

The Highland Council

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| Agenda Item | 11 |
| Report No | AC/15/25 |

Committee: **Audit Committee**

Date: **28 May 2025**

Report Title: **Draft 2024/25 Annual Governance Statement**

Report By: **Chief Officer – Corporate Finance**

1. Purpose/Executive Summary

1.1 This report presents the draft 2024/25 Annual Governance Statement (AGS) to the Audit Committee for its review.

The AGS will form part of the Council's Annual Accounts, with those draft Accounts for 2024/25 due to be considered by Council on 26 June, prior to the statutory 30 June deadline.

2. Recommendations

2.1 Members are asked to:

- i. **Review** the draft 2024/25 Annual Governance Statement provided at **Appendix 1**. In doing so, consideration should be given to the CIPFA requirements set out at section 5.2.

3. Implications

3.1 There are no direct Resource, Risk Health and Safety or Gaelic implications arising from this report

3.2 **Legal** – Whilst there is no legal requirement to comply with the CIPFA Audit Committee guidance, it is recognised as best practice. The draft Annual Governance Statement is also examined by the Council's External Auditors as part of their audit of the annual accounts, and they will consider whether the Council has complied with all areas of best practice.

4. Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is an update report and therefore an impact assessment is not required.

5. CIPFA Audit Committee guidance (2022 edition)

5.1 The above CIPFA guidance introduced the requirement for the Audit Committee to review the Council's draft Annual Governance Statement (AGS). The guidance states that "the Audit Committee should play a key role in reviewing the AGS prior to its final approval." It also goes on to list the following key aspects that the Audit Committee should consider when reviewing the AGS:

- whether the statement is user friendly for a lay reader
- whether the statement focuses on evaluation, leading to a clear opinion of whether arrangements are fit for purpose and meet the principles of good governance
- whether the AGS is an accurate representation of arrangements, consistent with other information known to the committee (committee members should be able to recognise their own authority's strengths and weaknesses)
- whether it includes appropriate disclosures on conformance with specified codes and standards and is consistent with current CIPFA guidance
- whether the AGS is supported by an appropriate action plan to implement the required improvements and if this is robust.

5.2 To provide a meaningful review of the AGS, CIPFA state that "Audit Committee Members should be able to draw on their knowledge of the governance arrangements and on assurances they have received during the year." To assist Members, it may be useful to consider the content and assurances provided within the 3 annual reports on today's agenda, particularly the Chair's annual report.

Designation: Chief Officer – Corporate Finance

Date: 14 May 2025

Authors: Donna Sutherland, Strategic Lead (Corporate Audit)
Rachel Macdonald, Principal Accountant

Background Papers: CIPFA Audit Committees (2022 edition)

Appendices:

Appendix 1 – Draft 2024/25 Annual Governance Statement

Appendix 1 – Highland Council draft Annual Governance Statement 2024/25

Annual Governance Statement

Aithris Riaghlachais Bhliadhnail

Scope of responsibility

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, properly accounted for, and used economically, efficiently and effectively. The Council has a statutory duty to make arrangements to secure Best Value under the Local Government in Scotland Act 2003.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions. This includes arrangements for the management of risk.

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'. The Code is available on our website.

The Local Code of Corporate Governance evidences the Council's commitment to achieving good governance and demonstrates how it complies with the governance standards recommended by CIPFA. The document is regularly reviewed and updated annually.

The purpose of the governance framework

The governance framework comprises the systems and processes, and cultures and values, by which the Council is directed and controlled, and the activities used to engage with and lead the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services. The Council's financial and management arrangements conform with the governance requirements of the CIPFA Statement on the role of the Chief Financial Officer in local government.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level, and provide reasonable, but not absolute, assurance that policies, aims and objectives can be delivered. The system of internal control is based on an ongoing process designed to identify and prioritise the risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place for the year ended 31 March 2025 and up to the date of approval of the Annual Accounts.

The governance framework

The Local Code of Corporate Governance was approved by the Audit Committee on 28/11/24. The basis of the 2024/25 Local Code is the Framework and Guidance issued by CIPFA and SOLACE which identifies seven core principles, each with a number of sub-principles. The core principles are:

1. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.
4. Determining the interventions necessary to optimise the achievement of the intended outcomes
5. Developing the authority's capacity including the capability of its leadership and the individuals within it.
6. Managing risks and performance through robust internal control and strong public financial management.
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability.

The progress in delivering the actions set out in the Code is monitored quarterly through the Council's Performance Risk Management System. Quarter 4 updates in PRMS are not due to be closed until 30/06/25 and so the final position is not yet known. Therefore, details of progress with completion of the 2024/25 actions will be included within the final version of the AGS.

The Council's corporate governance arrangements are subject to annual review by Internal Audit. The slippage noted above is not considered to have any significant impact upon the effectiveness of the Council's governance arrangements.

Review of effectiveness

The Highland Council has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is adequate and effective in practice. The Chief Officer Legal and Corporate Governance acts as the Council's Monitoring Officer. This is a statutory appointment in terms of section 5 of the Local Government and Housing Act 1989 and he has the responsibility of ensuring the Council acts within its statutory powers and does not act in a manner that may amount to maladministration. He has primary responsibility for the Council's corporate governance including the proper conduct of all Council meetings, compliance with the Scheme of Delegation and Standing Orders (including annual review of both documents) and an ancillary role and various responsibilities within the ethical standards framework which include compliance with the Councillors' Code of Conduct. It is the responsibility of the Chief Officer Legal and Corporate Governance to:

- oversee the implementation of the Local Code of Corporate Governance and monitor its operation.
- review the operation of the Local Code of Corporate Governance in practice.
- report annually to the Council on compliance with the Local Code and recommend any changes required to maintain it and ensure its effectiveness.

In fulfilling these duties, the Chief Officer Legal and Corporate Governance has taken into account the results of reviews of internal control that have been carried out by Internal Audit. There are no current governance issues that require to be identified.

All Assistant Chief Executives have reviewed the arrangements in their cluster of services and reported on their assessment of the effectiveness of the control arrangements in place.

Formal meetings of the Council and its strategic committees have operated on a hybrid model since March 2022 and the practice is now well established. The Council ensures openness and transparency in decision making by ensuring all strategic meetings are open to the public and continue to be webcast. Recordings of all local Committees are uploaded to the Council's YouTube channel. Following a Council decision all Council and committee agendas and reports are now circulated electronically to Members rather than on paper as well as being available to the public on the Council website.

A wide-ranging member training and development programme focussing on induction of new members but available to all members was put in place in May 2022 and has continued. In May 2023 following distribution and consideration of a survey of all Councillors it was agreed that a short life Members' Learning and Development Group be established. The recommendations from this Group were used to inform a report to Council in October 2023 setting out a future Members' Learning and Development Framework and Programme. A review of the Members' Learning and Development Framework and Programme input was reported to Council in December 2024. A refreshed Members' Learning and Development Framework and Members' Learning and Development Programme for 2025 were agreed.

The Council has re-established a Governance Review Working Group made up of a number of senior Members. The Group is undertaking a rolling programme of review of the Council's existing governance arrangements and, has made recommendations on matters such as changes to Standing Orders and the Scheme of Delegation. The Council has introduced and supported the implementation of an integrated impact assessment process for all reports and motions being considered at meetings

of its Committees. Going forward the Steering Group will continue to meet, review governance arrangements and, where appropriate, make recommendations for further revisions into 2025/26 as well as supporting delivery of the Learning and Development Programme.

In December 2024 Council agreed to establish a Working Group to review the governance and funding arrangements of its Area Committees so that they may better serve the needs of their local communities.

The Internal Audit Service operates in accordance with the Public Sector Internal Audit Standards (the PSIAS). Section 2450 of the PSIAS states that the Chief Audit Executive “Must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control. The annual report must also include a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme.”

The PSIAS were replaced by the Global Internal Audit Standards (GIAS) which came into effect in January 2025. CIPFA subsequently issued “The Application Note: Global Internal Audit Standards in the UK Public Sector” which changed this date to 01/04/25. In accordance with the application note, the Chief Audit Executive (Strategic Lead (Corporate Audit) has prepared the final annual report under the PSIAS. The Internal Audit Annual Report 2024/25 will be presented to the Audit Committee on 28/05/25. This report is also used to inform the Annual Governance Statement.

The PSIAS requires that there is periodic self-assessment against its requirements. This is undertaken annually and reported within the annual report. There is a change compared to previous years in that full compliance against the standards is not reported for this year. The reason for this is that no external assessment was undertaken resulting in the element relating to the quality assurance and improvement programme moving from full to partial compliance. Following previous reported delays to this assessment, it was decided by the Strategic Lead that resources would be better directed to implementing the new GIAS and moving forward given the fact that this is the last year of the PSIAS.

During 2024/25, a total of 104 audit recommendations were made. This includes 27 high grade recommendations which had a number of agreed management actions arising from 10 audit reports. The status reported as at 31/03/25 showed that good progress had been made with implementing the audit recommendations as:

- 14 had been fully completed
- 8 were not yet due
- 5 had revised target dates.

Further details are provided in the table below:

| Report Name | No. High | Action Status | | | Current Status |
|---------------------------------------|----------|---------------|-------------|---------|--|
| | | Complete | Not yet due | Revised | |
| In-house bus operation income systems | 2 | 1 | 0 | 1 | <p>A clear strategy (business and financial) for the in-house bus service should be developed to ensure it can benchmark the cost avoidance model and deliver the intended performance and outcomes. This requirement is acknowledged as being essential to inform the new operating model when the project transitions from its pilot status.</p> <p>Discussions at a senior strategic level to develop this are already taking place and a report is to be brought back to E&I Committee. (Target date 30/11/24, Revised action date 30/06/25).</p> |
| Cessation of Utility Supplies | 1 | 0 | 0 | 1 | <p>Management should ensure that the Concerto "Vacant/Potentially Vacant" (PV) report is reviewed following comparison with the Asset Management Plan/analysis and after discussion with key officers/Service to ensure that all properties have been included. The new Strategic Asset Management Board (SAM) has now been reformed as of 28/03/25, being chaired by Chief Officer, Property and Assets and the Depute Chair is the Service Lead, Asset Management and Community Property. All Council Service Clusters are represented on the SAM Board. The revised Void Property Management Procedure will be taken to the SAM Board for approval. The energy team will be advised as part of this process if utilities are to be shut down on an interim or permanent basis.</p> <p>Void properties will be flagged on Concerto as becoming void and a list of void properties will be monitored by the SAM Board for repurposing, community asset transfer or Disposal.</p> <p>Estates Officers and Maintenance Officers will be tasked with monitoring void properties within their geographical areas. (Target date 31/03/25, Revised action date 31/08/25).</p> |
| Review of Payroll Control Environment | 10 | 7 | 3 | 0 | <p>These actions have a target date of 30/04/25:</p> <ol style="list-style-type: none"> i. Review the process to prepare salary budget profiles and confirm these against the 'establishment' to ensure completeness and accuracy of all salary budgets. A review will be undertaken of the process to prepare salary budget profiles and confirm these against the 'establishment'. This will include the alignment of the new service structures and the implementation and development of the new Finance system. ii. Review and revise the existing processes to best identify the process, functions and skills required to effectively administer and recover overpayments on a |

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| | | | | | <p>timely basis from payroll. A review of the existing ledger coding structure will be undertaken to support systematic reporting and monitoring.</p> <p>iii. Management should ensure that the review of an integrated system can deliver a more effective system-based approach to administering employee changes and reducing the risk of overpayments from payroll. This should better enable the calculation, administration, recovery, monitoring, and reporting of any overpayments from payroll. Process improvement is also currently being addressed as part of the HR and Payroll project).</p> |
| Business Continuity Planning (BCP) | 3 | 1 | 1 | 1 | <p>There is one revised date and one not yet due:</p> <p>i. A BCP should be put in place for each of the 3 new service clusters (People, Place, Corporate) Where existing Service BCP information is used to form these plans, it should be checked and updated where necessary. Services should ensure that contact information is up to date and regularly reviewed. Once finalised, all BCPs should be stored centrally on the Gold Group Emergencies HUB SharePoint site and also held in hard copy within Services. Although significant progress has been made. This is particularly true of the Corporate Cluster where service arrangements under all 5 Chief Officers have been reviewed since the publication of the Audit Report. Given that work is ongoing, and a momentum exists, the deadline has been extended to allow for the full completion of this action. (Target date 31/12/24, Revised date 15/11/25)</p> <p>ii. All BCPs should be exercised (tested) annually with a focus on key risks and documented evidence held of completion. Chief Officers will ensure that BCPs are exercised (tested) annually and documented evidence of completion will be retained. (Target date 31/05/25).</p> |
| Roads Maintenance | 4 | 3 | 0 | 1 | <p>Management must prepare, approve and distribute a suite of policies, procedures and guidance that will allow all roads teams to manage and control their activities in a transparent and consistently controlled manner.</p> <p>We recognise a re-structure is required to enable greater consistency across the teams, and to facilitate more collaborative working and sharing of resources to deliver greater efficiencies. When the re-structure is complete the agreed approach to the management and control of roads activities will be documented and rolled out to all teams. (Target date 30/06/25).</p> |
| Procurement of ICT Cloud Hosted Systems | 2 | 1 | 0 | 1 | <p>The process should be formalised to improve transparency, accountability and ensure consistent application of the process.</p> <p>ICT Application Support Model will be formally introduced and applied initially to all new procurements. (Target date 31/03/25, Revised date 31/05/25).</p> |
| ICT Asset Registers | 2 | 0 | 2 | 0 | Both of these actions are not yet due until 30/06/25. |

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|--|-----------|-----------|----------|----------|--|
| | | | | | <p>i. Processes for managing ICT asset registers (on the CMDB) should be reviewed to ensure they are fit for purpose. ICT Services will conduct Asset management process review to ensure current documentation is fit for purpose, changes where required will be made to improve process.</p> <p>ii. The CMDB should be kept up to date and reconciled to stock held to ensure that “instore” is an accurate record of assets that are held by ICT Services that can be issued to end users. An asset management process review will ensure current processes are fit for purpose; changes where required will be made to improve process. A review of operational status options will be carried out so they can be used more effectively. A stock review will be implemented every 6 months.</p> |
| Workforce Planning Arrangements | 1 | 1 | 0 | 0 | Action completed. |
| CPO Supervision | 1 | 0 | 1 | 0 | <p>This action is not due until 30/06/25. Management must ensure that:</p> <ul style="list-style-type: none"> • social workers record all aspects of individual supervision on the CareFirst system and the evidence that supports their compliance with the Community Payback Order Practical Guidance is retained and available for management review. • social workers record explanations in cases where the supervision requirements of the Community Payback Order Practical Guidance cannot be followed, and these explanations should be subject to supervisory review; and • where necessary further training, support and guidance is provided for social workers. <p>The management team through our QA framework has already identified some of these issues and individual Social Workers are being supported to make sure all data is available. We have been able to identify certain areas of the CMP review process in which Team Managers require more information, and the current paperwork will be amended to reflect these needed changes. A refresher training will be provided to all Social Workers.</p> |
| Review of Health & Safety Arrangements | 1 | 0 | 1 | 0 | <p>This action is not due until 27/06/25. A programme of regular compliance monitoring should be put in place as per the OHSW Policy and adherence should be monitored. A programme of regular work has been restricted due to H&S Adviser vacancies (2.6FTE). Recruitment to these vacancies is actively being pursued. The OHSW Team will continue to carry out workplace inspections both proactively and reactively based on risk with existing resource and statutory requirements to ensure there are no statutory breaches.</p> |
| Totals | 27 | 14 | 8 | 5 | |

There are no particular trends identified from the high-grade recommendations with regard to the above and these are not considered sufficiently material to impact upon the audit opinion provided within section 2.10 of the Internal Audit Annual Report.

A self-assessment exercise was undertaken last year to assess the extent of the compliance with the CIPFA Code on Managing the Risk of Fraud and Corruption. There was one action required in respect of revising the Anti-fraud and Anti-corruption Policy. This was completed with the updated policy renamed the Counter Fraud Policy and then approved by the Audit Committee on 13/06/24.

There has been no change over the last year, therefore it is considered that the Council's arrangements fully comply with the CIPFA Code.

Commentary on group bodies significant governance issues

Inverness and Nairn Common Good Funds

- No significant governance issues were identified.

Highland and Western Isles Valuation Joint Board

- No significant governance issues were identified.

Highland and Islands Transport Partnership

- No significant governance issues were identified.

High Life Highland

- No significant governance issues were identified.

Conclusion

Our annual governance statement summarises the Council's governance arrangements and affirms our commitment that they are reviewed regularly and remain appropriate for the activities and delivery of services by the Council and its Group. Subject to the above assurances, the development and implementation of the audit recommendations and, based on the evidence contained in this statement, we are satisfied that the arrangements continue to provide assurance, are adequate and are operating effectively.