

Appendix 2 - 2021/22 Annual Governance Statement

How the Council Complies with the Requirements

The Accounts and Audit Regulations 2015 require smaller authorities to prepare an Annual Governance Statement each year.

The Annual Governance Statement is set out in Section 1 of the Annual Return and sets out eight statements or 'assertions'. These are summarised below:-

- 1. We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements.*
- 2. We maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption and reviewed its effectiveness.*
- 3. We have taken all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and proper practices that could have a significant financial effect on the ability of this authority to conduct its business or manage its finances.*
- 4. We provided proper opportunity during the year for the exercise of electors' rights in accordance with the requirements of the Accounts and Audit Regulations.*
- 5. We have carried out an assessment of the risks facing this authority and took appropriate steps to manage those risks, including the introduction of internal controls and/or external insurance cover where required.*
- 6. We have maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems.*
- 7. We took appropriate action on all matters raised in reports from internal and external audit.*
- 8. We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this authority and, where appropriate have included them in the accounting statements.*

In approving the Annual Governance Statement, the Council is required to provide an answer of 'yes' or 'no' to each of the above assertions.

The Council is expected to have relevant evidence in place to support each 'yes' answer and would need to provide an explanation to the external auditor if it is not able to provide a 'yes' answer, including details of how the Council will address any identified weaknesses in its governance arrangements.

The purpose of this document is therefore to set out how the Council has complied with the specific requirements behind each assertion, as set out in '*Governance and Accountability for Smaller Authorities in England – A Practitioners' Guide to Proper Practices to be applied in the preparation of statutory annual accounts and governance statements*'.

Assertion 1: Financial Management and Preparation of Accounting Statements

“We have put in place arrangements for effective financial management during the year, and for the preparation of the accounting statements”.

In order to warrant a positive response to this assertion, the following processes need to be in place and effective:

a) Budgeting and Financial Planning

The Council needs to prepare and approve a budget in a timely manner before setting a precept or rates and prior to the commencement of the financial year. It needs to monitor actual performance against its budget during the year, taking corrective action where necessary. A financial appraisal needs to be undertaken before the authority commences any significant project or enters into any long-term commitments.

How the Council Has Complied

The Council prepares a Revenue and Capital Budget in advance of each financial year. The budget is robustly set, making prudent but realistic estimates of income and expenditure, capital investment requirements and the reflecting the need to maintain prudent levels of balances and reserves. The budget setting process takes place between October and January each year and informs the setting of the Council Precept and Council Tax. The Council also updates its five-year Medium-Term Financial Plan in June each year and this is used to inform the budget setting process. Budgetary control takes place on a monthly basis, comparing actual spending and income against budget, with quarterly reports to Members highlighting any budget issues, forecasting expected outturn and recommending remedial action where required. All capital projects over the value of £5,000 are required to be reported to Committee and are subject to a financial appraisal before going ahead.

b) Accounting Records and Supporting Documents.

All authorities, other than parish meetings where there is no parish council, need to appoint an officer to be responsible for the financial administration of the authority in accordance with section 151 of the Local Government Act 1972. The authority needs to have satisfied itself that its Responsible Finance Officer (RFO) has determined a system of financial controls and discharged their duties under Regulation 4 of the Accounts and Audit Regulations 2015. The RFO needs to have put in place effective procedures to accurately and promptly record all financial transactions and maintain up to date accounting records throughout the year, together with all necessary supporting information. The accounting statements in Section 2 of the Annual Governance and Accountability Return need to agree to the underlying records.

How the Council Has Complied

The Finance Manager is identified as the Council’s Responsible Finance Officer in accordance with Section 151 of the Local Government Act 1972. The Council’s Financial Regulations require the Finance Manager to determine, on behalf of the Council, its accounting systems, system of internal control, financial records, accounting policies and financial procedures and ensure that these are appropriately documented and communicated to Members and Officers. The Council prepares accounting statements each year via the Annual Governance and Accountability Return and these are supported by comprehensive working papers, supporting records and reconciliations.

c) Bank Reconciliation

Statements reconciling each of the authority's bank accounts with its accounting records need to be prepared on a regular basis, including at the financial year end, and reviewed by members of the authority.

How the Council Has Complied

Officers undertake a monthly reconciliation of the Council's bank accounts to the accounting records held on its financial management system. This is regularly reviewed by the Internal Auditor. The monthly bank account reconciliation is reported to each meeting of the Council's Policy and Resources Committee. Members also receive accounts control sheets setting out all payments made by the Council, as well as quarterly budgetary control reports setting out actual spending and income against budget and details of financial performance.

d) Investments

Arrangements need to be in place to ensure that the authority's funds are managed properly and that any amounts surplus to requirements are invested appropriately, in accordance with an approved strategy which needs to have regard to MHCLG's statutory guidance on local government investments. If total investments are to exceed the threshold specified in MHCLG's statutory guidance at any time during a financial year, an authority needs to produce and approve an annual Investment Strategy in accordance with the MHCLG guidance.

How the Council Has Complied

The Council's Investment Strategy is referenced within the Financial Regulations and Treasury Management Code of Practice which set out the detailed framework and guidelines for the management of the Council's investments. The Treasury Management Code of Practice takes account of the MHCLG'S statutory guidance on local government investments. The Council currently only uses short term investments, via a business premium account with its bank and the Public Sector Deposit Fund.

e) Statement of Accounts

The authority needs to ensure that arrangements are in place to enable preparation of an accurate and timely statement of accounts in compliance with its statutory obligations and proper practices.

How the Council Has Complied

The Council employs a CIPFA qualified Finance Manager who is responsible for putting in place sound arrangements for ensuring that the Council's annual statement of accounts is accurately prepared on time and in accordance with statutory obligations and proper practices. The Council's accounting statements are set out in the Annual Governance and Accountability Return and are prepared in accordance with the 'Joint Panel on Accountability and Governance Practitioners' Guide,' which sets out the 'proper practices' to be applied in the preparation of statutory annual accounts and governance statements'. The accounting statements are approved and published before 30th June each year, in accordance with the statutory timetable set out in the Accounts and Audit Regulations 2015.

f) Reserves

The authority needs to have regard to the need to put in place a General Reserve Policy and have reviewed the level and purpose of all Earmarked Reserves.

How the Council Has Complied

The Council has in place a Reserves Policy which is documented within the Medium-Term Financial Plan and the level of balances and earmarked reserves is regularly reviewed, including at the time the annual budget is set, during the annual update of the Medium-Term Financial Plan, as part of the consideration of the quarterly budgetary control reports and at the time the year-end outturn figures are approved.

Assertion 2: Internal Control

“We maintained an adequate system of internal control, including measures designed to prevent and detect fraud and corruption, and reviewed its effectiveness”.

In order to warrant a positive response to this assertion, the following processes need to be in place and effective:

a) Standing Orders and Financial Regulations

The authority needs to have in place standing orders and financial regulations governing how it operates. Financial regulations need to incorporate provisions for securing competition and regulating the manner in which tenders are invited. These need to be regularly reviewed, fit for purpose, and adhered to.

How the Council Has Complied

The Council has in place comprehensive Financial Regulations and Standing Orders governing how it operates in accordance with the law and proper practices. These are supported by a large number of policies and procedures covering specific requirements. The Council’s Standing Orders for Contracts and Procurement specifically set out the rules for procuring goods, services and works including how the Council secures competition, invites tenders, and manages contracts.

b) Safe and Efficient Arrangements to Safeguard Public Money

Practical and resilient arrangements need to exist covering how the authority orders goods and services, incurs liabilities, manages debtors, makes payments and handles receipts. Authorities need to have in place safe and efficient arrangements to safeguard public money. Authorities need to review regularly the effectiveness of their arrangements to protect money. Every authority needs to arrange for the proper administration of its financial affairs and ensure that one of its officers (the RFO) has formal responsibility for those affairs. Authorities need to ensure controls over money are embedded in Standing Orders and Financial Regulations. Authorities need to approve the setting up of, and any changes to, accounts with banks or other financial institutions. If held, corporate credit card accounts need to have defined limits and be cleared monthly by direct debit from the main bank account. The authority needs to approve every bank mandate, the list of authorised signatures for each account, the limits of authority for each account signature and any amendments to mandates. Risk assessment and internal controls need to focus on the safety of the authority’s assets, particularly money. Those with direct responsibility for money need to undertake appropriate training from time to time.

How the Council Has Complied

The Council has appointed the Finance Manager as its RFO with responsibility for the proper administration of the Council's financial affairs. The Council has robust Financial Regulations in place, supported by various financial policies and procedures. These cover how the Council orders goods and services, incurs liabilities, manages debtors, makes payments and handles receipts, and ensures efficient arrangements for safeguarding public money. The Financial Regulations include a list of authorised officers and the responsibilities of those officers. A Risk Management Strategy is in place, risk assessments are carried out regularly, and a risk register is maintained and updated quarterly. Changes to bank mandates and bank accounts may only be approved by the Council. The Council holds one credit card and controls around its use are set out in the Financial Regulations. The Council has in place an effective system of internal control and employs an Internal Auditor to undertake audits of all services and systems and report on possible weaknesses in internal controls. The system of internal control is focussed on key risks such as cash and assets. Financial training is provided to all senior staff.

c) Employment

The remuneration payable to all employees needs to be approved in advance by the authority. In addition to having robust payroll arrangements which cover the accuracy and legitimacy of payments of salaries and wages, and associated liabilities, the authority needs to ensure that it has complied with its duties under employment legislation and has met its pension obligations.

How the Council Has Complied

The Council pays its staff in accordance with an approved establishment list and grading structure and in line with the terms and conditions as set out in the National Joint Council for Local Government Services 'Green Book', which sets out the national agreement on pay and conditions of service for local government staff. Comprehensive internal controls and checks are in place around the Council's payroll system with significant internal audit time spent checking the accuracy and legitimacy of payments of salaries and wages. The Council's management team are responsible for ensuring that the Council has complied with all of its duties under employment legislation and has met its pension obligations and are not aware of any instances of non-compliance. Comprehensive policies are in place around employment related issues. Support is received from Oculus HR in ensuring compliance with employment law.

d) VAT

The authority needs to have robust arrangements in place for handling its responsibilities with regard to VAT.

How the Council Has Complied

The Finance Manager is responsible for ensuring that the Council meets its statutory responsibilities in relation to VAT and putting in place robust arrangements for the processing of VAT and ensuring that the quarterly VAT claims are processed accurately and on time. All finance staff have had VAT training. The Council's VAT arrangements are also regularly reviewed by the Internal Auditor.

e) Fixed Assets and Equipment

The authority's assets need to be secured, properly maintained and efficiently managed. Appropriate procedures need to be followed for any asset disposal and for the use of any resulting capital receipt.

How the Council Has Complied

The Council has in place a ten-year Asset Management Plan which helps to ensure the strategic long-term management of the Council's land and buildings and other assets in order to optimise their utilisation in terms of service benefits and service return, and to identify long-term maintenance and capital investment requirements. The Finance Manager ensures that all of the Council's land, buildings, vehicles, machinery, play equipment, office equipment, street equipment and community assets are recorded on the Council's Asset Register and also prepares ten-year capital investment schedules highlighting when and how much capital investment may be required in relation to each asset over the longer term. This aids the preparation of the Council's Medium-Term Financial Plan. Relevant procedures are in place around the disposal of assets with all land sales and other land transactions such as leases needing to be reported to the Council and all capital investment transactions over the value of £5,000 also needing to be reported to the relevant Committee. Capital receipts are separately identified in a Capital Receipts Reserve and only used to fund capital expenditure.

f) Loans and Long-Term Liabilities

Authorities need to ensure that any loan or similar commitment is only entered into after the authority is satisfied that it can be afforded and that relevant approvals have been obtained. Proper arrangements need to be in place to ensure that funds are available to make repayments of capital and any associated interest and other liabilities.

How the Council Has Complied

The Council has in place a Treasury Management Code of Practice which includes the framework for the management of the Council's loans. The Treasury Management Code of Practice takes account of statutory guidance on local government loans and ensures that proper arrangements are in place to manage and budget for planned repayments of capital and interest in relation to any outstanding borrowing. The Council's Medium-Term Financial Plan includes a forecast of loan repayment costs and ensures that sufficient resources are in place to fund these, as well as identifying any future requirement to undertake additional borrowing. The Finance Manager undertakes regular reviews of the Council's outstanding loans with a view to identifying any opportunities for early repayment, where relevant.

g) Review of the Effectiveness of the System of Internal Control

Regulation 6 of the Accounts and Audit Regulations 2015 requires the authority to conduct, each financial year, a review of the effectiveness of the system of internal control. The review needs to inform the authority's preparation of its annual governance statement.

How the Council Has Complied

The Council undertakes an annual review of the effectiveness of the system of internal control and this is reported to the Council at the end of each financial year, usually in March. This review informs the preparation of the Council's Annual Governance Statement. The Council employs an Internal Auditor to undertake audit reviews of the internal controls in place in respect of all key services and systems and to report to the Council's Audit, Risk and GDPR Sub Committee on possible weaknesses or required improvements in the system of internal control. These internal audit reports inform the preparation of the annual review of the effectiveness of the system of internal control.

Assertion 3: Compliance with Laws, Regulations and Proper Practices

"We took all reasonable steps to assure ourselves that there are no matters of actual or potential non-compliance with laws, regulations and proper practices that could have a significant financial effect on the ability of this smaller authority to conduct its business or on its finances".

In order to warrant a positive response to this assertion, the following processes need to be in place and effective:

a) Acting Within its Powers

All authorities' actions are controlled by statute. Therefore, appropriate decision-making processes need to be in place to ensure that all activities undertaken fall within an authority's powers to act. In particular authorities need to have robust procedures in place to prevent any decisions or payments being made that are *ultra vires*, i.e. that the authority does not have the lawful power to make. The exercise of legal powers needs always to be carried out reasonably. For that reason, authorities making decisions need always to understand the power(s) they are exercising in the context of their decision making.

How the Council Has Complied

The corporate management team of the Council, comprising the Town Clerk, Corporate and Policy Officer and Finance Manager, are responsible for ensuring that all relevant laws and regulations have been complied with in the undertaking of all Council activity and decision making. All senior officers of the Council are fully trained in their relevant areas of expertise e.g. the Finance Manager is CIPFA qualified, the Town Clerk holds the Certificate in Local Council Administration, and is a member of the Society of Local Council Clerks. In addition, when specialist knowledge is required, for example, legal and health and safety advice, personnel and human resources issues, information technology support and other technical knowledge, the Council utilises external support, including the services of solicitors, human resources and health and safety consultants, surveyors, information technology experts etc. The Council's Constitution and Standing Orders have been prepared in accordance with statute, ensuring that the Council and individual Members understand the powers that they are exercising in carrying out their decision making. The lawfulness of all decisions referred to the Council or any of its Committees is always considered by senior officers and is clearly referenced in reports, particularly in relation to decisions involving new income or expenditure.

b) General Power of Competence

An authority seeking to exercise a general power of competence under the Localism Act 2011 needs to ensure that the power is fully understood and exercised in accordance with the Parish Councils (General Power of Competence) (Prescribed Conditions) Order 2012.

How the Council Has Complied

The Council has complied with the prescribed conditions as required by the Parish Councils (General Power of Competence) (Prescribed Conditions) Order 2012 and adopted the General Power of Competence at the first Annual General Meeting following the last Town Council Elections (in 2021). All Members and senior officers are aware of the requirements of the General Power of Competence and the circumstances in which it can be exercised.

c) Regulations and Proper Practices

Procedures need to be in place to ensure that an authority's compliance with statutory regulations and applicable proper practices is regularly reviewed and that new requirements, or changes to existing ones, are reported to members and applied. Authorities need to have particular regard to the requirements of the Accounts and Audit Regulations 2015.

How the Council Has Complied

The corporate management team of the Council comprising the Town Clerk, Corporate and Policy Officer and Finance Manager are responsible for ensuring that the Council complies with all relevant statutory regulations and applicable proper practices in the undertaking of all Council activity and decision making. All senior officers of the Council are fully trained in their relevant areas of expertise e.g. the Finance Manager is CIPFA qualified, the Town Clerk holds the Certificate in Local Council Administration, and is a member of the Society of Local Council Clerks. The Council is also member of the National Association of Local Councils and receives regular updates via the County Durham Association of Local Councils (CDALC) in relation to any changes in statute or proper practices affecting the town and parish council sector. Any relevant changes to regulations or proper practices would therefore be reported to the Council or its Committees as a matter of course. The Finance Manager ensures full compliance with the requirements of the Accounts and Audit Regulations 2015, in relation to the Council's financial management, accounting and audit arrangements.

d) Actions During the Year

An authority needs to have satisfied itself that it has not taken any decision during the year, or authorised any action, that exceeds its powers or contravenes any laws, regulations, or proper practices.

How the Council Has Complied

As highlighted earlier, the Council has various measures in place to ensure that it does not take any decisions during the year that may exceed its powers or contravene any laws, regulations, or proper practices. The corporate management team is not aware of any instances of non-compliance with law, regulations or proper practices during 2021/22.

Assertion 4: Exercise of Public Rights

“We provided proper opportunity during the year for the exercise of electors’ rights in accordance with the requirements of the Accounts and Audit Regulations”.

In order to warrant a positive response to this assertion the authority needs to have taken the following actions in respect of the previous year’s Annual Governance and Accountability Return:

a) Exercise of Public Rights

The authority provided for the exercise of public rights set out in Sections 26 and 27 of the Local Audit and Accountability Act 2014. Part 5 of the Accounts and Audit Regulations 2015 requires the RFO to have published, including on the authority’s website or other website; Section 1 and 2 of the Annual Governance and Accountability Return, a declaration that the status of the statement of accounts is ‘unaudited’, and a statement that sets out details of how public rights can be exercised, as set out in Regulation 15(2)(b), which includes the period for the exercise of public rights.

How the Council Has Complied

The Council publishes a notice on its website each year setting out public rights in relation to the inspection of its accounts and appointing the dates for the exercise of those rights. The Council publishes the unaudited accounts and Annual Governance Statement on its website at the same time. This complies with the statutory requirements set out in the Local Audit and Accountability Act 2014, and Accounts and Audit Regulations 2015.

b) External Auditor’s Review

A notice of the conclusion of the external auditor’s limited assurance review of the Annual Governance and Accountability Return, together with relevant accompanying information, was published (including on the authority’s website or other website) in accordance with the requirements of Regulation 16 the Accounts and Audit Regulations 2015.

How the Council Has Complied

The Council publishes a notice on its website each year giving notice of the completion of the audit of the Council’s Annual Governance and Accountability Return and its availability for inspection by local government electors, in accordance with the statutory requirements set out in the Accounts and Audit Regulations 2015. The Council publishes the audited Annual Governance and Accountability Return on its website at the same time.

Assertion 5: Risk Management

“We carried out an assessment of the risks facing this smaller authority and took appropriate steps to manage those risks, including the introduction of internal controls and / or external insurance cover where required”.

In order to warrant a positive response to this assertion, the authority needs to have the following arrangements in place:

a) Identifying and Assessing Risks.

The authority needs to identify, assess and record risks associated with actions and decisions it has taken or considered taking during the year that could have financial or reputational consequences.

How the Council Has Complied

The Council has in place a Risk Management Strategy and Policy and maintains and regularly updates a risk register which identifies, assesses and records the various risks facing the Council. The Corporate and Policy Officer is responsible for promoting the principles of effective risk management to Members and officers, and reporting the risk register, on a quarterly basis, to the Policy and Resources Committee and Audit Sub-Committee. Risk assessments are also included as a standard item on all reports to the Council and its Committees and a new risk assessment will be undertaken, where necessary, in relation to any decision to be made by the Council and its Committees.

b) Addressing Risks

Having identified, assessed and recorded the risks, the authority needs to address them by ensuring that appropriate measures are in place to mitigate and manage risk. This might include the introduction of internal controls and / or appropriate use of insurance cover.

How the Council Has Complied

The Council’s risk register assesses and scores each risk and identifies the controls and actions required to mitigate the risk. The risk register is reviewed on a quarterly basis and each risk will be reassessed to ascertain if the risk has changed and if any further measures are required to mitigate the risk. The Finance Manager is responsible for ensuring that appropriate insurance cover is put in place, where necessary to mitigate the risks identified in the risk register. A comprehensive insurance policy is in place, providing cover for a number of identified risks. Insurance arrangements are formally reviewed by the Council at least once a year and regular meetings are held with the Council’s insurance company to ensure that insurance cover remains relevant and fit for purpose.

Assertion 6: Internal Audit

“We maintained throughout the year an adequate and effective system of internal audit of the accounting records and control systems”.

In order to warrant a positive response to this assertion, the authority needs to have taken the following actions:

a) Internal Audit

The authority needs to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes taking into account internal auditing guidance for smaller authorities.

How the Council Has Complied

The Council employs an Internal Auditor who is responsible, in accordance with the requirements of the Accounts and Audit Regulations 2015, ‘for undertaking an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance’. The Internal Auditor will undertake audit examinations of all major services, activities, systems and processes to review the systems of internal control in place, ensure the completeness, accuracy and reliability of financial records and transactions, compliance with relevant laws and regulations and the Council’s own Financial Regulations, Standing Orders, policies and procedures, ensure the protection of Council assets and interests, and promote the prevention and detection of fraud. The Internal Auditor prepares an annual Audit Plan setting out the planned programme of internal audit work for the year and will report progress as well as the conclusions and recommendations from every audit examination to the Council’s Audit, Risk and GDPR Sub Committee on a quarterly basis. The Council’s approved Internal Audit Code of Practice sets out the detailed framework for the Internal Audit Service including its purpose, powers and objectives, and how it complies with the Public Sector Internal Audit Standards, as well setting out detailed information on the audit planning process, types of audits, audit testing, and reporting of conclusions and recommendations.

b) Provision of Information

The authority needs to ensure it has taken all necessary steps to facilitate the work of those conducting the internal audit, including making available all relevant documents and records and supplying any information or explanations required.

How the Council Has Complied

The Council’s Financial Regulations includes a specific requirement for ‘any officer or Member of the Council to make available any such documents or records, information and explanations as are considered necessary for the purposes of the internal audit’. This ensures compliance with the requirements of the Accounts and Audit Regulations 2015.

Assertion 7: Reports from Auditors

“We took appropriate action on all matters raised in reports from internal and external audit”.

To warrant a positive response to this assertion, the authority needs to have considered all matters brought to its attention by its external auditor and internal audit and taken corrective action as appropriate.

How the Council Has Complied

The Council’s Internal Auditor reports the conclusions and recommendations from every audit examination to the Council’s Audit, Risk and GDPR Sub Committee on a quarterly basis, keeps a record of audit recommendations made, and follows up on these recommendations in subsequent audits to ensure that they have been implemented. The Council considers the annual report from the external auditors and the Finance Manager would put in place an action plan to deal with any matters raised, as and when necessary.

Assertion 8: Significant Events

“We considered whether any litigation, liabilities or commitments, events or transactions, occurring either during or after the year-end, have a financial impact on this smaller authority and, where appropriate have included them in the accounting statements”.

To warrant a positive response to this assertion, the authority needs to have taken the following actions where necessary:

a) Significant Events

The authority needs to have considered if any events that occurred during the financial year (or after the year-end), have consequences, or potential consequences, on the authority’s finances. If any such events are identified, the authority then needs to determine whether the financial consequences need to be reflected in the statement of accounts.

How the Council Has Complied

In preparing the annual statement of accounts, the Finance Manager assesses whether there have been any events during the financial year or after the year-end, which may have potential consequences on the Council’s finances. If any such events are identified, the Finance Manager will determine whether the financial consequences need to be reflected in the statement of accounts and disclose them as necessary.

Compliance Statement

Following this review of the Council’s governance arrangements and taking into consideration the previous review of the Council’s internal control arrangements approved by the Council on 9th March 2022, the Council’s corporate management team are satisfied that the Council’s governance arrangements are sound and operating effectively, and that the Council meets the requirements of the Annual Governance Statement Assertions in full.

It is therefore recommended that the Annual Governance Statement, as set out in Section 1 of the 2021/22 Annual Return is approved at the Council Meeting on 15th June 2022, on the basis of ‘yes’ answers to all eight assertions.