
ANNUAL GOVERNANCE STATEMENT

Purpose of Report

1. To approve the Council's draft Annual Governance Statement.

Information and Analysis

2. Regulation 4 of the Accounts and Audit (England) Regulations 2011 requires local authorities to publish, each year, an Annual Governance Statement to accompany the Statements of Accounts.
3. The Annual Governance Statement must be signed by the Leader of the Council and Chief Executive and is a key corporate document involving a variety of people charged with delivering governance such as the Director of Neighbourhood Services and Resources as the financial officer responsible for the accounting control systems and records and the preparation of the Statement of Accounts and the Assistant Chief Executive as Monitoring Officer in meeting her statutory responsibilities.
4. The Annual Governance Statement to accompany the Statement of Accounts for 2013/14 is attached as **Appendix 1**. It follows the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) recommended format.
5. The Annual Governance Statement outlines the Council's responsibilities, explains the purpose of the governance framework, sets out the key elements, details the review of its effectiveness, highlights significant governance issues and includes a commitment by the Leader of the Council and Chief Executive to ensure the continuous improvement of the system in place. There should be no surprises in the Statement as it simply reflects outcomes from the Council's assurance framework that have been reported to members during the course of the year.

Recommendation

6. It is recommended that the draft Annual Governance Statement at **Appendix 1** be approved.

Reasons

7. The recommendation is supported as it comprises part of the Council's corporate governance arrangements.

Paul Wildsmith
Director of Neighbourhood Services and Resources

Background Papers

- (i) CIPFA/SOLACE Publication(s) – 'Delivering Good Governance in Local Government – Framework and Guidance Note'.
- (ii) CIPFA Statement on the Role of the Chief Financial Officer in Local Government.
- (iii) CIPFA Statement on the Role of the Head of Internal Audit in Public Service Organisations.
- (iv) Audit Services' Annual Report 2013/14 reported to Audit Committee June 2014.
- (v) Annual Audit Letter reported to Audit Committee December 2013 and Cabinet January 2014.
- (vi) Report on Annual Review of System of Internal Control including the Annual Review of Internal Audit Effectiveness reported to Audit Committee June 2014.
- (vii) Progress reports on Xentrall Audit Plan to Audit Committee September 2013, December 2013, March 2014 and June 2014.
- (viii) Overview Report on Managers Assurance Statements reported to Audit Committee June 2014.
- (ix) Risk Management Reports to Audit Committee September 2013 and March 2014.
- (x) Corporate Health and Safety Report to Audit Committee September 2013.
- (xi) ICT Strategy Progress Reports to Audit Committee September 2013 and March 2014.
- (xii) Information Governance Programme Progress Report to Audit Committee March 2014.
- (xiii) Corporate Governance Update Reports to Audit Committee December 2013 and June 2014.
- (xiv) Anti-Fraud and Corruption Arrangements Reports to Audit Committee December 2013 and June 2014.

- (xv) Audit of Accounts Report to Audit Committee September 2013.
- (xvi) Revenue Budget Monitoring Reports to Cabinet October 2013 and February 2014.
- (xvii) Project Position Statement and Capital Programme Monitoring Reports to Cabinet September 2013, December 2013 and February 2014.
- (xviii) Sustainable Community Strategy Report to Cabinet and Council May 2014.
- (xix) Prudential Indicators and Treasury Management Reports to Audit Committee December 2013 and January 2014 and to Cabinet and Council February 2014.
- (xx) Annual Review of Significant Partnerships Report to Audit Committee June 2014.
- (xxi) Corporate Planning and Performance Framework Report to Cabinet May 2013.
- (xxii) Transformation Programme Annual Review 2012/13.
- (xxiii) Xentrall Shared Services Annual Report to Cabinet July 2014.

Brian James: Extension 2140

S17 Crime and Disorder	There are no specific issues which relate to crime and disorder.
Health and Well Being	There is no specific health and well being impact.
Carbon Impact	There is no specific carbon impact.
Diversity	There is no specific diversity impact.
Wards Affected	All wards are affected equally.
Groups Affected	All groups are affected equally.
Budget and Policy Framework	The report does not affect the budget or policy framework.
Key Decision	This is not a key decision.
Urgent Decision	This is not an urgent decision.
One Darlington: Perfectly Placed	There is no specific relevance to the strategy beyond a reflection upon the Council's governance arrangements and achievements.
Efficiency	There is no specific efficiency impact.

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

1. Darlington Borough 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.
2. 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.
3. The Council has approved and adopted a Local 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 Code is on our website at www.darlington.gov.uk or can be obtained from:

Democratic Services
Neighbourhood Services and Resources Group
Town Hall
Feethams
Darlington
DL1 5QT
Tel (01325) 388351

4. This Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4 of the Accounts and Audit (England) Regulations 2011 in relation to the publication of an annual governance statement.

The Purpose of the Governance Framework

5. 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 services and value for money.
6. 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 and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

7. The governance framework has been in place at the Council for the year ended 31 March 2014 and up to the date of approval of the Statement of Accounts.

The Governance Framework

8. The key elements of the Council's governance framework are tabulated in Appendix A to this statement which also indicates their relevance to the following six core principles that underpin good governance:-
 - (a) Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area.
 - (b) Members and officers working together to achieve a common purpose with clearly defined functions and roles.
 - (c) Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
 - (d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
 - (e) Developing the capacity and capability of members and officers to be effective.
 - (f) Engaging with local people and other stakeholders to ensure robust public accountability.
9. Each key element, as detailed in the Council's Local Code, has a nominated lead officer, outlines the duty to which it relates and includes three discrete types of action:-
 - (g) Awareness - making sure that everyone who needs to know about the element does know.
 - (h) Monitoring - ensuring that the duty is carried out.
 - (i) Review - actions to ensure that the element is reviewed in the light of effectiveness and emerging good practice.
10. The governance framework encompasses the Council's financial management arrangements that conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. The governance arrangements also conform to the requirements of the CIPFA Statement on the role of the Head of Internal Audit in public service organisations.

Review of Effectiveness

Background

11. 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 an Assurance Framework, documented in Appendix B, that includes the work of the executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Corporate Assurance's Annual Internal Audit Report, and also comments made by the external auditors and other review agencies and inspectorates.
12. This Statement has been prepared by a management group that has responsibility for evaluating assurances and the supporting evidence. The group comprises the:-
 - (a) Director of Neighbourhood Services and Resources (S151 Officer)
 - (b) Assistant Chief Executive (Monitoring Officer)
 - (c) Assistant Director Finance and Human Resources
 - (d) Head of Corporate Assurance
13. The Audit Committee is responsible for the independent review and approval of the Annual Governance Statement following examination of the supporting evidence.
14. Assurance on adequacy and effectiveness is outlined under the following categories identified in the Council's Assurance Framework.

Local Code of Corporate Governance

15. The Audit Committee received six-monthly monitoring reports in December 2013 and June 2014 to ensure that Members were satisfied that the management processes defined in the Council's Local Code were actually being adhered to throughout the organisation.
16. The reports concluded that overall, positive progress was being made on the application of Corporate Governance within the Authority.

Corporate Planning and Performance Management Framework

17. The focus of the Council's corporate planning process is on delivery of priorities within the Sustainable Community Strategy (SCS), One Darlington Perfectly Placed, and the three conditions considered necessary to bring about delivery of the vision:
 - Strong Communities – enabling people to live fulfilling lives with less involvement from public services.
 - Every Public Pound Well Spent – maximising the value from all public expenditure.
 - Growing the Economy – generating income streams, employment and opportunities.

18. The foundation of the planning process is the SCS which has been refreshed in 2013/14. Delivery of the SCS is via a series of underpinning Strategies, Delivery Plans and ultimately individual Performance Development Reviews. A Performance Management Framework (PMF) accompanies the planning regime and is based on a suite of performance indicators with targets and actions relevant to the locally determined outcomes described within the SCS. The PMF has a clear multi-dimensional reporting process with a clear timetable of performance clinics and challenge by senior managers from Heads of Service through to the Chief Executive as well as Cabinet and Scrutiny.
19. A revised PMF has been developed for implementation in 2014 which aligns to the refreshed SCS and monitors delivery across four tiers of performance management information as follows:
- Tier 1 data – Strategic Indicators
 - Tier 2 data – Delivery Indicators
 - Tier 3 data – Corporate Health Indicators
 - Tier 4 data – Change Programme Indicators
- In combination these allow the performance (tiers 1 and 2), the financial and governance position (tier 3), and the development of the Council (tier 4) to be monitored to provide an overall summary of the health of the organisation.
20. Year-end performance reports were provided to Cabinet Members as part of the performance clinic methodology in July 2014.
21. The year-end outturn report for 2013/14 detailed that overall Darlington has successfully (positively) narrowed the gap between the best and worst performing wards in the following areas:
- (a)** GCSE attainment (incl. English and Maths)
 - (b)** Absence in primary schools
 - (c)** Absence in secondary schools
 - (d)** Out of work benefits claimants (total)
 - (e)** JSA claimants (total)

Whilst the gap has also narrowed in the following areas, this has, in part, been influenced by a worsening of performance in the best wards:

- (f)** Obesity in year 6
- (g)** Child poverty
- (h)** % of children achieving a good level of development (expected or exceeding in early learning goals)

Of a total of 66 indicators measured, only 15 showed movement in the wrong direction, whilst 51 either showed a positive improvement or remained static.

Key highlights include:

- (i) % of pupils achieving 5 or more A* - C grades or equivalent at GCSE (incl English and Maths) has been above both the regional and national average for the last 3 years.
- (j) Fewer adults in Darlington are considered as having excess weight compared to the regional and national average figures.

- (k) An increase in the % of adults meeting the 150 minute physical activity target (and above both regional and national average).
- (l) A significant increase in the % of people with a learning disability who live in their own home or with family (better performance than regional and national averages).
- (m) A reduction in the number of children looked after, this having previously been an area with an upward trend.

Areas which still require improvement include:

- (n) Number of permanent admissions to residential and Nursing Care.
- (o) % of residents who strongly or tend to agree that people from different backgrounds get on well (this has seen a significant reduction since 2008).

In terms of economic indicators Darlington consistently performs comparatively well regionally, although the whole of the region remains below the national average across most indicators. One exception to this is the number of new dwellings delivered where Darlington has shown a declining performance since 2007/8 which remains below both the Tees Valley and Unitary authority averages.

Change Programme

- 22. 2013/14 was a transitional year for the Change Programme which saw it refreshed to support the delivery of the vision, the conditions, and the requirements of the MTFP set in the context of continued austerity and reducing resources.
- 23. Alongside this an organisational restructure was carried out which centralised all policy, performance, transformation, communication, information and engagement activity into a single unit, resulting in a budget saving in 2013/14 of over £500,000.
- 24. The current programme has a strong focus on behaviour change and developing stronger communities, and greater integration through directives such as the Better Care Fund, which seeks to deliver a more joined up and efficient approach to health and social care whilst improving the patient experience.
- 25. The Change Programme is managed by COE via a risk based exception reporting approach. Delivery is monitored via the PMF (performance clinics) and scrutiny. At a project level a Prince 2 based methodology is still in use which includes the preparation and approval of project briefs, project initiation documents and project plans with exception reports produced in the event of deviation from plan. Delivery continues to be supported by Lean process reviews and improvement events.

Value for Money (VFM)

- 26. The Council's approach to VFM is integrated with the Council's Corporate Planning, PMF, Medium Term Financial Plan and Change Programme. The focus is on delivery of priority outcomes for the Borough, the requirement to fulfil statutory duties and consideration of all services at the same time with regard to cost and performance to provide equity in the decision making process.

27. In 2013 the process was taken a stage further with a series of public budget challenge sessions, fronted by Cabinet Members in June and July and stakeholder engagement across a range of communication channels including the web and social media. Detailed VFM assessments were prepared to help inform this budget challenge process. Instead of asking, for example, 'what is the Council going to cut?' the question posed was 'the Council will have a budget of £x million, what are the most important things it can do with that resource to achieve the priority outcomes for the Borough?'
28. In assessing VFM the CIPFA VFM Toolkit is the primary source of benchmarking data although other sources are used where the data offers a more robust and/or rounded picture of performance for example the Adult Social Care and Public Health Outcomes Frameworks. Note is also taken of the LG Inform database developed by the Local Government Association that enables comparison of 'high level' outcome based metrics for local authorities.

Managers' Assurance Statements

29. Annual Managers' Assurance Statements (MAS) are an integral part of the framework that supports production of the Annual Governance Statement.
30. The Statements cover key aspects of the internal control environment on which assurance is required and were completed by all Assistant Directors and endorsed by the appropriate Director. The output from the exercise was reported to the Audit Committee in June 2014.
31. The overall position was positive. The common themes highlighted were the need to progress delivery of Heads of Service Information Governance Toolkit Action Plans, to complete the testing of Business Continuity Plans for priority services and to refresh/complete inventories. These matters are to be addressed by Assistant Directors during the 2014/15 financial year.
32. Other matters raised concerned more specific operational issues to be addressed in certain areas related to changes in duties and responsibilities.

Financial Management

33. The Council's Medium Term Financial Plan (MTFP) now incorporates a six-year financial plan. The Council sets its annual revenue budget, capital programme and council tax and treasury management strategy within this wider planning framework. The Medium Term Plan, annual budgets and council tax are developed in consultation with partner organisations in all sectors, residents and employees and are approved by full Council.
34. The Council continues to face a significant financial challenge. The Local Government Finance Settlement for 2014/15 & 2015/16 has given more certainty to the size of the financial reductions that need to be made by the Council, with the cumulative savings required amounting to £24.093M by 2019/20.

35. The current MTFP for 2014 to 2020 includes proposed plans to achieve savings of £13.752 million and a target for future savings of £10.341 million.
36. The Plan is continually monitored and reviewed by Officers and Members and is revised at least annually when an updated rolling six- year plan is produced.
37. Responsibility for controlling and managing budgets is delegated to Directors and devolved to service managers. Financial management is closely integrated with service management and a quarterly update is taken to both the Chief Officers Executive and the Chief Officers Board. Cabinet also receive quarterly reports to enable them to monitor and scrutinise financial performance and service delivery.
38. The Council must comply with external financial reporting requirements, including publishing an annual Statement of Accounts ('the Accounts') and reporting to Central Government and other funding providers. The Accounts, which are prepared in accordance with relevant legislation and codes of practice, are approved by the Council's Audit Committee and are independently audited under arrangements made by the Audit Commission.
39. The Council's cash-flow, borrowing to finance capital expenditure and investments are managed through the Treasury Management Strategy, approved by full Council, and in accordance with legislation and codes of practice. The Strategy and associated policies and procedures were reviewed in 2014. The Council manages its investments to minimise risk of losses, ensure funds are available when needed and achieve interest income.
40. Governing Bodies have formal responsibility for financial management within schools. A Schools Financial Value Standard (SFVS) has been designed by the Department for Education to assist schools in managing their finances and to give assurance that they have secure financial management in place. The Governing Bodies of each local authority maintained school are required to undertake a self assessment annually against the SFVS and send a copy, signed by the Chair of Governors, to the local authority Finance Division. All returns for 2013/14 have been received and overall they reflect a positive position. Any remedial actions considered necessary are detailed together with an appropriate implementation date. The SFVS returns are used by the local authority to inform their programme of financial assessment and audit.

Counter Fraud

41. The Council's Anti-Fraud and Corruption Strategy reflects a zero tolerance approach and is based on a series of comprehensive and inter-related policies and procedures designed to deter, frustrate, or take effective action against any attempted fraudulent or corrupt acts.
42. The counter fraud arrangements are subject to annual review and the outcome of the latest evaluation was reported to the Audit Committee in December 2013. The review included a self assessment against the good practice checklist in the 2013 Audit Commission publication 'Protecting the Public Purse'; an assessment of the Council's current arrangements mapped against the 2012 Local Government Fraud

Strategy 'Fighting Fraud Locally'; a summary of reported suspected frauds and whistle blowing cases; and an update on the 2012 National Fraud Initiative.

43. The review concluded that the Council's arrangements remain appropriate and fit for purpose when compared to national good practice guidance and that overall the number of reported frauds and whistle blowing cases remains low. However, the Council is not complacent and the position will be kept under review.

Risk Management

44. Risk is one of the elements of information incorporated into the Council's service planning process. Risk management is, therefore an essential element in establishing policy, developing plans and enhancing operational management.
45. The risk management process involves identifying, analysing, managing and monitoring risks. The identification of risks is derived from a 'top down' (corporate) and a 'bottom up' (group) process of risk assessment and analysis resulting in coverage of the whole Council. The process prioritises the risks resulting in a focus upon the key risks and priorities. The risks are managed through the development of appropriate action plans, allocated to responsible officers.
46. The approach to, and the outcomes from, the Council's risk management processes for 2013/14 were reported to the Audit Committee in March 2014. The report detailed generally positive progress upon delivery of action plans to mitigate key risks including those relating to the risk of legal challenge in relation to the Council's decision making and contracting processes, as well as information governance, capital project management and the change agenda, areas that are mentioned in more detail elsewhere in this Statement. The report also outlined advances in the management of operational risks through the Council's operational risk groups including the pro-active and efficient approach adopted to risk manage the public highways that continues to minimise the Council's liability for compensation claims with over 90% successfully repudiated. In addition, progress has continued across the organisation to influence cultural improvements in health and safety with the focus on 'Think Safety'. Initiatives have included a wider programme of health and safety management training and greater employee involvement through the appointment of 'health and safety champions' within services.

ICT

47. The Council's ICT Strategy focuses on five strategic priorities, namely ICT Service Development; ICT Governance; ICT Strategic Architecture; Business Change Programme; and an ICT Competent Workforce and Members. 2013/14 marks the final year for the current version of the Strategy and work is underway to develop a replacement.
48. Implementation of the Strategy is led by the Chief Officers Board which is tasked to produce six-monthly reports on implementation progress to the Audit Committee.

49. The progress report to the Audit Committee in March 2014 documented positive progress on each of the five key programmes. This included reference that ICT Services are certified to the ISO 27001 Information Security Management and ISO 9001 Quality Management Standards and a comprehensive programme of professional and technical training exists for the ICT Team.
50. As regards the Business Change Programme, a Systems and Information Strategy has been produced. This is to complement the ICT Strategy by ensuring that investment in service based ICT systems is correctly targeted, whereas the ICT Strategy is concerned with corporate systems and underpinning ICT architecture. Development and delivery of the Systems and Information Strategy is by the Chief Officers Board chaired by the Director of Neighbourhood Services and Resources acting as the Systems and Information Group. This Group, in effect, approves the work programme requested of the ICT Service thereby ensuring that this finite resource is correctly targeted to meet the objectives of the Council as a whole.

Information Governance

51. The Council has an Information Governance Work Programme developed to address the need for appropriate controls to be embedded and consistently applied across all services. The Programme has a number of strands including Information Security Policy; Information Risk Assessment; Information Governance Training and Awareness; Information Sharing; Data Quality; and the Transparency Agenda.
52. Implementation of the Programme is led by the Chief Officers Board which is tasked to produce six-monthly reports on implementation progress to the Audit Committee.
53. The progress report to the Audit Committee in March 2014 noted steady progress with implementation of the Programme but recognised that there was still a significant amount of work to be done to reach a position where the information risk is effectively managed. Clear risk treatment plans are in place which will reduce the risk to an acceptable level once delivered. Timely delivery of information governance improvement plans is becoming increasingly important as compliance with external standards, such as the Department of Health IG Toolkit, are pre-requisites for sharing vital information with partner service providers.
54. Progress documented included that within the previous six months 130 staff members had attended face-to-face training sessions covering Data Protection and information management; data quality was being addressed in a systematic way through a series of business process improvements; and reference was made to the recommendations in the Annual Freedom of Information, Environmental Information and Subject Access Request Report, presented to Cabinet in November 2013, regarding the publication of frequently requested information with the aim of reducing the cost of responding to individual requests for information and improving transparency.

Capital Project Management

55. The Council has an established dedicated Capital Projects Team that operates to a consistent capital project management methodology. Any significant projects are assigned to the Capital Projects Team for delivery.
56. In addition, the Asset Management and Capital Programme Review Board (AMCPRB) performs a strategic gate-keeping role on capital projects and considers their governance arrangements. The Board is chaired by the Director of Neighbourhood Services and Resources with membership from Chief Officers with responsibility for capital projects, Council assets and those with specific technical, financial and legal expertise to add value to challenge and monitor the programme.
57. The Capital Projects Team has responsibility for the coordination of a Project Position Statement (PPS). The PPS provides a single source of key information relating to the Council's commitments on capital projects and programmes and enables challenge to be made on projects that exhibit warning signs that they may deviate from time, cost or quality. The PPS is reported to the AMCPRB at every meeting and regularly to Cabinet. It contains some legacy projects that are being managed in accordance with strategies agreed by Cabinet. There are some 70 live projects currently being managed by the Council amounting to a value of £107 million with no foreseeable issues.
58. The system was reviewed by PwC during 2013 and their findings were reported to the December 2013 Audit Committee. PwC acknowledged that there had been significant progress to develop the management and monitoring process to encourage that appropriate information is maintained on contracts, appropriate sign off is obtained at each stage and the progress of contracts is monitored. PwC did make some observations where they felt that there was room for further enhancement including the development of an electronic system for recording information. This recommendation has been accepted by management, is included within Xentrall's ICT Work Programme and the development work has commenced.

Public Health

59. The Health and Social Care Act 2012 gave local authorities responsibilities and funding to lead public health at a local level from April 2013. A 'transfer order' was the vehicle through which the assets, liabilities and powers to act on new public health responsibilities accrued to Darlington Borough Council on 31st March 2013.
60. A Public Health 'ring fenced' grant was confirmed for two years, 2013/14 £6.9m and 2014/15 £7.1m, and eleven staff transferred to the Council. A Public Health operating model was developed in 2013 to ensure clarity on reporting arrangements, organisational position within the Council, governance re the new functions the Council is now responsible for, development of a Public Health commissioning plan and agreements with external partners.
61. A Memorandum of Understanding was agreed with the Darlington Clinical Commissioning Group in 2013 which described the arrangements for providing public health advice and support to NHS commissioners.

62. In 2013 a collaboration was also developed across Tees Valley to agree an integrated shared service where it was cost effective to do so.
63. Assurance has been provided to committees of the Council in 2013/14 of the safe and timely transition and establishment of public health in the Council.

Internal Audit

64. The Council's Internal Audit Division operates to the UK Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note that came into effect on 1st April, 2013.
65. The Annual Internal Audit Plan is risk-based and sets the foundation for an objective review of key controls and procedures operating within the Council. The Audit Committee approves the Annual Internal Audit Plan and receives progress reports against the Plan during the year, including any significant matters arising or other issues of concern, and Internal Audit's Annual Report.
66. Internal Audit concluded in their Annual Report for 2013/14, reported to the June 2014 Audit Committee, that overall the Council continues to operate within a control environment that is generally sound.

Annual Review of the Effectiveness of the System of Internal Control incorporating the Annual Review of Internal Audit Effectiveness

67. An annual review of the effectiveness of the Council's system of internal control incorporating the annual review of internal audit effectiveness was carried out by a team of senior officers that comprised the Assistant Director Regulatory Services and the Assistant Director Housing and Building Services. The findings of the review were considered by the Audit Committee in June 2014.
68. The review team concluded that the Council has an effective system of internal control and an effective internal audit.

Xentrall-Shared Service Partnership

69. A shared service partnership was established in May 2008 with Stockton BC for the provision of ICT, Transactional Finance and HR and Print and Design.
70. The partnership is now six years through its original ten year agreement. It has delivered all the efficiencies and main benefits outlined in the original business case. The financial position of both Councils has changed significantly since 2008 and additional savings have been identified involving significant reviews of all services. Xentrall is on target to make £13.6m savings over the agreement period, nearly double the original target, and deliver year on year savings of £2.6m once all the efficiencies are implemented.
71. The internal audit of the partnership is undertaken by Stockton BC and the outcome from the audit work carried out is reported quarterly to the Darlington Audit

Committee. The overall position on audit assurance opinions for 2013/14 was positive.

Partnership Working

72. In March 2007, Cabinet adopted a partnership working toolkit to provide a means to ensure that the Council's resources were effectively employed, the performance of each partnership was monitored and adequate governance arrangements were in place. As part of the toolkit, a clear definition of a partnership and those classed as significant was documented and this included whether the arrangement was a major contributor towards achieving the Community Strategy objectives. The toolkit that comprises an on-line questionnaire is completed by the Council Lead Officer for each partnership.
73. There are annual reviews of significant partnerships led by the Darlington Partnership Director based upon completed questionnaires. The outcomes from the latest review were reported to the Audit Committee in June 2014.
74. The report summarised the range of partnership working undertaken by the Council. Generally, an overall positive position on outcomes and governance arrangements was depicted although use of the partnership toolkit had highlighted specific outstanding governance issues in certain partnerships. As a result, action plans have been developed and responsible officers identified to address the outstanding matters.
75. Partnership Lead Officers recognise and accept that ensuring governance arrangements remain relevant is an ongoing process. For example, Terms of Reference are reviewed periodically to ensure that they remain fit for purpose and risk registers are regularly updated to reflect emerging risks and changes in circumstances.
76. The toolkit has been effective in identifying high level concerns of the significant partnerships. Reduction in funding and the consequent effect on capacity are the predominant issues raised by Lead Officers that have potential implications for the effective operation of the partnerships.

Member Standards

77. In 2013/14 there were eight complaints that members had broken the Code of Conduct. This represents a very low number given the national average of complaints for unitary councils is about thirteen. In terms of outcomes, only one of those complaints was considered by the Assessment Sub Committee as a matter that ought to be investigated. This related to the conduct of a member of the Borough Council. After investigation it was decided that although a potential breach was disclosed that no further action was warranted.
78. In July 2012 the Council adopted a new Code of Conduct in order to comply with the Localism Act 2011. Decisions were also taken to retain the Standards Committee, appoint to the new 'Independent Person' post and agree a revised procedure for dealing with complaints against members. The intention at the time

was to review the operation of the Code and the arrangements for dealing with complaints after a period of operation.

79. The revised arrangements were subsequently reviewed during 2013 with the benefit of information gained from the way they had worked and also the experience of other council's arrangements. In March 2014 Council approved a number of revisions to the Code of Conduct and also revised arrangements for dealing with ethical standards and member complaints.
80. The Standards Committee was abolished from 30 April 2014. Thereafter the responsibility for the initial assessment of complaints was moved to the Monitoring Officer. A new committee, the 'Member Standards Hearing Committee' has the responsibility for hearing complaints against members that are referred to it by the Monitoring Officer. The Independent Person (Joanne Kidd, a local barrister) continues to be involved at the assessment stage and also at complaint hearings.
81. The Audit Committee has been given additional responsibility for ethical values as part of its remit. This will include reviewing Ethical Health Indicators in order to identify any peaks in activity that indicate dissatisfaction with the Council across a range of activities.
82. As part of the role of promoting high standards of member conduct a review of member standards and local arrangements is to be reported to Council annually.

Efficiency and Resources Scrutiny Committee

83. Scrutiny forms an important part of the Council's governance arrangements by providing independent examination of executive roles. Efficiency and Resources Scrutiny Committee has responsibilities for examining the Council's arrangements for financial planning, performance and service delivery, project and asset management and procurement and contracts. The Committee develops and implements an annual work programme to manage its continuing oversight role and undertake specific pieces of work.
84. During 2013/14 the Committee had involvement in the annual review of the Medium Term Financial Plan and held a special meeting to consider the draft Plan and made recommendations to Cabinet in February 2014 to inform their deliberations. Efficiency and Resources Scrutiny will continue to lead on scrutinising the budget and MTFP and assist with the implementation and development of the required savings.

Annual Audit Letter

85. An Annual Audit Letter is produced by the Council's external auditors PricewaterhouseCoopers LLP (PwC) to provide a high level summary of the results of their audit work undertaken for the benefit of Members and other interested stakeholders. The 2012/13 Letter was presented to the Audit Committee in December 2013.

86. The auditors gave an unqualified opinion on the Council's 2012/13 accounts by the target date of 30 September 2013.
87. The external auditors issued an unqualified value for money conclusion on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources. In reaching their conclusion, PwC noted positive improvements in the systems and processes adopted by the Council to manage its capital projects and PFI contract.
88. PwC reviewed the Annual Governance Statement to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to them. They commented that they found no areas of concern in this context.
89. The auditors are also required to report to management and the Audit Committee any deficiencies in internal control identified during their audit. In this regard, PwC recommended improvements to the procedure for post-audit manual adjustments to the ledger and the availability of working papers to support the valuation of property, plant and equipment that were agreed by officers.

Statement by the Leader of the Council and Chief Executive

90. 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 that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. We are committed to ensure the continuous improvement of the system in place.

Signed _____
Leader of the Council

Dated _____

Signed _____
Chief Executive

Dated _____

Appendix A

Document/Function	Core Principles of Corporate Governance					
	Focusing on the purpose of the authority 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 authority 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	Engaging with local people and other stakeholders to ensure robust public accountability
Sustainable Community Strategy	✓					✓
Constitution		✓		✓		✓
Service Planning Framework	✓	✓			✓	✓
Business Transformation Projects	✓	✓		✓	✓	
Community Engagement Strategy	✓				✓	✓
Communication Strategy	✓	✓	✓	✓		✓
ICT Strategy	✓		✓		✓	✓
Human Resources Strategy	✓	✓	✓		✓	
Performance Management Framework	✓	✓	✓		✓	

Schedule of Council Meetings				✓		✓
Council Procedure Rules			✓			
Record of Decisions		✓		✓		✓
Partnership Working Toolkit	✓	✓	✓	✓	✓	✓
Code of Conduct for Members				✓	✓	
Members Induction and Training Programme				✓	✓	
Code of Conduct for Employees				✓	✓	
Officer and Member Protocols		✓	✓			
Confidential Reporting Policy				✓	✓	
Code of Corporate Governance	✓	✓	✓	✓	✓	✓
Risk Management Strategy				✓		
Anti-fraud and Corruption Policy				✓		
Capital Programme Methodology		✓		✓		
Information Governance Policy	✓		✓	✓	✓	✓
Procurement Strategy	✓	✓	✓	✓		✓
Contract Procedure Rules	✓	✓	✓	✓		✓
Medium Term Financial	✓	✓		✓		✓

Plan/Budgets						
Treasury Management Framework		✓		✓		✓
Annual Statement of Accounts	✓					✓
Financial Procedure Rules	✓	✓	✓	✓		
Scheme of Delegation		✓		✓	✓	
Complaints Process	✓		✓	✓		✓
Social Inclusion Strategy	✓		✓			✓
Equalities Plan	✓		✓			✓

Assurance Framework

Risk	Assurance Provider	Sources of Assurance	Links to Internal Audit Work Plan	Reporting to Members
Internal Control environment inadequate/ineffective.	Internal Audit	Internal Audit Strategy. Internal Audit's Role and Terms of Reference. Risk based Annual Internal Audit Plan. Internal Audit Reports/opinions and outcomes from consultancy work undertaken.	Internal Audit Strategy. Internal Audit's Role and Terms of Reference. Risk based Annual Internal Audit Plan. Internal Audit reports/opinions and outcomes from consultancy work undertaken.	Internal Audit's Strategy, Role and Terms of reference and Annual Audit Plan approved by the Audit Committee. Quarterly/Annual Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan. Annual Report includes an overall opinion on the Council's control environment.
The financial position of the Council not presented fairly in the Financial Statements; the Annual Governance Statement not presented in accordance with relevant requirements; and proper arrangements are not	External Audit	Risk based External Audit Plan. External Audit Reports/opinions.	Internal Audit's Annual Audit Plan discussed with External Audit to facilitate External audit planning and minimise the duplication of audit effort wherever possible.	External Audit Plan and External Audit Reports, including the Annual Audit Letter, considered by the Audit Committee. Annual Audit Letter considered by Cabinet.

in place to secure economy, efficiency and effectiveness in the use of resources.				
Inadequate provision of services to the people of Darlington.	External Inspection Agencies	External Inspection Agencies' reports.	External Inspection reports reflected upon in the Internal Audit planning process.	External Inspection reports considered by relevant Scrutiny Committee/Cabinet/Council.
Business risk processes inadequate/ineffective	Corporate Assurance	Risk Management Strategy Corporate/Group Risk Registers. Risk Management Group's Agendas and Minutes. Officer/Member Training.	Annual Audit Plan developed with reference to Corporate/Group Risk Registers. Risk Management function subject to periodic Internal Audit review as part of the cyclical audit process.	Risk Management Strategy endorsed by the Audit Committee and approved by Cabinet. Six-monthly/Annual Reports to the Audit Committee on the outcomes from the Council's risk management processes.
Fraud and corruption arrangements inadequate/ineffective.	Internal Audit and Benefits Enquiry Unit.	Anti-Fraud and Corruption Strategy, Policy, Fraud Response Plan, Anti-Money Laundering Policy and Anti-Bribery Policy and Procedures. Housing Benefit/Council Tax Anti-Fraud Strategy, Policy and Sanctions Policy. Confidential Reporting Policy. Internal Audit reviews of arrangements. Outcomes from bi-annual National Fraud Initiative exercises co-ordinated by the Audit Commission.	Anti-Fraud and Corruption arrangements, including National Fraud Initiative exercises, administered by Internal Audit. The potential for a service to be susceptible to fraud reflected within Internal Audit's risk assessment model that underpins the annual audit planning process. Internal Audit review of Housing Benefits conducted on an annual basis.	Fraud related Policies and Strategies approved by the Audit Committee/Council Confidential Reporting Policy approved by Council. Annual Reports to the Audit Committee on the outcomes from the Council's anti-fraud and corruption arrangements.

		Internal Audit/Benefits Enquiry Unit case files.		
Information governance arrangements inadequate/ineffective.	Information Security Section within Xentrall, Complaints and Information Governance Team and External Audit.	Corporate Policy Statement on Information Governance. Employees/Members Guide to Information Security. Information Risk Management process that informs the information governance work programme. COB Agendas/Minutes. Officer/Member Training. Data Quality reflected upon by External Audit in their VFM assessment.	Information Governance/Sensitivity of data is reflected within Internal Audit's risk assessment that underpins the annual audit planning process. Information Governance subject to periodic Internal Audit review as part of the cyclical audit process.	Corporate Policy Statement on Information Governance approved by Cabinet. Six-monthly reports to the Audit Committee on progress with implementation of the information governance work programme. External Audit VFM assessment considered by the Audit Committee and Cabinet.
Internal control environment of relevant areas of Xentrall inadequate/ineffective.	Stockton BC Internal Audit	Risk based Annual Internal Audit Plan. Internal Audit reports/opinions and outcomes from consultancy work undertaken.	Joint working protocol agreed between the Internal Audit Services of Stockton and Darlington to cover Xentrall audits. Copies of all relevant Stockton BC Internal Audit Reports on Xentrall forwarded to Darlington Internal Audit for information.	Stockton BC's Annual Audit Plan related to Xentrall considered by the Audit Committee. Quarterly Reports to the Audit Committee on progress/outcomes against the Annual Audit Plan.
Local Code of Corporate Governance not implemented.	Corporate Group responsible for drafting the Annual Governance Statement.	Local Code of Corporate Governance Local Code individual key documents/functions matrices, completed by relevant Lead Officers, posted on the intranet covering awareness, monitoring and review.	Internal Audit direct effort annually to validate evidence quoted in the individual key documents/functions matrices posted on the intranet.	Local Code endorsed by the Audit Committee and approved by Council. Six-monthly reports to the Audit Committee on progress with implementation of the Code.

Grant processes inadequate.	External Audit	External Audit Report on audited Grant Claims and Returns.	Grant process arrangements subject to annual review by Internal audit.	External Audit Report on Grant Claims and Returns considered by the Audit Committee.
Health and Safety practices and processes inadequate/ineffective	Health and Safety Unit	Corporate Health and Safety Policy. Heads of Service Health and Safety Management self assessments and action plans. Risk Assessments Reportable Accident Statistics Outcomes from audits undertaken by the Health and Safety Unit. Officer/Member Training.	Health and Safety function subject to periodic Internal Audit review as part of the cyclical audit process.	Corporate Health and Safety Policy approved by Cabinet. Council's performance on health and safety reported annually to the Audit Committee.
Property management arrangements inadequate	Corporate Landlord Function	Corporate Premises Database System and supporting documentation.	Corporate Landlord Function subject to periodic Internal audit review as part of the cyclical audit process.	Property management arrangements included in Council Risk Registers and, as such, included within member reporting arrangements for business risk processes.
Management control in respect of operational aspects of the business inadequate.	Chief Officers Board	Annual signed Assurance Statements from Assistant Directors.	Arrangements administered and outputs scrutinised by Internal Audit.	Annual report to the Audit Committee on the outcomes from the Assurance Statement process.
Capital Project management	Asset Management and Capital	Asset Management and Capital Programme Review Board	Project Office function subject to periodic Internal Audit	Project Position Statement reported regularly to

arrangements inadequate/ineffective.	Programme Review Board	Agendas/Minutes and supporting documentation.	review as part of the cyclical audit process.	Cabinet.
Partnership governance arrangements inadequate.	Partnership Lead Officers	Annual Partnership Toolkit Questionnaires completed by relevant Council Partnership Lead Officers and supporting documentation.	Partnership Governance Arrangements subject to periodic Internal Audit review as part of the cyclical audit process.	Partnership Toolkit approved by Cabinet. Annual report to the Audit Committee on the operations of significant partnerships.
Treasury management arrangements inadequate.	Financial Services	Treasury Management Policy Statement, Strategy, Prudential Indicators and Procedures.	Treasury Management function subject to periodic Internal Audit review as part of the cyclical audit process.	Treasury Management Policy Statement, Strategy and Prudential Indicators considered by the Audit Committee and approved by Council. Treasury Management Procedures approved by the Audit Committee. Regular/Annual Reports to the Audit Committee and Cabinet on the performance of the Treasury Management function.
Financial management arrangements inadequate/ineffective.	Financial Services	Medium Term Financial Plan. Corporate Budget Setting/Monitoring processes and supporting documentation. Officer/Member Training.	Financial management arrangements subject to periodic Internal Audit review as part of the cyclical audit process.	Medium Term Financial Plan approved by Council. Quarterly Reports to Cabinet on Financial Performance.
Financial management arrangements in local authority maintained	School Governing Bodies	Schools annual self assessment returns against the Schools Financial Value Standard (SFVS).	Financial arrangements in schools subject to periodic Internal Audit review as part of the cyclic audit process.	School balances reported to Cabinet quarterly.

schools inadequate/ineffective.				
Ineffective management of the change agenda.	Chief Officers Executive	Chief Officer Executive Agendas/Minutes and supporting documentation.	Internal Audit support/contribute to delivery of the Change Programme as relevant.	Quarterly reports to Cabinet and Scrutiny as part of the Performance Management Framework.
Ineffective challenge to the procurement process.	Procurement Board	Procurement Board Agendas/Minutes and supporting documentation.	Procurement process subject to periodic Internal Audit review as part of the cyclical audit process.	Annual Procurement Plan approved by Cabinet.
Ethical health arrangements inadequate.	Legal Services	Member Code of Conduct. Officer Code of Conduct. Member/Officer Training.	Standards Committee reports reflected upon in the audit planning process.	Members and Officers Codes of Conduct endorsed by Standards Committee and approved by Council. Standards Committee receive reports on ethical indicators.
Lessons not learned from complaints received.	Complaints and Information Governance Team	Corporate, Adult Social Care, Children's Social Care, Housing and Public Health Complaints, Compliments and Comments Procedures. Complaints Records. Ombudsman complaints and outcomes.	Complaints and Ombudsman reports reflected upon in the audit planning process.	Complaints Procedures approved by Cabinet. Annual report to Cabinet on complaints received and the resultant organisational learning. Regular reports to Cabinet on Ombudsman complaints and outcomes.
Inadequate arrangements for the delivery of the Public Health function and responsibilities.	Director of Public Health	Public Health Work Plan. Health and Wellbeing Strategy. Director of Public Health's Annual Report.	Public Health function subject to periodic Internal Audit review as part of the cyclical audit process.	Regular reports to Health and Wellbeing Board and Health and Partnerships Scrutiny Committee.
Ineffective system of	Senior Group of	Annual Review of the system of	Internal Audit direct effort	Annual Review of the

internal audit	Officers	internal audit and supporting documentation conducted in accordance with the Accounts and Audit Regulations.	annually to support the review process.	system of internal audit considered by the Audit Committee.
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