in the accounts; or.....</p> <p><i>Continued overleaf</i></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> <p>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.</p>

Risk Assessment (Continued)

Opportunity	Issues / Obstacles	Benefits/Mitigated by
<p>The Council can demonstrate that the policies, processes, tasks, behaviours and other aspects of the Council, taken together (continued):</p> <ul style="list-style-type: none"> • Help ensure compliance with applicable laws and regulations, and internal policies with respect to the conduct of business. 	<p>.....That the process does not satisfy the requirements under the Accounts and Audit Regulations 2003 or the highest levels of the relevant Comprehensive Area Assessment (CAA) self assessment checklist (the Council received information from the Audit Commission in May 2010 that work has been stopped on the CAA).</p>	
<p>Monitoring compliance of the Code of Corporate Governance will feed the Annual Governance Statement (AGS) process and provide assurance to the community that a good governance framework is in place.</p>	<p>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.</p>	<p>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.</p>

Conclusion

51. The Accounts and Audit (Amendment) (England) Regulations 2006 have changed the requirements for the Council to produce an annual Statement on Internal Control with its published accounts. The revised version is extended to include governance and is to be known as the Annual Governance Statement.
52. CIPFA/SOLACE have issued guidance to local authorities to enable them to update their Code of Corporate Governance, to link with the new statement.
53. Overall responsibility for Governance rests with the Council, but monitoring of compliance with the Code will be carried out on its behalf the S.151 Officer, Monitoring Officer and Internal Audit Manager reporting annually to the Audit and Standards Committees.
54. Production and publication are the final stages of an ongoing review of governance and internal control and not activities that can be planned in isolation. The guidance says that compilation of the AGS involves the Council in:
 - Reviewing the adequacy of its governance and control arrangements;

- Knowing where it needs to improve those arrangements; and
 - Communicating to users and stakeholders how better governance leads to better quality public services.
55. The Statement will appear in the Council's annual financial statements and is subject to external audit review.
56. 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 which includes arrangements for the management of risk.

Allan Goodman
Internal Audit Manager

Audit Committee
29 June 2010

Delyth Jenkins Evans
Monitoring Officer

Mark Seymour
Strategic Director (Resources)

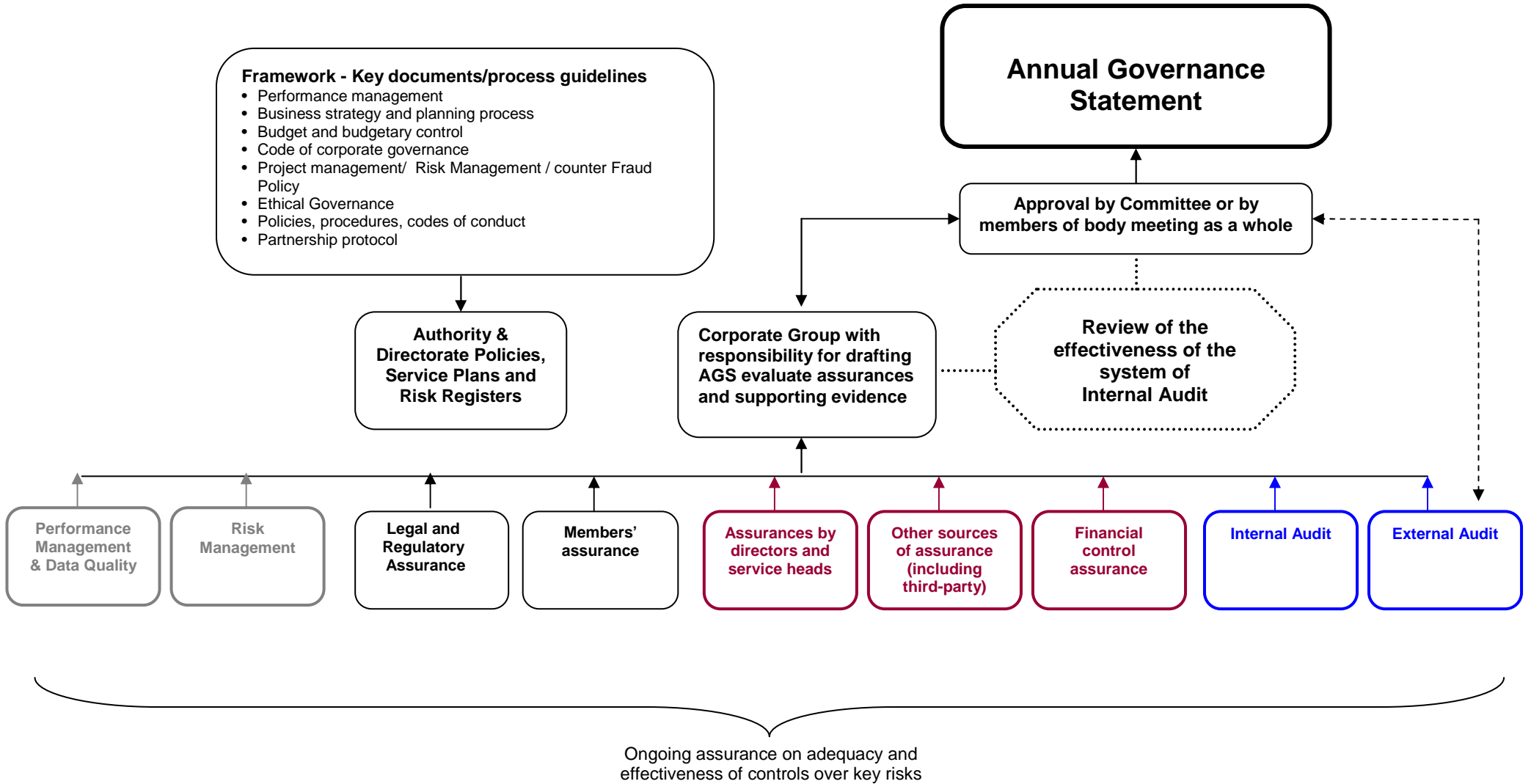
Report Appendices

Appendix A – Framework for the System of Internal Control
Appendix B – Annual Governance Statement for 2009/10

Background Documents

Code of Corporate Governance for South Hams District Council 2008
CIPFA/SOLACE (2007) Delivering Good Governance in Local Government - Framework
CIPFA/SOLACE (2007) Delivering Good Governance in Local Government – 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*, Corporate Governance in Local Government: A Keystone for Community Governance: CIPFA (2001)

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 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 2010 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 quarterly magazine, and 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 and Cross Cutting Themes.

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 latest consideration of the Corporate Priorities, being 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 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 2010). 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 Improvement 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, bringing together the following work streams: Budget Consultation; Service and Financial Planning; 'Inspire' service reviews – Lean Systems Reviews, Value for Money (Cost and Performance), Customer First; Shared Services; Efficiency Savings, and Knowledge (ward profiles).

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 the data processes that

result in performance information both measures and indicators, local and statutory information. It clearly indicates the role each individual has to play in the production and analysis of data.

Performance information also reflected in the Council Tax booklet sent with all bills, a formal annual report sent to all households in the Council's quarterly 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 Resource Strategy covering the following five years, 2010/11 to 2014/15 reported to the Executive in September 2009.

Inspectorate reports are received and acted upon, e.g. the Comprehensive Area Assessment (CAA) 'Use of Resources' issues raised are taken to an action plan. The CAA is an important part of assessing and reporting on how well money is spent and examines how the Council is working with other public bodies to meet the needs of the people they serve (the Council received information from the Audit Commission in May 2010 that work has been stopped on the CAA).

The external auditors' reviews and individual reports on the Council's Statement of Accounts, governance arrangements, value for money and use of resources 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 on Councillor/ Officer Relations was recommended to the Council for approval by the Standards Committee at their meeting of 15 December 2009, with Council approval given on the 17th December 2009. 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 which was reviewed and updated in 2009.

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 but differs to the Code of Conduct and Standards of Behaviour for Staff that is published on 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.

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 Standing Orders Relating to Contracts (Constitution: Contract Procedure Rules) and Financial Instructions (Constitution: Finance Procedure Rules) and 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 and external inspection through the Audit Commission's 'Use of Resources' process, and reporting to The Audit Committee quarterly and annually to the Council. The risk management process includes an approved Strategy, a Risk Management Group, maintaining risk registers, systems for identifying emerging risks, and consideration of risk and opportunities in reports to members and project management etc;

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 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 drafted by the Group and approved at the Council meeting of 29 October 2009. 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. In addition a formal training plan has been set up for members of the Development Control 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, are supplied to the press, libraries and Town/Parish Councils.

The Constitution Part 4 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 produced by the South Hams Strategic Partnership in association with the LDF with the purpose of increasing community participation.

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 quarterly 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 2010). 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 in October 2009, 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 Scrutiny 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 will also be reviewed annually by Scrutiny.

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 2010).

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 includes the system of internal control is as follows:

Responsibility	Responsible Party
<ul style="list-style-type: none"> • Oversee the effective management of risk by officers of the Council. • Maintain a system of internal control. • Review system of internal control annually. • 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. • Approve the Annual Governance Statement. 	<p style="text-align: center;">'The Relevant Body' - South Hams District Council</p>
<ul style="list-style-type: none"> • Propose the budget and policy framework to the Council, including the Code of Corporate Governance, Risk Management Strategy etc. 	<p style="text-align: center;">The Executive</p>
<ul style="list-style-type: none"> • Review and scrutinise the performance of the Council in relation to its policy objectives, performance targets and particular service areas. 	<p style="text-align: center;">Scrutiny</p>

Responsibility (Continued)	Responsible Party
<ul style="list-style-type: none"> • Promote and maintain effective processes for governance issues including maintaining high standards of conduct by the Councillors and Co-opted members of the authority, • Receipt of an annual review of the Council's Code of Corporate Governance and approval of any action plan arising from the review. 	Standards Committee
<ul style="list-style-type: none"> • Monitor the effective development and operation of risk management and corporate governance in the Council. • Consider the Council's arrangements for corporate governance and to ensure compliance with best practice. • 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; • Carry out an annual self assessment of the effectiveness of the Committee; • Oversee the production of the Council's Annual Governance Statement and recommend its adoption to the Council. 	Audit Committee (Delegated Member Body)
<ul style="list-style-type: none"> • Establish principal obligations and objectives, identify risks to these obligations and objectives and key controls to mitigate these risks. • Provide assurance through routine monitoring of internal controls as an integral part of the risk management process. • Regularly report on the operation of internal controls to elected members through the appropriate corporate management team. 	Directors and Managers
<ul style="list-style-type: none"> • These statutory functions provide a key source of assurance that systems and procedures of internal control are in operation and effective. • 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. 	S151 and Monitoring Officers
<ul style="list-style-type: none"> • With the S151 and Monitoring Officers complete a compliance review of the Code of Corporate Governance and System of Internal Control. • Review the effectiveness of the system of internal audit annually and report results to the Audit Committee. • 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. • 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. 	Internal Audit

Responsibility (Continued)	Responsible Party
<ul style="list-style-type: none"> Provide explicit assurance on the control environment and governance arrangements in relation to their area of responsibilities. 	Risk Management Group External Auditor Other Review Agencies/Inspectorates

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee, and a plan to address weaknesses and ensure continuous improvement of the system is in place.

5. Significant Governance Issues

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

From the Compliance Review of the Code of Corporate Governance (Joint Meeting of Audit and Standards Committees April 2010):

Gaps for Principle 3: Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;

Issue Identified	Action to be Taken	Responsible Officer & Target Date
Part 5 of the Council's Constitution includes the Officer's Code of Conduct which differs to the more recent Code of Conduct and Standards of Behaviour for Staff document is published on the Staff Pages of the Council's Intranet by the Head of Human Resources.	The Monitoring Officer will liaise with the Head of Human Resources to make the correct Code available to officers in both places on the Intranet.	Monitoring Officer 30 September 2010

Gaps for Principle 4: Taking informed and transparent decisions which are subject to effective scrutiny and managing risk: and

Gaps for Principle 6: Engaging with local people and other stakeholders to ensure robust public accountability:

Issue Identified	Action to be Taken	Responsible Officer & Target Date
Informal feedback was received from the Centre for Public Scrutiny following their review of the Scrutiny function in February 2010. Initial findings suggested that their report will include recommendations surrounding the following areas: <ul style="list-style-type: none"> Fulfilling the role of 'critical friend' of the Executive; Expressing the voice and concerns of the public; Being independently minded; and Helping to drive improvement.; and Develop ways of working to engage the public. 	The Monitoring Officer will: <ol style="list-style-type: none"> Obtain members' support for the review proposals; and Design and implement a scheme to improve the scrutiny process including the areas listed. 	Monitoring Officer 2010/11 (To be in place by the Annual General Meeting May 2011)

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>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. These are anticipated to increase as more services are shared</p> <p>If these savings are not generated or maintained, this would threaten future resource availability and consequently service provision.</p>	<p>A controlled programme has been developed, with the establishment of a Joint Steering Group comprising of members of each Council, supported by officers, which monitors the implementation and delivery of the shared services through these arrangements.</p> <p>The framework for delivering the programme includes the preparation of detailed business cases for each service area involved. The business case will identify not only the benefits (including financial) but also the investment costs and risks associated with the shared concept.</p> <p>Policies and procedures will be aligned as far as is practical and acceptable to members</p>	<p>Shared Services – Joint Steering Group 2010/11 and beyond</p>
<p><i>Corporate Priority - Affordable Homes</i></p> <p>Delivery against the Council's top corporate priority CP1 (affordable homes) may fail to meet the demand: There is a very limited supply of new housing development sites, pending adoption of site allocations through the LDF.</p>	<p>The adopted policies are challenging, especially in a difficult financial climate (the highest target in England (50%) and a very low threshold of 2 or more new dwellings, required to make a contribution).</p> <p>Accelerated LDF programme, with a focus on delivery of development sites.</p>	<p>Joint Management Team Head of Housing and Community Delivery 2010/11</p>
<p><i>Corporate Priority – Good Jobs</i></p> <p>Delivery against the Council's corporate priority CP2 (good jobs): may fail to meet the demand: There have been several 'disinvestments in the district, including significant high profile examples.</p> <p>There is a very limited supply of new employment development sites, pending adoption of site allocations through the LDF.</p> <p>Reduction of the economic development activity will reduce the Council's ability to engage positively with potential investors or to limit the consequences of disinvestments.</p>	<p>The Council is working with others to variously promote, incentivise and support the local economy, in line with the Prosperity Strategy Action Plan.</p> <p>External funding streams will be monitored and accessed.</p> <p>Accelerated LDF programme referred to above, with a focus on delivery of development sites.</p> <p>The Council will continue to contribute to CP2 across a number of services.</p>	<p>Joint Management Team Head of Strategic Planning and Economy 2010/11</p>
<p><i>Recruitment and Retention of Staff</i></p> <p>Council services are at risk if it is unable to attract and retain employees with the right knowledge and skills.</p>	<p>We have continued to develop shared services with West Devon Borough Council and a new recruitment policy will be introduced with a management of change policy which will be fully negotiated with the trade unions.</p>	<p>Joint Management Team Head of Human Resources 2010/11</p>

From the System of Internal Control (Continued):

Issue Identified	Action to be Taken	Responsible Officer & Target Date
<p><i>Single Status Review</i></p> <p>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.</p> <p>One area of risk for potential equal pay claims is the bonus payments made to predominantly male occupational groups.</p>	<p>An Interim Pay Review Panel is now established and a number of posts were re-graded in recognition of a significant increase in their responsibilities.</p> <p>It is still the Council's intention to reach an agreement with the trade unions to remove these potentially discriminatory bonus payments and early negotiations have been promising.</p>	<p>Joint Management Team Head of Human Resources 2010/11</p>
<p><i>Local Development Framework (LDF)</i></p> <p>The LDF system is proving to be slow to deliver against government objectives.</p> <p>In 2006 the South Hams LDF Core Strategy was the first to be adopted in England; in 2007 the Council adopted the Sherford Area Action Plan; and in 2008 the Affordable Housing Development Plan document was adopted.</p> <p>Site allocations for towns and villages are urgently required.</p>	<p>Plans have been published and, subject to satisfactory examination, outcomes will be adopted in 2011.</p>	<p>Joint Management Team Head of Strategic Planning and Economy 2010/11</p>
<p><i>Sherford New Community</i></p> <p>Risk of challenge may have abated with the decision to grant outline planning permission in principle. However the Council's view of the requirements of a Section 106 agreement currently differs to the applicant's, and in the current economic circumstances this difference has become a key area of potential conflict.</p> <p>The applicant has submitted a duplicate application, with the potential for appeal. Any appeal is likely to involve significant costs to defend the Council's position due to the complex nature of the scheme.</p>	<p>Section 106 negotiations to continue with a view to attaining a result which conforms with the Council's objectives for Sherford as set out in the adopted Area Action Plan, and also remain a viable and deliverable scheme.</p> <p>The also a disclosure in the 2009/10 Statement of Accounts as a Contingent Liability.</p>	<p>Strategic Director (Community) 2010/11</p>
<p><i>Winter Boat Storage</i></p> <p>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 risks have been mitigated to an extent increasing the supervision of the area combined with a robust Code of Practice. The Council is urgently considering longer term options.</p>	<p>Head of Environmental Services Salcombe Harbour Master 2010/11</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**