

**Report for: GOVERNANCE, AUDIT,  
RISK MANAGEMENT  
and STANDARDS  
COMMITTEE**

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<b>Date of Meeting:</b>	30 <sup>th</sup> November 2021
<b>Subject:</b>	Annual Governance Statement 2020/21
<b>Responsible Officer:</b>	Dawn Calvert, Director of Finance & Assurance
<b>Exempt:</b>	No
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1 – Opinion Types/Limitations Appendix 2 – Annual Governance Statement 2020/21

## **Section 1 – Summary and Recommendations**

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This report sets out the Head of Internal Audit's Final Audit Opinion 2020/21 and the Annual Governance Statement (AGS) 2020/21.

### **Recommendations:**

The GARMS Committee is requested to:

- Note the Head of Internal Audit's Final Audit Opinion 2020/21
- Review the Annual Governance Statement 2020/21 in line with the Committee's terms of reference, to consider whether the AGS properly reflects the risk environment and supporting assurances and legal and financial advice, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control; suggest any appropriate changes and recommend it for approval by the Leader and Chief Executive.

## **Section 2 – Report**

### **Head of Internal Audit's Opinion 2020/21**

- 2.1 The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control (i.e. the organisation's system of internal control). This is achieved through a risk-based plan of work, agreed with management (Corporate Strategic Board) and approved by the Governance, Audit, Risk Management & Standards Committee (Harrow Council's Audit Committee), designed to provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.
- 2.2 A draft opinion was reported to the GARMS Committee as part of the 2020/21 Internal Audit Year-end Report in July 2021. At that time work on the Council's core financial systems and the annual review of governance was incomplete.
- 2.3 The opinion is based on:
  - All audits undertaken as part of the 2020/21 Internal Audit Plan (except Core Financial Systems audits);
  - Audits of Core Financial Systems undertaken in Q1/Q2 of 2021/22 (part of the 2021/22 plan);
  - Recommendations made accepted/not accepted by management;
  - Recommendations implemented by management at follow-up;

- Re-assessed assurance ratings at follow-up in respect of audits from previous periods.
  - The annual review of governance process.
- 2.4 The final Head of Internal Audit's Opinion 2020/21 is: **Good with some significant improvements required in a few areas:** The outputs from the programme of work completed by Internal Audit, based on the agreed risk-based Internal Audit Plan, demonstrate that the Council's framework of governance, risk management and control is generally good with 98% of reports issued being amber, amber/green or green assurance. One red assurance report has been issued identifying significant weakness and/or non-compliance in the framework which could potentially put the achievement of objectives in this area at risk and one significant governance gap has been identified as part of the annual review of governance process. The direction of assurance travel over the past three years is positive with fewer red and red/amber assurance reports issued each year. Improvements have been recommended in areas where weaknesses were identified of which 98% have been agreed by management.
- 2.5 The key factors that contributed to the draft opinion are summarised as follows:
- 98% of assurance reviews undertaken during 2020/21 were given an amber, an amber/green or a green assurance (2% higher than 2019/20);
  - 100% of overall recommendations made during 2020/21 were agreed by management for implementation (2% higher than 2019/20);
  - 87% of recommendations were implemented/substantially implemented (19% higher than 2019/20), 8% were in progress (13% lower than 2019) and 5% (6% lower than 2019/20) were planned at time of follow-up thus it is expected that in due course 100% will be implemented (the same as 2019/20);
  - 100% of follow-up reviews attained an amber, amber/green or green assurance rating (the same as 2018/19), all, bar one resulted in an improved assurance rating with;
  - The annual review of governance has identified one significant governance gap;
  - 83% of core financial system controls self-assessed by management were operating, and 17% were partially operating.

## **Annual Governance Statement**

### **Background**

- 2.6 Harrow 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 section 3 of 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.

- 2.7 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, which includes arrangements for the management of risk.
- 2.8 Regulation 6(1)(a) of the Accounts and Audit Regulations 2015 requires *'an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts (England)'*.
- 2.9 Regulation 6(1)(b) of the Accounts and Audit Regulations 2015, requires that *"for a local authority in England, the statement is an Annual Governance Statement"*.
- 2.10 The CIPFA/SOLACE Framework *Delivering Good Governance in Local Government* was updated in 2016 and this Framework applies to annual governance statements prepared for the financial year 2016/17 onwards. The overall aim of the Framework *'is to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities'*.
- 2.11 In England the Accounts and Audit Regulations 2015 stipulate that the Annual Governance Statement must be *"prepared in accordance with proper practices in relation to accounts"* and must be *"approved in advance of the relevant authority approving the statement of accounts. Therefore a local authority in England shall provide this statement in accordance with Delivering Good Governance in Local Government: Framework (2016) and this section of the Code"*.
- 2.12 The preparation and publication of an Annual Governance Statement in accordance with *Delivering Good Governance in Local Government: Framework (2016)* would fulfil the statutory requirements across the United Kingdom for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control and to include a statement reporting on the review with its Statement of Accounts.
- 2.13 The Annual Governance Statement explains how the Council has complied with the framework and meets the requirements of regulation 6 of the Accounts and Audit Regulations 2015 in relation to the publication of a statement of internal control (Annual Governance Statement).

### **Annual Governance Review**

- 2.14 Since 2005/06 the Council has undertaken a detailed annual review of its governance arrangements to meet the requirements of the framework. A lighter touch/higher level approach has been taken to

the 2020/21 review as detailed in the report to the GARMS Committee in July 2021.

### **Annual Governance Statement 2020/21**

- 2.15 The Annual Governance Statement (Appendix 1) is prepared on behalf of the Leader of the Council and the Chief Executive, a draft of which was included in the 2020/21 draft accounts and presented to this committee in July 2021.
- 2.16 A number of changes and updates have been made to the AGS since the initial draft was presented to the committee in July 2021 and these are shown in red.

### **Legal Implications**

- 2.17 As covered in the main body of the report.

### **Financial Implications**

- 2.18 There are no financial implications to this report.

### **Risk Management Implications**

- 2.19 Risks included on corporate or directorate risk register? **No**
- 2.20 Separate risk register in place? **No**
- 2.21 The relevant risks contained in the register are attached/summarised below. **n/a**
- 2.22 The following key risks should be taken into account when agreeing the recommendations in this report:

<b>Risk Description</b>	<b>Mitigations</b>	<b>RAG Status</b>
Non-compliance with the Public Sector Internal Audit Standards	<ul style="list-style-type: none"><li>▪ Production of the Head of Internal Audit's Opinion</li></ul>	Green
The Council does not comply with Regulation 6 of the Accounts and Audit Regulations 2015	<ul style="list-style-type: none"><li>▪ Annual review of governance</li><li>▪ Publication of the Annual Governance Statement</li></ul>	Green

## **Equalities implications / Public Sector Equality Duty**

2.23 Was an Equality Impact Assessment carried out? No as not relevant to this report.

### **Council Priorities**

2.24 The annual review of governance reviews arrangements in place to ensure that the intended positive outcomes for residents as outlined by the Council's priorities are achieved.

- 1. Improving the environment and addressing climate change**
- 2. Tackling poverty and inequality**
- 3. Building homes and infrastructure**
- 4. Addressing health and social care inequality**
- 5. Thriving economy**

## **Section 3 - Statutory Officer Clearance**

### **Statutory Officer:**

Signed on by the Chief Financial Officer

Dawn Calvert, Director of Finance & Assurance

**Date:** 18/11/21

### **Statutory Officer:**

Signed on by the Monitoring Officer

Hugh Peart, Director of Legal & Governance

**Date:** 19/11/21

### **Chief Officer:**

Signed by the Corporate Director

Charlie Stewart, Corporate Director Resources

**Date:** 17/11/21

## **Mandatory Checks**

**Ward Councillors notified: NO, as it impacts on all Wards**

## **Section 4 - Contact Details and Background Papers**

**Contact:** Susan Dixon, Head of Internal Audit & Corporate Anti-Fraud, 02084241420

**Background Papers:** None

If appropriate, does the report include the following considerations?

- |                 |     |
|-----------------|-----|
| 1. Consultation | NO  |
| 2. Priorities   | YES |

**These may be varied slightly to reflect circumstances in particular years.**

**Excellent:** The outputs from the programme of work completed by Internal Audit, based on the agreed risk-based Internal Audit Plan, demonstrate that the Council's framework of governance, risk management and control is good and that there are adequate and effective governance, risk management and control processes to enable the related risks to be managed and objectives to be met. No areas of significant weakness (red or red/amber assurance reports) were identified. See Summary of Findings in section.

**Good with improvements required in a few areas:** The outputs from the programme of work completed by Internal Audit, based on the agreed risk-based Internal Audit Plan, demonstrate that the Council's framework of governance, risk management and control is generally good. Some red and red /amber assurance reports have been issued identifying significant weakness and/or non-compliance in the framework which could potentially put the achievement of objectives in these areas at risk. Improvements have been recommended in these areas of which over 95% have been agreed by management. See Summary of Findings in section.

**Major improvement required:** The outputs from the programme of work completed by Internal Audit, based on the agreed risk-based Internal Audit Plan, demonstrate that the Council's framework of governance, risk management and control require major improvement. A large number of red and red/amber assurance reports have been issued identifying significant and endemic weaknesses and/or non-compliance in the framework of governance, risk management and control which put the achievement of organisational objectives at risk. Improvements have been recommended in these areas of which less than 95% have been agreed by management. See Summary of Findings in section.

**Unsatisfactory:** The outputs from the programme of work completed by Internal Audit, based on the agreed risk-based Internal Audit Plan, demonstrate that the Council's framework of governance, risk management and control is unsatisfactory. The majority of assurance reports issued are red or red/amber identifying significant weaknesses and/or non-compliance in the framework of governance, risk management and control indicating the achievement of corporate objectives is unlikely and control is poor [and/or] there is significant non-compliance with controls. Because of this, systems have failed or there is a real and substantial risk that systems will fail and management's objectives will not be achieved. Immediate action is required to improve the adequacy [and/or] effectiveness of governance, risk management and control. See Summary of Findings in section.

## Limitations and Responsibilities

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and

detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibility for the design and operation of these systems.

The Head of Internal Audit's opinion is based solely on the work undertaken as part of the agreed internal audit plan. There may be weaknesses in systems of internal control that did not form part of agreed programme of work, in elements of systems that were not included in the scope of individual internal audit assignments or that were not brought to internal audit's attention. The risk of this is mitigated by implementing a risk-based approach to the development of the internal audit plan and to individual audit assignments.