

**Meeting:**           **Audit Committee**

Portfolio Area:    All

**Date:**             **11 June 2019**

## **Annual Governance Statement 2018/19**

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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 2018/19, following the review of the effectiveness of the Council’s system of internal control and governance arrangements.

### **2.       RECOMMENDATIONS**

- 2.1.    That the Audit Committee recommend the Council’s 2018/19 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 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)).

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 2006, CIPFA/SOLACE produced a publication called, Delivering Good Governance in Local Government: Framework and Guidance. In April 2016, CIPFA/SOLACE published a reviewed Framework and Guidance that reflects the International Framework: 'Good Governance in the Public Sector' developed by CIPFA/IFAC, 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 a full review due every three years with the next full 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 improvement
- 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) 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. 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 2018/19:

- 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 an Annual Governance Statement, 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 2018/19 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 2018/19, and future enhancement activity for 2019/20 was reported to this Committee on 19 March 2019.

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 risk 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 2018/19 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 2017/18 statements for delivery in 2018/19.
  - A summary of actions identified for delivery in 2019/20.
- 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 24-27 of the AGS).

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.

- 3.4.7. Actions identified for 2019/20 are:
- Implementation of the actions identified for 2019/20 to implement the first phase of the Housing Asset Management Strategy Action Plan which was agreed at Executive in March 2019. The Strategy sets out the underlying principles which sit behind excellent asset management for the Council and the key strategic projects and programmes required to ensure the council drives maximum value from its assets whilst providing high quality homes for its tenants. The Strategy will allow the Council to meet its strategic goals of having fit for purpose, safe, well maintained and well-presented stock with a view to optimising housing development opportunities where appropriate.
  - Implementation of the actions identified for 2019/20 to implement the first phase of the General Fund Asset Management Strategy Action Plan which was agreed at Executive in July 2018. The strategy sets out the Council's approach to management of its non-housing assets, land and buildings and provides the framework for decision making across the estate. The new framework is intended to have a life of five years. The general approach to asset management is likely to remain constant for this period, but the action plan will be the key change document.
  - Implement changes to procedures to enhance document retention arrangements in relation to the enforcement of anti-social behaviour action.

- Continue to implement the restructure of services through Future Council Business Reviews to improve corporate capacity and deliver sustainable services that meet the needs of customers. In addition, further activity to enhance capacity is reflected in the Employer of Choice programme with a focus for 2019/20 on people development, performance management, ways of working and resourcing.
- The Shared IT service to continue to develop and implement a strategy and programme of activity to enhance IT infrastructure, cyber security, governance arrangements, policy framework and resilience.
- Continue to enhance and embed information management arrangements to ensure that best practice records management across the Council continues to be applied and customer data is stored securely and appropriately managed.
- Embed the new Health and Safety Framework to ensure health and safety compliance and performance across the Council.
- To enhance CCTV governance arrangements the Governance Framework for the CCTV Partnership to be reviewed by the CCTV Joint Executive and Company Board of Directors and a five year rolling business plan to be developed.

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

- ‘Good’ assurance for financial systems for 2018/19: meaning the design and operation of the internal control framework is effective, thereby ensuring that the key risks in scope are being well managed and core objectives will likely be achieved. There are minor reportable audit findings.
- ‘Satisfactory’ Assurance for non-financial systems for 2018/19: meaning the internal control framework is largely working well in managing the key risks in scope, with some audit findings related to the current arrangements.

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

3.4.10. The signatories to the Annual Governance Statement (The Leader of the Council and the Interim 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 2018/19 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 3.4.7 and Appendix One (pages 24-27 of the AGS).

## **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 publishes 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: 19 March 2019.
- Stevenage Borough Council – Local Code of Corporate Governance
- External Auditor – Annual Audit and Inspection Letter

## **7. APPENDICES**

- Appendix One – Annual Governance Statement 2018/19
- Appendix Two – Annual Governance Statement: Framework for compiling the AGS
- Appendix Three – Corporate Backbone
- Appendix Four – Overview of Service Based Governance Review 2018/19.