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## The Annual Governance Statement

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### **SCOPE OF RESPONSIBILITY**

Hinckley and Bosworth Borough Council (the 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 and to ensure economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of corporate governance which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

Hinckley and Bosworth Borough Council has approved and adopted a code of corporate governance (The Constitution) which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the Constitution can be found on the Council's website at *Services>Council & Democracy>Councillors, democracy and elections*. This statement explains how the Council has complied with the Constitution and also meets the requirements of regulation 4 (2) of the Accounts and Audit Regulations 2011.

In overall terms this is a positive statement for the financial year 2012/13. This document relies on several assurance mechanisms including internal audit, the work of Council committees, risk and performance management processes and external audit.

### **THE PURPOSE OF THE SYSTEM OF CORPORATE GOVERNANCE**

The system of corporate governance is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of corporate governance is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's objectives, to evaluate the likelihood and impact of these risks, and to manage them efficiently, effectively and economically.

The governance framework comprises the systems 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 achievements of its strategic objectives whether those objectives have led to the delivery of appropriate, cost-effective services

The governance framework has been in place at the Council for the year ended 31 March 2013 and up to the date of the approval of the Statement of Accounts

### **THE INTERNAL CONTROL ENVIRONMENT**

CIPFA's "*Delivering Good Governance in Local Government: Guidance Note for English Authorities*" outlines the principles of good governance. The addendum to

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this paper published in December 2012 (Delivering Good Governance in Local Government: Framework – Addendum) outlines these principles as:

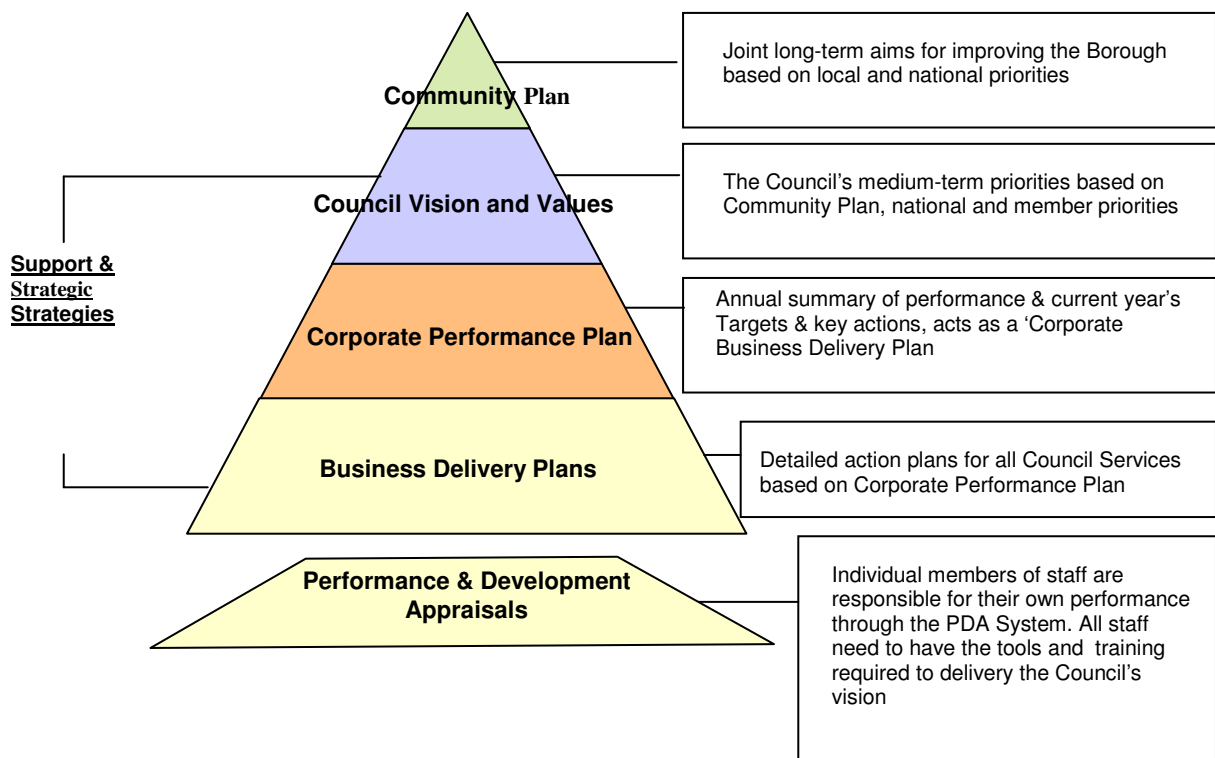
- Identifying and communicating the authority's vision of its purpose and intended outcomes for citizens and service users
- Reviewing the authority's vision and its implications for the authority's governance arrangements
- Translating the vision into objectives for the authority and its partnerships
- Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources and value for money
- 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 in respect of the authority and partnership arrangements
- Developing, communicating and embedding codes of conduct, defining the standards of behaviours for members and staff
- Reviewing the effectiveness of the authority's decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality
- Reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability
- Ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained
- Ensuring effective management of change and transformation
- Ensuring the authority's financial management arrangements confirm with the governance requirements of the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)* and, where they do not, explain why and how they deliver the same impact
- Ensuring the authority's assurance arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit (2010)* and, where they do not, explain why and how they deliver the same impact
- Ensuring effective arrangements are in place for the discharge of the monitoring officer function
- Ensuring effective arrangements are in place for the discharge of the head of paid service function
- Undertaking the core functions of an audit committee as identified in CIPFA's *Audit Committees: Practical Guidance for Local Authorities*
- *Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful*
- *Whistleblowing and for receiving and investigating complaints from the public*
- *Identifying the development needs of members and senior officer in relation to their strategic roles, supported by appropriate training*
- *Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation*
- *Enhancing the accountability for service delivery and effectiveness of other public service providers*
- *Incorporating good governance arrangements in respect of partnerships and other joint working as identified by the Audit Commission's report on the governance of partnerships, and reflecting these in the authority's overall governance arrangements*

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The key elements of the Council's internal control environment and governance framework are outlined below.

- The Council's Corporate Plan developed for the period 2010-2015 sets out the long-term aims of the Borough and drives the Corporate Performance Plan and Medium Term Financial Strategy. The Corporate Plan provides residents, councilors and staff with a clear idea of Council's long-term vision to improve the quality of life for residents and make Hinckley and Bosworth a 'Borough to be Proud Of'. The plan outlines five corporate aims which guide all decisions made by the Council. The Council is currently developing a revised Corporate Plan for the period 2013-2016 which will refresh the corporate priorities. This will be finalised in 2013/2014.
- The Council uses plans and strategies at all levels of the organisation to plan and monitor the achievement of its aims and objective. At a corporate level the system is governed by the Corporate Planning Framework which is represented by the diagram below. The Council's objectives are reflected in Service Improvement Plans which outline how each department will achieve the corporate aims within a three year period. Plans are refreshed on an annual basis and progress against targets are managed through the TEN performance management system on a monthly basis. Performance Reports are produced as part of service managers' team briefings and the Council's joint Management Boards on a quarterly basis. Performance reports are produced for the Finance Audit and Performance Committee on a quarterly basis, and annually in the Corporate Performance Plan.

### **Hinckley & Bosworth Borough Council – Corporate Planning Framework**



- The Council's financial strategy is outlined in the Medium Term Financial Strategy 2012/13-2015/16 which was approved by the Scrutiny Commission in June 2013 and by full Council on 16<sup>th</sup> July 2013. The document outlines ten financial

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objectives which the Council looks to achieve in order to resolve the continuing pressure of service requirements in the context of available resources. Alongside this, the Council has put in place a Housing Revenue Account (HRA) Business Plan which sets out how the Council will respond and operate under the new scheme of self financing.

- The system of internal financial control is based on a budgetary control framework which is based on the following principals:
  - Preparation of comprehensive annual budgets, reserves review and a Medium Term Financial Strategy to examine the financial health of the Council. In 2012/2013 the Council requested that benchmarking was carried out on this information by both internal and external audit to ensure robustness of the assumptions used and outputs generated
  - Robust financial regulations and authorisation limits to ensure accountable financial decisions
  - Monthly reporting packs which are discussed by Strategic Leadership Boards and the Corporate Operations Board
  - Preparation of regular financial reports for member committees which indicate actual expenditure against forecasts
  - Disaggregated reporting at both a fund and cost centre level to ensure that stakeholders receive information to inform decisions
  - Inclusion of financial implications in all committee reports.

The Council's budgetary control system is reviewed each year by internal audit and in 2012/13 received a "full assurance" rating both overall and for each individual control objective.

- As a key element of internal control, the internal audit function operates a risk-based approach to its work and carries out its duties in accordance with the *CIPFA Code of Practice and Statement on the Role of the of Head of Internal Audit*. Internal audit reports are performed in accordance with the approved Plan. Internal audit review each scoped area against a set of system controls agreed with management at the start of the visit and within the overall framework of system control objectives. The findings of internal audit, and updates on recommendation implementation are reported to, and scrutinised by, the Finance, Audit and Performance Committee at each meeting. This Committee undertakes the core functions of an Audit Committee as set out in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*. Dedicated training was provided to this Committee on 10<sup>th</sup> December 2012 by Internal Audit to outline the content of this guidance and to review the effectiveness of the committee as those charged with governance.
- The Corporate Planning Framework is underpinned by a number of strategies which identify how the support services of the Council will reinforce and sustain the front line services that the Council provides. These include the:
  - Asset Management Strategy (including the acquisition and disposals strategies)
  - Budget Strategy
  - People Strategy
  - ICT Strategy and Web Strategy
  - Medium Term Financial Strategy
  - Health and Safety Policy
  - Risk Management Strategy
  - Procurement Strategy

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- The Council's strategic documents outline how specific services will be provided to the Borough in the medium to long term. These strategies include the Environmental Management Strategy, Anti Poverty Strategy, Cultural Strategy, Green Space Strategy, Hinckley Town Centre Master Plan, Local Development Framework, Children and Vulnerable Adults Safeguarding Policy and Strategy for Children and Young People.
- Council policies are produced in accordance with the Constitution and are recommended for approval following review by senior management. Decision-making that falls within the policy and budgetary framework rests with the Council's Executive, whilst those falling outside the framework are referred to full Council. The call-in procedure enables the Scrutiny Commission to review decisions made by Executive (although the major focus of the overview and scrutiny function involvement is through policy development rather than policy review). Day to day decision-making is carried out by appropriate officers in accordance with the Scheme of Delegated Powers and the Financial Procedure Rules. These arrangements all contribute to the economic, efficient and effective operation of the Council.
- The standards of behaviour expected from members and officers are set out in member/officer codes of conduct. A register of members' interests is maintained. All members are required to complete 'related party' declarations at the end of the financial year in support of the statutory financial statements. Members' allowances are published and a members' allowance scheme is included in the Constitution.
- The Constitution, Financial Procedure Rules, Whistleblowing Policy and Corporate Anti-Fraud Policy set the rules and standards within which Council business is conducted and provide the mechanisms for dealing with any failures in these procedures. All key policies are reviewed on an annual basis. A full review of the Constitution (10<sup>th</sup> edition) took place in September 2012. The Ethical Governance and Personnel Committee monitors the performance of members, senior officers and the Council's committees. The Council's decision making practices are guided by the values as set out in the Corporate Plan.
- The Constitution (Article 10) also includes provisions for the governance of partnerships the Council is part of. A separate constitution or terms of reference is in place for all partnerships which outlines their respective roles and responsibilities. Quarterly dashboards are produced to plot how partnerships are helping the Council achieve its strategic objectives. Significant partnerships that the Council is involved with include Leicestershire Together, West Leicestershire and North Warwickshire Cross Border Delivery Partnership, Leicester and Leicestershire Economic Partnership. Going forward, the Council will also participate in partnerships through "City Deal" arrangements.
- The Council ensures compliance with established policies, procedures, laws and regulations through various channels. Two statutory officers (Section 151 Officer and the Monitoring Officer) and the Head of Paid Services have responsibility for ensuring that the Council does not act in an ultra vires manner. Management are supported by the internal audit function, which facilitates the management and mitigation of risk and provides assurance on matters of internal control. The Human Resources function, through the use of workforce development reviews assess and provide a means of improving competencies to ensure that officers are equipped to discharge their duties in accordance with the requirements of the Council. All officers are required to complete annual appraisals and a process of 360 degree feedback has been introduced in year to widen the feedback process.

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The Council's financial management arrangements conform with the governance arrangements of the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government (2010)*.

- The Communication and Engagement Strategy and Statement of Community Involvement outlines how the Council will engage with local people and stakeholders through means such as the Tenant Advisory Panel, public meetings and the citizen's panel. A number of public consultations have taken place in year on pertinent issues including housing allocations, community safety priorities and Council Tax reform. The Council communicates to residents through Borough Bulletin which is circulated to all residents each quarter. Regular staff communication is ensured through Chief Executives' briefing notes and regular briefings held by the Strategic Leadership Board.
- The Council's dedication to quality of service is embedded through relevant strategies and also in the Council's Customer Service Charter. The Council collates customer satisfaction results for face to face, telephone and website interaction. Targets were exceeded in 2012/2013.
- The Council regularly measures performance through a suite of performance indicators managed on the TEN Performance Management system. All indicators are mapped to corporate priorities and are embedded within individual Service Improvement Plans. Each month figures are entered by managers before the database is locked to maintain accuracy in reporting. These reports show all performance indicators in and are allocated to individual Executive Member leads. The reports are presented to Strategic Leadership Board, Scrutiny Commission, Finance Audit and Performance Committee and the Executive. The reports provide the following information for each of these indicators:
  - Performance for current year
  - The target set for current year
  - Performance in the previous year
  - Targets for the next three years
  - An explanation of performance and the targets set
  - Data Quality Checks
- All information produced by the Council is subject to Data Quality Procedures. The Council's Data Quality Policy outlines how standards of data quality are maintained by the Council and respective responsibilities. Through implementation of this Policy, the Council is compliant with all relevant legislation including the Data Protection Act and Freedom of Information.
- The Council is committed to continuous improvement. This was proved by the fact that in 2008/09 the Council sought a CPA re-assessment and was re-categorised as an "excellent" Authority. This was a recognition of all the work that had been undertaken since 2004 to implement and embed the improvement actions identified in the 2004 inspection. The Council continues to win awards which evidence high performance. In 2012/2013 these included:
  - Green Flag Award for Green Spaces;
  - Council of the Year for Customer Satisfaction – GovMetric; and
  - 4\* Website rating from SOCITM;
- The Council's performance management regime is supported by risk management processes. The Risk Management Strategy outlines how best practice risk management processes are embedded into the Council's operations. Operational risk registers are maintained on the TEN system and all managers are required to assess the impact and likelihood of risks as well as mitigating

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controls and action plans to reduce their severity. Quarterly reports on the risk position are taken to Finance, Audit and Performance Committee and Executive.

### **REVIEW OF EFFECTIVENESS**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is reported by internal audit in their Annual Report, Chief Officers through their service assurance returns and also by comments made by the external auditors and other review agencies and inspectorates.

#### Internal Audit

Internal audit is provided in accordance with the statutory responsibility under S151 of the Local Government Act 1972, the *Accounts and Audit Regulations 2011* and to the professional standards of the *CIPFA Code of Practice for Internal Audit in Local Government*.

The Council's internal audit service has been outsourced to Coventry and Warwickshire Audit Services (CW Audit) for 2012/13. Internal audit delivers its work in accordance with best practice and complies with the requirements of the Government Internal Audit Standard, CIPFA Code and other relevant CCAB standards. CW Audit report through the Section 151 Officer who is the responsible financial officer for the Council. The Section 151 Officer then submits reports to the Finance, Audit and Performance Committee, which in turn derives its terms of reference from the Scrutiny Commission. Audit recommendations are followed up in a timely manner based upon the priority of the recommendation through the use of the "TeamCentral" recommendation tracking software.

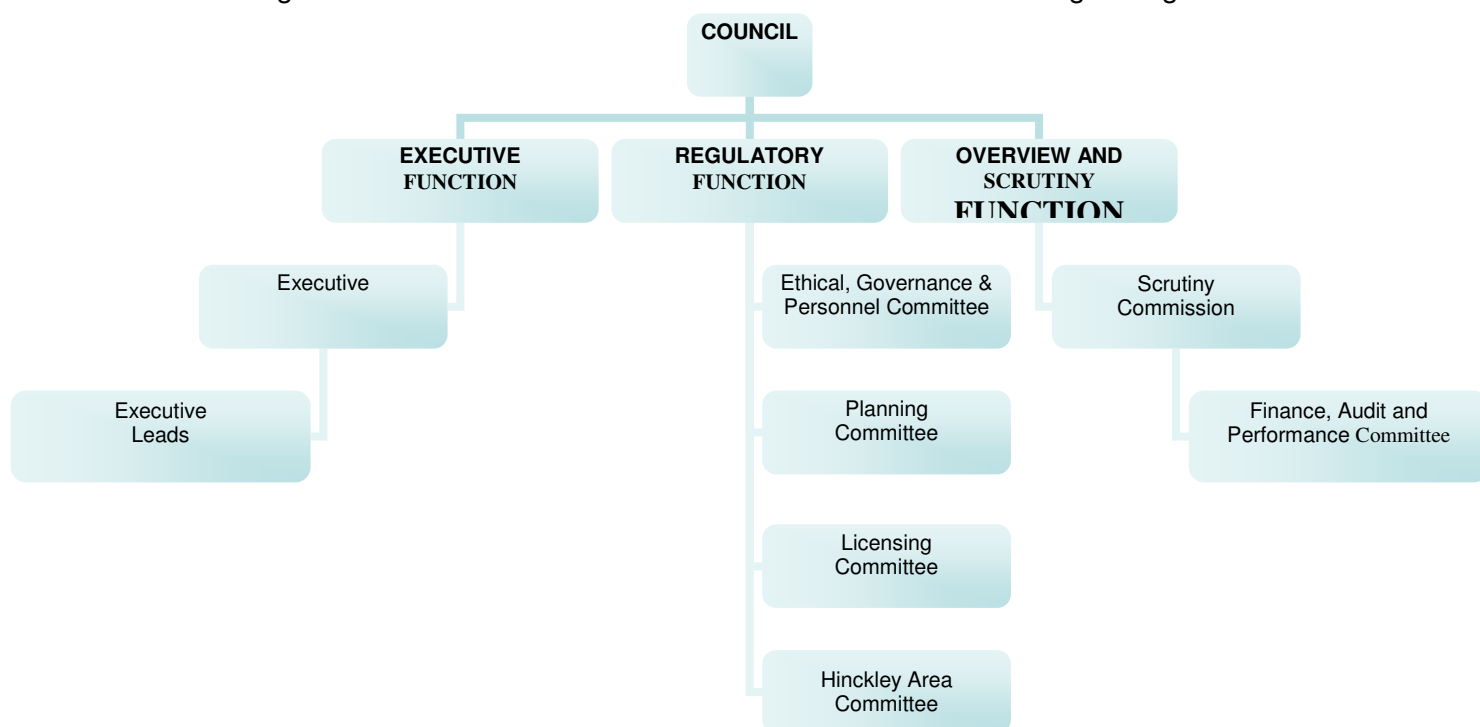
CW Audit acting as Chief Internal Auditor and in accordance with the *CIPFA Statement on the Role of the Head of Internal Audit (2010)* provide an annual assurance opinion which comments on the adequacy and effectiveness of the system of internal control. In their 2012/13 Annual Audit Report presented to Finance Audit and Performance Committee on 3<sup>rd</sup> June 2013, CW Audit issued a "significant assurance" rating for the Council's internal control. One significant control issue was noted in this opinion which is detailed in the relevant section in this document.

The effectiveness of the internal financial controls are also reviewed annually by the external auditor whose Annual Audit Letter is considered formally by the Finance, Audit and Performance Committee.

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## Council Structure

The diagram below sets out the Council's democratic decision making arrangements



The Constitution sets out the essential elements of the scrutiny processes that are administered by the Scrutiny Commission and the Finance, Audit and Performance Committee. It describes the functions and membership of the Commission and Committee and Scrutiny Procedure Rules. Decisions of the Executive are subject to scrutiny by the Scrutiny Commission and the Finance, Audit and Performance Committee. The Scrutiny arm also has a role in policy development. In addition, task groups are established to oversee ad-hoc projects. Examples of areas reviewed by the Scrutiny Commission in year include:

- Welfare Reform and the impact on residents
- Disabled Facilities Grants
- Climate change
- Cultural and Sport Strategy
- Care for people with Dementia

The Scrutiny Commission publishes an Annual Report and a work programme that available on the internet and from the Council on request. In addition, the Council publishes a rolling Forward Plan/list of key decisions. This plan provides details of the key decisions that are planned to be taken over the following four month period, a minimum notice period of 28 days is given for key decisions.

Chapter 7 of the Localism Act 2011 outlined that there is no longer a statutory requirement to have a Standards Committee, however each Council will need to put in place arrangements dealing with complaints and standards issues. The Council adopted an individual own Code of Conduct in 2012/13 and formed an Ethical Governance and Personnel Committee which merged the remits of the previous Standards & Personnel Committees and covers conduct and complaints. The Council has in year appointed various 'Independent Persons' in partnership with other



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Authorities to deal with complaints where appropriate. Discussions are ongoing regarding a county-wide code of conduct to ensure consistency of processes.

### Officers

Each year all services are required to conduct a self-assessment of the adequacy of controls in place to manage principal business risks. This statement evaluates the effectiveness of procedures, systems and controls, highlights areas for improvement and actions intended to address these. Action plans are incorporated in the service planning process.

### **SIGNIFICANT INTERNAL CONTROL ISSUES**

The review of effectiveness has been considered in order to identify any significant control weaknesses that should be addressed by the Council.

#### **Significant Control Weaknesses**

In producing the Annual Governance Statement, one significant control weakness has been noted for 2012/2013. Details of this and actions taken to address the issue are detailed below, along with an update of the issue raised in the previous years statement:

##### 2012/2013 Significant Control Weaknesses

During 2012/13, it was noted by the finance team that the budgets for both programmed and responsive repairs were considerably under-spent. Following preliminary investigation, it was established that the main reason for this under-spend was due to a backlog of "work in progress" held within Orchard (housing repairs system). This related to jobs that are in the various stages of completion but were yet to be closed off for payment on Civica (financial management system). To understand the reasons for the backlog, Internal Audit were asked to complete a specific review based on sample testing of the backlog, plus a sample of paid contractor invoices. A number of control weaknesses were identified through this work which have been raised in Internal Audit's Annual Audit Report for 2012/2013. The impact of the backlog has meant that a large costs relating to previous years work have been transferred in 2013/2014, creating a gross overspend on housing repairs (capital) of £290,102.

In response to this issue, a dedicated internal review of housing repairs controls and processes was conducted, lead by the Chief Officer for Finance, ICT, Asset Management, Audit and Procurement. A comprehensive action plan was developed which outlines improvements that will be made to both operational and financial processes. In addition, a neighbouring Authority was commissioned to complete a high level peer assessment of the service to inform the action plan. Regular reports have been provided to the Finance, Audit and Performance Committee to provide assurance that actions have been put in place in line with timescales set. As at 31<sup>st</sup> March 2013, the back log of work had been transferred in full into the Civica system and will be accounted for within the 2012/2013 Statement of Accounts.

##### 2011/12 Significant Control Weaknesses

The Council's External Auditors (PricewaterhouseCoopers LLP) qualified the Council's Housing Revenue Account Base Data Subsidy Return for 2010/11 due to

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issues with the accuracy of stock information included in the return. The data recorded on the Council's Orchard system could not be verified to supporting documentation and as such, the auditors were unable to provide assurance on its accuracy. This qualification was reported to the DCLG.

In response to this issue, the Council set up a dedicated project team to organise the collation of stock data. A full verification process was commissioned in June 2012 to obtain updated data on all Council assets. The Council developed a methodology for the collection of the data and shared this with PricewaterhouseCoopers LLP so that they could gain sufficient assurance for their audit of the accounts. The results of this data were reported to the DCLG and included in the 2011/2012 Statement of Accounts. This issue has therefore been deemed to be resolved for the purpose of this Statement.

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Steve Atkinson MA(Oxon) MBA FioD FRSA  
Chief Executive

Date.....

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Stuart Bray  
Leader of the Council

Date .....