1. SCOPE OF RESPONSIBILITY

The Council of the Isles of Scilly 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 of the Isles of Scilly also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council of the Isles of Scilly (Members and Officers) is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.

The Council of the Isles of Scilly has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government.* A copy of the code is on our website at www.scilly.gov.uk/governance or can be obtained by e-mail from governance@scilly.gov.uk or in hard copy from the Town Hall. This statement explains how the Council of the Isles of Scilly has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit [Amendment] (England) Regulations 2006 in relation to the publication of a statement on internal control.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority 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 system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the policies, aims and objectives of the Council of the Isles of Scilly, to evaluate the likelihood of those 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 at the Council of the Isles of Scilly for the year ended 31 March 2013 and up to the date of approval of the annual report and statement of accounts.

3.	THE GOVERNANCE FRAMEWORK

The Council of the Isles of Scilly is a small unitary authority delivering a broad range of services to a unique island community, located 45km south west from mainland Britain. The population of the Islands was recorded as 2203 at the last census in 2011 and is spread over five inhabited Islands. The vast majority of the population lives on St Mary's. The population has remained stable for the last 100 years but over the past ten years the elderly population has increased while under 16's have decreased. Diversity issues are focused on access to services for the small off island communities and the influx of seasonal migrant workers, which number in excess of 100 predominantly from Eastern Europe.

The Duchy of Cornwall owns the vast majority of land on the islands, apart from a small area of the main town on St Mary's. There are just over a 100 Council houses and a key issue is providing sufficient affordable and key worker housing.

Education levels are considerably higher than the national average. The Five Islands School provides primary and secondary education on the islands with post-16 further and higher education undertaken on the mainland.

The Authority delivers the widest range of services of any council in the country, all of the usual statutory services as well as some additional services such as tourism (the economy is 85% dependent on this) water, sewerage and operates St Mary's Airport, the 10th busiest regional passenger airport in the UK. This wide range of services is delivered with a limited budget. In addition the geographic context means that there is an additional cost and complexity to all service delivery. This combined with very small cohorts of clients means that it is not necessarily meaningful to benchmark against national statistics and all statistics need careful interpretation.

The key elements of the Council's systems and processes that comprise the authority's governance arrangements are:

3.1   IDENTIFYING AND COMMUNICATING THE AUTHORITY'S PURPOSE AND INTENDED OUTCOMES BY IMPLEMENTING A VISION FOR THE COMMUNITY

   o   The Council's priorities are decided upon following consultation and taking into account the feedback from the consultations with our community and stakeholders. This is reflected in partnership arrangements that are aligned to the Council's corporate priorities.

o The Communication Strategy establishes and maintains effective channels of communication between directors, managers, employees, partners and stakeholders to enable the Council's goals and objectives to be clearly understood, acted upon and achieved.

o All key documents clearly set out the corporate objectives and are accessible to Officers, Councillors, partners and the public via the Council's website and intranet.

o Priorities are published in the Sustainable Community Strategy 2020 by taking into account the annual budget and medium term financial plans and has taken the vision forward and identified key areas to be addressed over the coming years.

o Service plans include each department's contribution to the strategic objectives outlined in the Sustainable Community Strategy and are supported by action plans with targets taking into account the available funding.

o A Medium Term Financial Strategy has been approved and implemented to support the aims of the Corporate Plan. Efficiency gains are reflected in the MTFS and reported to Full Council.

o The Corporate Procurement Strategy gives policy and objectives and is published on the website and intranet.

o The Contract Management Framework assists in maintaining efficiencies within contracts and service level agreements.

o Annual Financial statements and a formal annual report are produced and is published on the website to inform the community of the performance of the authority over the previous year and set out the plans for the future.

o The Area of Outstanding Natural Beauty Management Plan contains policy and objectives, and identifies the actions or projects that will take objectives forward.

o The AONB Management Plan also provides a supportive document for related project funding applications.

o The development of the Integrated Area Plan followed on from a major social, economic and environmental review of the Isles of Scilly and concentrates on Sustainable Environment, Sustainable Businesses and Sustainable Communities.

o The Isles of Scilly Partnership appraise and recommend projects for support under the Isles of Scilly Integrated Area Plan.

3.2 MEMBERS AND OFFICERS WORKING TOGETHER TO ACHIEVE A COMMON PURPOSE WITH CLEARLY DEFINED FUNCTIONS AND ROLES AND EFFECTIVE COMMUNICATION

- The special nature of Scilly is reflected in its unique constitutional position in that it has its own 'Isles of Scilly Clause' that aims to ensure that all laws applied to the Islands are appropriate to the size and scope of the Isles of Scilly. The Clause is added to all new legislation meant to apply to the Council and omitted from all legislation not meant to apply.

- The Authority has always been non-political and is currently made up of 20 independent Members, 13 elected by St Mary's residents and two each, elected by residents of St Martin's, St Agnes and Tresco and one on Bryher.

- The Council is an Option 4 Authority under the Local Government Act 2000 and retains a committee system consisting of ten standing committees and the statutory Council meetings.

- Terms of reference of powers delegated to Standing Committees sets out the areas for which individual Committees have responsibility and is contained in the Members & Officers Handbook.

- The Council's business is transacted within a general framework of authority comprising statutory provisions, orders and directions, bylaws and a variety of specific resolutions by the Council and its various Committees. A set of principal instruments for the internal regulation of the Council's affairs is set out in Standing Orders and reviewed periodically.

- Job descriptions for Senior and Chief Officers are reviewed and updated regularly by Human Resources.

- The National Code of Local Government Conduct is contained within the Members & Officers Handbook and includes terms of reference of powers delegated to Standing Committees sets out the areas for which individual Committees have responsibility.

- Responsibility for the appointment of the Chief Executive is reserved to Council.

- The Chief Executive has overall corporate management and operational responsibility (including overall management responsibility for and authority over all Officers), and is responsible for advice to Members on strategy, policy, management and organization and has primary responsibility for ensuring that decisions taken by Council are taken in accordance with proper processes and after full considerations of all relevant facts, circumstances and legal advice where necessary.

- The Director of Finance and Resources has been appointed as the Section 151 Officer and is responsible for the supervision of all accounts and financial records, in co-operation with the Chief Officers.

- The Head of Finance and Reporting is responsible for ensuring that agreed financial procedures and statutes are followed and complied with.

- A Code of Conduct, in line with suggested best practice principles, has been adopted and expects all its Members, Officers and contractors to adhere to the highest standards of public service, with particular reference to the Code of Conduct and policies of the Council and applicable statutory requirements. Members follow procedures to ensure that the authority is efficient, transparent and accountable to the local people, including Council minutes showing delegation of Members and Officers and Committee terms of reference.

- Service delivery is monitored through:
  - Deficiencies brought to the attention of Chief Officers and Members
  - Corporate complaints are monitored to identify weaknesses and drive improvement
  - Employee and Chief Officer Performance Reviews
  - Customer Satisfaction Survey

3.3 PROMOTING VALUES FOR THE AUTHORITY AND DEMONSTRATING THE VALUES OF GOOD GOVERNANCE THROUGH UPHOLDING HIGH STANDARDS OF CONDUCT AND BEHAVIOUR FOR MEMBERS AND STAFF

- The Policy and Resources Committee has responsibility for receiving and ensuring the Council's compliance with Corporate Governance issues as set out in the Terms of Reference in the Members Handbook.

- A Member and Officer induction programme promotes openness, support and respect and values of good governance are emphasised in the training programme.

- Employees are provided with a handbook containing a number of codes of conduct, including Disciplinary procedures, equal opportunities, fraud and corruption, grievance procedures and internet and e-mail policy.

- Equality & Diversity training takes place for Members and staff to ensure the Authority is not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders.

- National and local measures are in place to safeguard against unfair bias, prejudice or conflicts of interest.

- The Monitoring Officer reports to Members should any proposal, decision or omission give rise to unlawfulness or maladministration.

- The developing protocol for Member/Officer relations will ensure that processes are operated in an effective, appropriate and ethical manner.

- The Standards Committee includes six Members of the Council with two Independent Persons appointed to assist the Monitoring Officer. These Independent Persons do not sit on the Committee. The Committee meets three times per year.

3.4 INFORMED AND TRANSPARENT DECISIONS WHICH ARE SUBJECT TO EFFECTIVE SCRUTINY AND MANAGING RISK

o Full Council is the scrutinising body and provides overall direction to the organisation and satisfying reasonable expectations of accountability.

o Councillors are made aware of significant policy related proposals and service reviews through reports taken to the appropriate committee and have the opportunity to discuss and/or challenge the performance of the Council.

o All meetings are open to the public with the exception of confidential or personal matters being disclosed, major meetings being webcast for those who cannot attend the meeting and wish to view the decisions at a later time.

o Members and Officers register their interests as defined in the Members' Code of Conduct and the Officers Code of Conduct respectively, approved at Full Council. Personal or prejudicial interest are declared at the start of each meeting, and again as the matter falls to be discussed.

o Induction training for Members and Officers reinforce the rules on conflicts of interest and the Monitoring Officer may be approached at any time for advice.

o The Policy & Resources Committee consists of the Chairmen of each standing committee, with the exception of the Standards, Licensing and Children and Young People's Committees and any select committee, has delegated powers from Full Council and sits five times per year.

o Procedures for complaints are published on the website and forms are available on the website, in the Town Hall reception and on request.

o All reports to Members are required to include justification for the proposed action with environmental impact, financial, legal, crime and disorder, best value and community health implications

o Professional opinion where appropriate is sought and implications are included on every report sent to Members prior to each committee meeting.

o The Council has implemented a framework and strategy for risk management that is communicated to all Members and employees and is published on the internet and intranet.

o Risk management is embedded in the activity of the authority through the business plan, service planning and contract management stages. A Corporate Risk Register identifies the benefits of active risk management.

o The process for ongoing risk management and a quarterly review is the responsibility of the Strategic Management Team and Chief Officers.

- Departmental Risk Registers linked to service plans have been implemented to identify risk management at a departmental level and are the responsibility of the Service Managers.

- Project and Contract Managers are aware of the risks in partnership working and risk assessments are undertaken before commencement of major projects and reviewed and reported on a regular basis.

- Communication of internal control processes to staff forms part of the staff induction process and includes Confidential Reporting, Managing Financial Irregularities (whistle-blowing) and Code of Conduct policies.

- Issues of vires are dealt with by early involvement of the Council's legal advisors in all major projects to ensure a lawful solution for the benefit of the community.

3.5 DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS TO BE EFFECTIVE

- An induction training programme offered to all new Councillors and Officers gives information on their basic rights, roles and responsibilities and how the Council works. The ongoing training programme offers up to date knowledge through in-house seminars and training workshops and external courses and conferences. Learning and development needs are established at induction to influence future development and influence the range of activities to be offered.

- Each member of staff is required to participate in a performance related interview on a regular basis, with the primary purpose of agreeing individual work targets that relate to the delivery of their Departmental Service Plan.

- The Staff Performance and Development Programme encourages staff to analyse, scrutinise and challenge, and to recognise the need for expert advice through discussions on a one to one basis with their line manager or Chief Officer.

- Members, Officers and staff effect learning and development through access to the intranet, e-learning, training courses, workshops, Members' seminars and conferences, mentoring and peer support.

- Where appropriate, training sessions and workshops held in the Council Chamber are recorded on the web-casting facility for those staff and Members who are unable to attend at the time of the session.

- Individual Members are encouraged to identify needs for development, although there is no formal process for reviewing individual Members.

- o Information leaflets are distributed throughout the community prior to elections & by-elections to encourage individuals from the community to contribute to the work of the Council.

- o The 'Council Calendar', 'News' and 'What's on', on the Council website, informs the community of forthcoming meetings, events and items in which the community are able to participate.

- o Members of the community are encouraged to become co-opted Members, with voting rights, and advisors for certain Council Committee meetings.

- o An Elder Care Forum has been established to help steer and scrutinise plans for new extra-care housing. It meets regularly and is widely publicised. Meetings are open to all, although key players from statutory and voluntary agencies are invited to ensure that the group is robust and that momentum for the project is maintained.

- o Members are encouraged to use their skills in progressing to Chairman or Vice-Chairman of individual Committees with ultimate progression to Chairman or Vice-Chairman of the Council.

- o Officer vacancies are advertised internally and externally to allow for local opportunity and internal progression.

- o Staff are responsible for progressing their own development and encouraged to participate in training courses and workshops to progress their career and advance their capacity and capabilities to work within the Council setting.

3.6 ENGAGING WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS TO ENSURE ROBUST PUBLIC ACCOUNTABILITY

- o The Council's vision, priorities and values are published in the Sustainable Community Strategy, and Service Plans that include performance targets.

- o Standing Orders and Financial Regulations inform the public of Members' and Officers' obligations and processes.

- o The Communication Strategy aims to ensure the Council communicates clearly, openly and regularly with the public, partners and with each other to promote a high level of mutual understanding and facilitate a better service to the island community and are involved in consultation to influence what happens on the islands.

- o The Council Committee Calendar is published on the Council website and agenda, minutes and reports may be downloaded.

- o News, policies and information for the public and staff are to be found on the website.

o The public are able to view various Council meetings that are web-cast for those who are unable to attend the Council Chamber in person; the web-casts are recorded and can be downloaded for those who are unable to watch the meeting at the allocated time.

o Where there is expected to be a large public interest, the meetings are web-cast in the Town Hall for those who do not have internet access.

o A 'Lighthouse' newsletter is available at various distribution centres to inform the public and stakeholders of recent events and up to date information at least quarterly.

o Council meetings are open to the public with the exception of 'exempt and confidential information' whereby the public are asked to leave the Council Chamber and take place in the mornings during winter, and evenings during the summer to enable off-island participation.

o Strategies and Policies are able to be produced in alternative formats, such as Braille, audio or alternative languages, on request and a written or oral translation service is available on request.

o The Authority has adopted a 'Single Equality Scheme', and has established an Equality and Diversity working group. There are representatives from across the organisation, as well as a Member with the role of Equality champion. The authority is committed to equality monitoring, training, internal and external consultation and Equality Impact Assessments to ensure that all the diverse groups within the community are recognised and engaged with.

o Consultation is an integral part of any large project plan. Results of consultations are communicated to the public via the website and publications to inform of the influence the consultation has had on the project.

o The public are encouraged to give comments, compliments and complaints in order for the Members and Officers to achieve a greater understanding of the views of residents and visitors.

o Financial Statements are published on the website annually, including the Annual Governance Statement.

o Spending data over £500 is published on the website as part of the transparency programme.

o Staff have access to all policies and strategies published on the website and intranet.

o The public are able to access information held by the Council under the terms of the Freedom of Information Act 2000 through the Central Services.

o The Monitoring Officer makes an initial assessment of misconduct allegations.

- o Staff are encouraged to participate in decision-making and problem solving through meetings and surveys. Consultation forms part of the Communication Strategy and is published on the Council website and intranet

- o A Staff Mediation Service provides assistance and is available to all staff.

- o The Council works in partnership with the Trade Unions and a representative is on hand to assist staff with queries and advice.

- o Human Resources meet as required with representatives of the Trade Union and information is passed on to staff via the Trade Union representatives.

4.   REVIEW OF EFFECTIVENESS

The Council of the Isles of Scilly has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework including the system of internal control. The review of the effectiveness is informed by the work of the senior managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The process that has been applied in maintaining and reviewing the effectiveness of the governance framework is:

- o The Council of the Isles of Scilly has financial management arrangements in place that conform with the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010) as set out in the Application Note to Delivering Good Governance in Local Government Framework. Governance arrangements are under constant review and the Authority seeks to make improvements.

- o Cornwall Council is commissioned as Internal Auditors for the Council of the Isles of Scilly. The Head of Internal Audit provides an annual report giving opinion on overall adequacy and effectiveness of the Authority's risk management systems and internal controls and an interim report during the year. These reports draw attention to any issues the Head of Internal Audit assesses as relevant to the preparation of the Annual Governance Statement, summarizing the Authority's performance and that of the internal audit function.

- o The reports of the Head of Internal Audit, as well as assurances and reports from external auditors, third parties, Members and Officers are used in the preparation of the Annual Governance Statement prior to its review, challenge and approval by Council.

- o Overall responsibility for the governance framework including the system of internal control rests with the Chairman of the Council and the Chief Executive.

o This Annual Governance Statement has been reviewed with the aim of making it more user friendly.

o Systems have been put in place to improve:
  - debt collection,
  - spot check procedure for confirming freight weight figures at the airport,
  - Planning & Building Control Service automatically notifies Revenues when a final certificate has been issued on an inspected building project,
  - policy and procedures in respect of cash collection and invoicing and training of staff in this respect at Normandy Pool,
  - the maintenance of water meter reading data sheets,
  - various minor amendments to accountancy processes,
  - the collection and safekeeping of cash payments prior to banking at Five Islands School.

o The Council's Asset Management Plan is written and has been initially implemented with further work to be progressed.

o Following a review of best methods of communications, proposals for a new intranet for staff, as well as replicating the internal communication functions of the newsletter, the Wave, in a regular up-to-date fashion. The new intranet is progressing well and work is currently underway on implementation with a target of launching the new intranet in Autumn 2013.

o No major concerns on the standards of work within the Council were reported from the Council's external auditors for the year 2012/13.

o The Head of the Council's internal auditors has produced his report on the adequacy and effectiveness of the Internal Control Environment and the following bullet points set out his opinion for the financial year 2012/13.

o The Council's system of internal control is weak with considerable scope for improvement. Whilst no failures of secondary controls were identified, the exposure to potential loss coming from the primary weaknesses was seen as unacceptable in the longer term.

o Many of the recommendations made in this year's report related to weaknesses noted in the previous year. Although actions to the recommendations were agreed, little or no progress has been made and the weaknesses in control and potential risks to the achievement of the Council's objectives and priorities remain.

o Particular areas of concern in the internal auditors report included:

  - No formal agreement was evident between Cornwall Council and the Council of the Isles of Scilly for the provision of the benefits calculation servicer to clearly define the functions and responsibilities of each party.
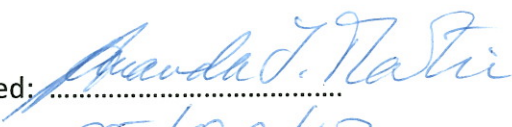
- Weaknesses in the information management regarding the Revenue and Benefits System are being addressed as a matter of priority
- Updating of procedures manuals, debt recovery and evidencing of the management review of reconciliation to the main accounting system.
- Weaknesses in the feeder system (Revenue and Benefits, Payments and Income) have an effect on the completeness and accuracy of the accounting system as a whole. Recommendations have been made.
- Orders were not being completed in all cases or were raised retrospectively. In some instances, orders raised were found not to contain all the relevant information needed to monitor budgets effectively such as the value of the supply ordered.

o Other than those issues raised by the Head of Audit above, the security of data stored within the financial systems was assessed as adequate.

5. SIGNIFICANT GOVERNANCE ISSUES

The following significant internal control issues have been identified:

No	Issue	Action Planned
5.1	A review of the Authority's accounts has highlighted the need to make considerable savings over the coming years.	Following the early retirement of the Chief Executive in January 2013, an Interim Chief Executive has been appointed on a short term contract to review and restructure the existing Council staffing within 6 months.
5.2	Concerns have been raised on the adequacy and effectiveness of the Internal Control Environment for the financial year 2012/13.	Recommendations have been made by Internal Audit and these are being addressed.

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed: ....

Dated: 25/09/13 ....

Chairman of the Council

Signed: ....

Dated: 25/09/13 ....

Chief Executive