

Meeting: **Audit Committee**

Agenda Item: **7**

Portfolio Area: All

Date: **10 June 2015**

Annual Governance Statement 2014/15

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1. PURPOSE

- 1.1. To advise Members of the Audit Committee on the content of the Council's Annual Governance Statement for 2014/15, following the review of the effectiveness of the Council's system of internal control.

2. RECOMMENDATIONS

- 2.1. That Members of the Audit Committee recommend the Council's 2014/15 Annual Governance Statement, attached as Appendix One, for approval by Statement of Accounts Committee.
- 2.2. That Members of the Audit Committee note the governance arrangements outlined in the Stevenage Borough Council Governance Framework 2014/15 at Appendix Two.

3. BACKGROUND

3.1. Legislative background

3.1.1. Regulation 4 of the 2011 Accounts and Audit (England) Regulations requires that:

- The Council shall be responsible for ensuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk
- The Council shall conduct a review at least once in a year of the effectiveness of its system of internal control

- The findings of the review of the system of internal control to be considered by a committee of the relevant body, or by members of the body, meeting as a whole
 - Following the review, the body or committee must approve an Annual Governance Statement, prepared in accordance with proper practices in relation to internal control
 - The Annual Governance Statement accompanies the Council's Statement of Accounts.
- 3.1.2. The requirement for the Annual Governance Statement to *accompany* the Statement of Accounts was an amendment to the previous (2003) Accounts and Audit (England) Regulations, which required the Statement to be *included* with an authority's published accounts. This was amended to make clear that the statement is not part of the accounts.
- 3.1.3. The Department for Communities and Local Government clarified that the Annual Governance Statement is assigned 'proper practice' status in August 2006 and therefore has statutory backing.
- 3.1.4. The 2011 Accounts and Audit (England) Regulations reinforce this with a clear reference to the preparation of an Annual Governance Statement following the review of the effectiveness of internal controls. The Annual Governance Statement 2014/15 is attached as Appendix One.
- 3.1.5. The Accounts and Audit Regulations 2015 apply to arrangements for the review of financial control and publication of the Annual Governance Statement for the year commencing 1 April 2015 (that would be reported in June 2016). These regulations will require publication of the Draft Statement of Accounts and Annual Governance Statement by 31 May. However, a transitional period applies and the authority has until 2018 to meet this requirement.

3.2. Local Code of Corporate Governance

- 3.2.1. In August 2006, CIPFA/SOLACE produced a publication called, *Delivering Good Governance in Local Government: Framework and Guidance*. The CIPFA/SOLACE Framework requires each local authority to prepare and adopt a framework to assist in developing and maintaining their own governance arrangements and fulfil their responsibility for proper conduct of public business.
- 3.2.2. Councils need to adopt a local Code of Corporate Governance that sets out a commitment to corporate governance and how the approved code will be developed and implemented. 2007/08 was the first year of implementation and the Audit Committee approved the Council's local code on 17 March 2008, embracing the CIPFA/SOLACE Framework. A report to reaffirm the code is also being considered at this Committee meeting (10 June 2015).
- 3.2.3. The framework and process to compile the Annual Governance Statement reflecting current procedures is attached at Appendix Three.

3.2.4. The Strategic Director (Resources) has continued to keep the corporate governance arrangements under review throughout the year to ensure that they are fit for purpose and provide value for money for the Council in the context of the challenges faced from the on-going funding reductions.

3.2.5. Within Stevenage Borough Council, Corporate Governance operates to:

- Establish and monitor the Council's vision and objectives
- Facilitate policy and decision making
- Ensure compliance with policies, procedures, laws and regulations
- Ensure the economic, efficient and effective use of resources and secure continuous improvements
- Enable the financial management of the Council and financial reporting
- Support delivery of high quality services and effective performance management
- Identify and manage the Council's risks.

3.2.6. The CIPFA/SOLACE Framework applied by the Council focuses on six key principles of corporate governance (as set out in paragraph 3.2.7) and sets out a process that should be followed to enable the authority to review and improve governance arrangements. These actions have been applied by officers and are summarised below:

- Review existing governance arrangements against the CIPFA/SOLACE Framework
- Develop and maintain an up to date local code of governance, including arrangements for ensuring its ongoing application and effectiveness
- Prepare a governance statement on an annual basis, to include how the effectiveness of governance arrangements have been monitored in the year and on any planned changes in the coming period
- Consider the extent to which the Council complies with the principles and requirements of good governance as set out in the model
- Identify systems, processes and documentation that provide evidence of compliance
- Identify the individuals and Committees responsible for monitoring and reviewing the systems, processes and documentation identified
- Identify the issues that have not been addressed adequately in the Council and consider how they should be addressed
- Identify the individuals who would be responsible for undertaking the actions required and plan accordingly.

3.2.7. The CIPFA/SOLACE six key principles are:

- A clear definition of the authority's purpose and desired outcomes: focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
- Well defined functions and responsibilities: Members and officers working together to achieve a common purpose with clearly defined functions and roles
- An appropriate corporate culture: promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Transparent decision making: taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- A strong governance team: developing the capacity and capability of Members and officers to be effective
- Real accountability to stakeholders: engaging with local people and other stakeholders to ensure robust public accountability.

3.3. Review of local governance arrangements

- 3.3.1. At a corporate level, assurance of compliance requires the assessment of local procedures and arrangements against the principles and requirements of good governance.
- 3.3.2. During 2014/15 Corporate Governance Group met at least quarterly to proactively consider the council's status of corporate governance with a focus on one or more of the CIPFA six principles at each meeting. This activity informed the annual assessment regarding the extent to which the Council complies with the principles and requirements of good governance as set out in the CIPFA/SOLACE model. The annual assessment was reported to this Committee on 23 March 2015.
- 3.3.3. Corporate Governance Group is chaired by the Director of Resources, with responsibility delegated by the Chief Executive. From April 2013, Corporate Risk Group and Corporate Governance Group were more closely aligned (forming Part A and Part B of Corporate Risk and Governance group) in order to enhance the links between risks and governance arrangements.
- 3.3.4. The corporate control environment is evidenced by a number of policies and plans, which are referred to as 'The Corporate Backbone' of the Council. The Corporate Backbone is attached as Appendix Four for information.
- 3.3.5. At service level, assurance of compliance with the principles and requirements of good governance requires all Heads of Service to complete, certify and return a Service Assurance Statement each year. The Service Assurance Statement is designed to provide assurance that the control environment operated effectively during 2014/15 in respect of the service areas for which they have responsibility. Appendix Five sets out:
- A summary of the progress made against any actions that were identified in 2013/14 statements for delivery in 2014/15

- Any areas of service governance of common concern identified in 2014/15 statements.
- 3.3.6. For the Shared Revenues and Benefits Service, a copy of the Anti-Fraud and Corruption Assurance Statement that asks the service manager to provide assurance that controls are in place to counter fraud risks, is obtained from East Hertfordshire District Council.
- 3.3.7. A new approach to publication of the Annual Governance Statement that will accompany the Statement of Accounts has been adopted for 2014/15 incorporating a more graphic, summarised format. The main Statement refers to more detailed governance arrangements outlined in the Stevenage Borough Council Governance Framework 2014/15 attached at Appendix Two.
- 3.3.8. As a result of the assessment of governance arrangements and procedures outlined in paragraphs 3.3.1 to 3.3.6, actions were identified to improve the high quality of governance arrangements already in place for the Council. Any actions deemed significant are included in summary in the Annual Governance Statement attached as Appendix One (page 3 of the document) and in the action plan in the Stevenage Borough Council Governance Framework 2014/15 at Appendix Two.
- 3.3.9. The signatories to the Annual Governance Statement (The Leader of the Council and the Chief Executive) must be satisfied that the document is supported by reliable evidence, and the procedures outlined in paragraphs 3.3.1 to 3.3.6 are in place to demonstrate this.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

- 4.1. The Annual Governance Statement must be approved by the Audit Committee, as outlined in paragraph 3.1.1 before accompanying the Statement of Accounts.
- 4.2. The proposed Annual Governance Statement for 2014/15 is attached as Appendix One. The Statement is intended to provide public assurance that the Council has sound governance arrangements, including a sound system of internal control, designed to help manage and control business risk. The document is an important public expression of the arrangements the Council applies to achieve good business practice, high standards of conduct, and sound governance.
- 4.3. Arrangements for governance were reviewed across the organisation:
- At a corporate level as outlined in paragraphs 3.3.1 to 3.3.4
 - At a service level as outlined in paragraphs 3.3.5 and 3.3.6
- 4.4. The proposed Annual Governance Statement has been reviewed by Strategic Management Board to ensure it accurately reflects the corporate governance environment at the Council, and has been reviewed by the Shared Internal Audit Service.

4.5. The proposed Annual Governance Statement at Appendix One identifies any significant actions identified to improve the high quality of governance arrangements in place across the Council.

4.6. Actions are considered significant if any of the following applies:

- The related requirement in the local assessment of six principles has been scored at seven or below
- The action applies to more than one requirement in the six principles local assessment
- Analysis of Service Based Assurance Statements identifies a common concern
- The action results from internal audit activity that the Shared Internal Audit Service has advised for inclusion in the Annual Governance Statement.

4.7. The two key areas of focus selected for improvement are:

- Implementation of a new balances and payments system that will improve the current access arrangements available to customers (part of the Changing Channels Programme – The implementation of the online Customer Accounts forms part of the second phase of the Changing Channels Programme. The delivery date for this is still to be scoped)
- A comprehensive review of current corporate procurement & contract management arrangements has been undertaken. The resulting recommendations and related resource implications from this review will be considered by SMB in the near future. Further to this relevant staff will receive contract management training.

4.8 The proposed Annual Governance Statement refers to more detailed governance arrangements for the Council set out in the Stevenage Borough Council Governance Framework 2014/15 (attached as Appendix Two). The review arrangements outlined in paragraphs 3.3.1 to 3.3.6 also applied to the compilation of the Framework 2014/15.

5. IMPLICATIONS

5.1. Financial Implications

5.1.1. Robust scrutiny of the Council's Annual Governance Statement and Framework applied in line with best practice will further strengthen the Council's sound base of strong financial management and assist in reducing risk.

5.2. Legal Implications

5.2.1. It is a requirement of the Accounts and Audit (England) Regulations 2011 that the Council publish an Annual Governance Statement.

5.3. Risk Implications

- 5.3.1. A strong internal control environment contributes to the overall effective management of the Council and will minimise the risks of the Council failing to achieve its ambitions and priorities, and service improvements.
- 5.3.2. Without robust governance arrangements, there are potential service continuity and reputation risk implications.

5.4. Equality and Diversity Implications

- 5.4.1. Officers responsible for the delivery of any improvement actions identified will also be responsible for completion of any relevant Equality Impact Assessments.

5.5. Other Corporate Implications

- 5.5.1. All aspects of the work of the Council are affected by its corporate governance arrangements, as well as the Council's partners in service delivery and other agencies with which the Council shares information. External bodies in particular, need to have confidence in the way the Council operates and this can be achieved by demonstrating robust governance arrangements that are fully embedded.

6. BACKGROUND DOCUMENTS

- CIPFA/SOLACE document – Delivering Good Governance in Local Government
- Stevenage Borough Council - Local Code of Corporate Governance
- External Auditor – Annual Audit and Inspection Letter

7. APPENDICES

- Appendix One – Annual Governance Statement 2014/15
- Appendix Two – Stevenage Borough Council Governance Framework 2014/15
- Appendix Three - Annual Governance Statement: Framework for compiling the AGS
- Appendix Four – Annual Governance Statement: Corporate Backbone
- Appendix Five – Overview of Service Based Governance Review 2014/15