

Meeting: **Audit Committee**

Agenda Item: **7**

Portfolio Area: All

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Annual Governance Statement 2015/16

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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 2015/16, 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 2015/16 Annual Governance Statement, attached as Appendix One, for approval by Statement of Accounts Committee.

3. BACKGROUND

3.1. Legislative background

- 3.1.1. Regulation 6 of the 2015 Accounts and Audit (England) Regulations requires that:

- The Council shall be responsible for ensuring that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective 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
- 3.1.2. Regulation 10(1)(b) of the 2015 Accounts and Audit (England) Regulations requires that the Annual Governance Statement, approved in accordance with regulation 6 of the regulations, must be published on the authority's website, after approval of the Statement of 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 2015 Accounts and Audit (England) Regulations reinforce this with a clear reference to the preparation of an Annual Governance Statement in accordance with proper practices (Regulation 6(4b)). The Annual Governance Statement 2015/16 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. These regulations will require publication of the Draft Statement of Accounts and Annual Governance Statement by 31 May in future years. However, a transitional period applies and the authority has until 2018 publication 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 also 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 a local Code of Corporate Governance that summarises the system by which the Council directs and controls its functions, and relates to its local community, was initially approved by Audit Committee on 17 March 2008 and reaffirmed on 10 June 2015.
- 3.2.3. The framework and process to compile the Annual Governance Statement reflecting current procedures is attached at Appendix Two.
- 3.2.4. The process in place to review internal control arrangements against the CIPFA/SOLACE Framework, Delivering Good Governance facilitates an update on the detailed arrangements in place in support of the local Code on an annual basis. A summary of the key enhancements delivered in 2015/16, significant enhancement activity for delivery in 2016/17 and scheduled future enhancement activity as a result of the annual assessment was reported to this Committee on 29 March 2016.

3.2.5. The Assistant Director Finance 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.

3.2.6. 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.

3.2.7. The CIPFA/SOLACE Framework applied by the Council focuses on six core principles of corporate governance (as set out in paragraph 3.2.8) 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:

- Develop and maintain an up to date local code of governance, including arrangements for ensuring its ongoing application and effectiveness
- Review existing governance arrangements against the CIPFA/SOLACE Framework
- 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
- 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.

3.2.8. The CIPFA/SOLACE six core 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 2015/16 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. A summary of the key enhancements delivered in 2015/16, significant enhancement activity for delivery in 2016/17 and scheduled future enhancement activity as a result of the annual assessment was reported to this Committee on 29 March 2016.
- 3.3.3. 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 documents that form the Corporate Backbone were outlined in the summary of the annual assessment reported to this Committee on 29 March 2016.
- 3.3.4. Corporate Governance Group is chaired by the Assistant Director Finance, 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.
- 3.3.5. 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 2015/16 in respect of the service areas for which they have responsibility. Appendix Three sets out:

- A summary of the progress made against any actions that were identified in 2014/15 statements for delivery in 2015/16.
- A summary of actions identified for delivery in 2016/17.

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. 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 the Action Plan in the Annual Governance Statement attached as Appendix One (page 20 of the Statement).

3.3.8. Actions are deemed 'significant' if recommended for reflection in the Annual Governance Statement by the Shared Internal Audit Service or if considered important in the management of 'very high/high level' strategic risks. By adopting this approach, any concerns over key controls that have a material effect on corporate governance arrangements should be addressed.

3.3.9. Areas identified for enhancement are:

- Refresh of the asset review based on the current condition survey to ensure efficient use of the council's assets and to identify development opportunities and assist achievement of capital receipts. (Alignment to Asset Management, Housing Development and Capital risk mitigation)
- Implementation of a revised Security Incident Management Policy and Procedure and a programme of Information security training.
- A review of Data Protection Guides/Protocols.
- A review of Building Maintenance Operations (BMO) function has been completed to ensure alignment to strategic focus and refocus BMO operations on core activities. A period of transition will apply during 2016/17 with full implementation by March 2018.
- To facilitate delivery of defined outcomes on a sustainable basis within the resources that will be available, the HRA Business Plan is being fundamentally reviewed to give due consideration to the impact of recent Government policy and legislation progressing through Parliament. Delivery of the plan will be monitored through Future Town Future Council Excellent Council Homes for Life and budget monitoring procedures.

3.3.10. 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.

3.4. The CIPFA/IFAC International Framework

- 3.4.1. A relatively recent development in Corporate Governance, the CIPFA/IFAC International Framework '*Good Governance in the Public Sector*' was published in August 2014. CIPFA/SOLACE have consulted with local authorities and developed a set of governance outcomes and behaviours that reflect this new framework within their own 'Delivering Good Governance in local Government Framework' for the proactive review of arrangements in 2016/17 (for annual reporting to Audit Committee from March 2017).
- 3.4.2. As Audit Committee was advised on 29 March 2016, the new principles are largely reflected in the current Framework. The primary additional element of the new International Framework is a focus on the long-term sustainability and impact of responsibilities (Principle C: Defining outcomes in terms of sustainable economic, social and environmental benefits).
- 3.4.3. Corporate Governance Group carried out an initial review of the Council's arrangements against this emerging new focus in March 2015. A further review was carried out for 2015/16 and an enhancement activity aligned in relation to the fundamental review of the Housing Revenue Account Business Plan, as set out in paragraph 3.3.9 and the Action Plan on page 20 of Appendix One.

4. REASONS FOR RECOMMENDED COURSE OF ACTION AND OTHER OPTIONS

- 4.1. The Annual Governance Statement must be considered 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 2015/16 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, as set out in paragraph 3.3.9 and Appendix One (page 20).

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 2015 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, "Delivering Good Governance in Local Government" (2012 Framework and Guidance)
- CIPFA/IFAC International Framework: 'Good Governance in the Public Sector (published August 2014)
- Audit Committee Report – Corporate Governance Arrangements: 29 March 2016
- Stevenage Borough Council - Local Code of Corporate Governance

- External Auditor – Annual Audit and Inspection Letter

7. APPENDICES

- Appendix One – Annual Governance Statement 2015/16
- Appendix Two - Annual Governance Statement: Framework for compiling the AGS
- Appendix Three – Overview of Service Based Governance Review 2015/16