

Meeting: **Audit Committee**

Agenda Item:

Portfolio Area: All

Date: **12 June 2018**

Annual Governance Statement 2017/18

Author – Elaine Wright, ext 2192

Contributors – All Assistant Directors, Clare Davies, Paul Tyler, Suzanne Brightwell, Chris Wood (Shared Internal Audit Service)

Lead Officer – Clare Fletcher, ext 2933

Contact Officer – Elaine Wright, ext 2192

1. PURPOSE

- 1.1. To advise Members of the Audit Committee on the content of the Council’s Annual Governance Statement for 2017/18, following the review of the effectiveness of the Council’s system of internal control and governance arrangements.

2. RECOMMENDATIONS

- 2.1. That Members of the Audit Committee recommend the Council’s 2017/18 Annual Governance Statement, attached as Appendix One, for approval by the 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. 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.

3.1.3. 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 2017/18 is attached as Appendix One.

3.1.4. The Accounts and Audit Regulations 2015 apply to arrangements for the review of financial control and publication of the Annual Governance Statement. These Regulations require publication of the Draft Statement of Accounts by 31 May and approved Statement of Accounts by 31 July. The Statement of Accounts should be accompanied by the Annual Governance Statement. The Annual Governance Statement at Appendix One will be published on the Council's website to accompany the Statement of Accounts to comply with this legislation.

3.2. Local Code of Corporate Governance

3.2.1. In April 2016, CIPFA/SOLACE published a reviewed publication of 'Delivering Good Governance in Local Government: Framework and Guidance' that reflects the International Framework: 'Good Governance in the Public Sector' developed by CIPFA/IFAC and published July 2014. The purpose of the Framework is to support each local authority in developing and shaping an informed approach to governance, aimed at achieving the highest standards of governance in a measured and proportionate way.

3.2.2. The 2016 CIPFA/SOLACE Framework identifies seven core principles:

A: Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of the law

B: Ensuring openness and comprehensive stakeholder engagement

(Principles A and B are considered fundamental and applicable through principles C to G)

C: Defining outcomes in terms of sustainable economic, social and environmental benefits

D: Determining the interventions necessary to optimise the achievement of intended outcomes

E: Developing the entity's capacity, including the capability of its leadership and the individuals within it.

- F: Managing risks and performance through robust internal control and strong public financial management
- G: Implementing good practices in transparency, reporting and audit to deliver effective accountability

3.2.3. The Framework requires each local authority to prepare a Local Code of Corporate Governance which sets out a commitment to corporate governance and outlines the unique local governance arrangements in place to reflect the outcomes and behaviours associated with each of the core principles outlined in paragraph 3.2.2.

3.2.4. The Council's Local Code of Corporate Governance was reported to this Committee (15 June 2017) with fundamental review due June 2020.

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 use of resources and secure continuous improvements
- Support delivery of high quality services and effective performance management
- Identify and manage the Council's risks.

3.3. Local Framework – Reviewing the effectiveness of local governance arrangements

3.3.1. The CIPFA/SOLACE Framework, 'Delivering Good Governance in Local Government Framework' (2016) also requires each local authority to adopt a local framework that sets out the process used to develop and maintain their own governance arrangements and fulfil their responsibility for proper conduct of public business.

3.3.2. The local framework outlining the current process to compile the Annual Governance Statement including the proactive review of governance arrangements in-year is attached as Appendix Two.

3.3.3. The Assistant Director Finance and Estates 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.

3.3.4. The local framework facilitates a review of the effectiveness of the governance arrangements set out in the Local Code of Corporate Governance having consideration for the outcomes and behaviours associated with each of the core principles (outlined in paragraph 3.2.2). The effectiveness of governance arrangements is considered on an annual basis with proactive assessment in-year (as outlined in paragraphs 3.4.1 to 3.4.5).

3.3.5. The local framework (outlined in Appendix Two) identifies the process to be followed to enable the authority to review governance arrangements and identify areas of governance to be strengthened. This process, summarised below, has been applied for 2017/18:

- 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, behaviours and actions that demonstrate good governance as set out in the CIPFA/SOLACE 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.

3.4. Review of local governance arrangements

3.4.1. At a corporate level, assurance of compliance with the CIPFA/Solace Framework 2016, 'Delivering Good Governance in Local Government' requires a review of the effectiveness of governance arrangements in place (Local Code) having consideration for the behaviours and outcomes outlined in the CIPFA/SOLACE Framework 2016 to demonstrate good governance.

3.4.2. During 2017/18 Corporate Governance Group met quarterly to proactively consider the Council's status of corporate governance with a focus on one or more of the CIPFA/SOLACE seven principles at each meeting. This activity informed the annual assessment regarding the extent to which the arrangements set out in the Council's Local Code continue to be robust and as a result how the Council complies with the principles and requirements of good governance set out in the CIPFA/SOLACE model. A summary of key enhancements delivered in 2017/18, and future enhancement activity was reported to this Committee on 26 March 2018.

3.4.3. 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 Corporate Backbone is attached as Appendix Three.

- 3.4.4. Corporate Governance Group is chaired by the Assistant Director Finance and Estates with responsibility delegated by the Chief Executive. Corporate Risk Group and Corporate Governance Group are closely aligned in order to capture information links between risks and governance arrangements.
- 3.4.5. At business unit level, assurance of compliance with the principles of good governance requires all Assistant Directors 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 2017/18 in respect of the business units for which they have responsibility. Appendix Four sets out:
- A summary of the progress made against any actions that were identified in 2016/17 statements for delivery in 2017/18.
 - A summary of actions identified for delivery in 2018/19.
- 3.4.6. As a result of the assessment of governance arrangements and procedures outlined in paragraphs 3.4.1 to 3.4.5 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 (pages 21/22 of the Statement)
- 3.4.7. 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 and associated delivery of priority outcomes should be addressed.
- 3.4.8. Areas identified for enhancement are:
- Development of a new Housing Asset Management Strategy to set the framework for maintaining the Council's housing stock effectively
 - Enhancement of the General Fund Asset Management Strategy by incorporating the Council's cooperative principles to ensure that the Council's fundamental principle of working with the community to manage the Council's assets is reflected.
 - Ongoing completion and embedding of the Repairs and Voids improvement plan.
 - Ongoing implementation of the restructure of services through Future Council Business reviews to improve corporate capacity and deliver sustainable services that better meet the needs of customers.
 - Deliver a wide range of IT enhancements through the implementation of the Technology Shared Service Improvement Plan to ensure the Council continues to provide a secure and high performing IT environment.
 - Embed information management arrangements across the Council to ensure that best practice records management continues to be applied.

- To further enhance health and safety arrangements, an initial action plan has been produced for completion by June 2018. Ongoing activity may be identified as a result of Assistant Director and internal/external peer reviews to be addressed in an appropriate timeframe.

3.4.9. The Shared Internal Audit Service (SIAS) has assigned

- ‘Substantial’ assurance for financial systems for 2017/18: Whilst there is largely a sound system of control; there are some minor weaknesses, which may put a limited number of the system objectives at risk
- ‘Moderate’ Assurance for non-financial systems for 2017/18: Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.

The approved audit plan for 2017/18 included a range of non-financial audits that focused on complex services and areas in transition and this has had an impact on the assurance levels provided. Actions to enhance governance for the areas highlighted by SIAS have been identified and prioritised.

3.4.10. Areas for enhancement (set out in paragraph 3.48) reflect activity currently identified in response to audit findings recommended for reflection in the Annual Governance Statement. As outlined in paragraphs 3.4.1 to 3.4.5 pro-active reviews of governance arrangements are carried out to identify any future activity.

3.4.11. Corporate Governance Group monitor the delivery of actions to strengthen governance identified both at a corporate and business unit level.

3.4.12. 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 3.4.1 to 3.4.5 are in place to demonstrate this.

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 2017/18 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 3.4.1 to 3.4.4
- At a service level as outlined in paragraph 3.4.5.

- 4.4. The proposed Annual Governance Statement has been reviewed by senior management 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 3.4.8 and Appendix One (pages 21/22)

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. Equalities 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 (2016 Framework and Guidance)
- CIPFA/IFAC International Framework 'Good Governance in the Public Sector (published August 2014)
- Audit Committee Report – Corporate Governance Arrangements: 26 March 2018.

- Stevenage Borough Council – Local Code of Corporate Governance
- External Auditor – Annual Audit and Inspection Letter

7. APPENDICES

- Appendix One – Annual Governance Statement 2017/18
- Appendix Two – Annual Governance Statement: Framework for compiling the AGS
- Appendix Three – Corporate Backbone
- Appendix Four – Overview of Service Based Governance Review 2017/18.