

Meeting: **Audit Committee**

Portfolio Area: All

Date: **9 June 2020**

Annual Governance Statement 2019/20 and Local Code of Corporate Governance

Author – Suzanne Brightwell, ext 2966

Contributors – All Assistant Directors, Simon Martin (Shared Internal Audit Service)

Lead Officer – Clare Fletcher, ext 2933

Contact Officer – Suzanne Brightwell, ext 2966

1. PURPOSE

- 1.1. To advise Members of the Audit Committee on the content of the Council's Annual Governance Statement for 2019/20, 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 2019/20 Annual Governance Statement, attached as Appendix One, for approval by the Statement of Accounts Committee.
- 2.2. That Members of the Audit Committee approve the changes to the Council's Local Code of Corporate Governance, attached at Appendix Two.

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 usually require publication on the Council's website of the Draft Statement of Accounts by 31 May and approved Statement of Accounts by 31 July. The draft and approved Statement of Accounts should be accompanied by the Annual Governance Statement. The Annual Governance Statement at Appendix One will therefore be published on the Council's website to accompany the Statement of Accounts to comply with this legislation.
- 3.1.5. In response to the COVID-19 crisis, the publication date for the 2019/20 draft Statement of Accounts has moved from 31 May to 31 July 2020 and the publication of the final, audited accounts has been moved from 31 July to 30 November 2020. The Annual Governance Statement therefore needs to be published on the Council's website in draft by 31 July 2020 and in its final version by 30 November 2020 with the approved Statement of Accounts.
- 3.1.6. Due to this extended timeline, the impact of COVID-19 on the Council's governance arrangements for the months of April and May 2020 have been included in the attached AGS. There may need to be further updates the AGS, to reflect any further significant governance updates between now and the date of approval of the Statement of Accounts (scheduled for November 2020) and these changes will be reported to the Audit Committee which will meet prior to the Statement of Accounts Committee in November.
- 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. 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.

3.2.5. 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.

3.2.6. The Local Code of Corporate Governance has therefore been reviewed this year and the changes made are summarised in the table below. The revised Local Code is attached at Appendix Two.

Principle	Change
Principle A	Reference to RIPA 2000 legislation added.
Principle B	Reference to the new Community Engagement Framework added.
Principle B	Reference to the Council's intranet which provides staff with updates, news, blogs and information
Principle B	The new Hertfordshire Home Improvement Agency has been added to the list of Shared Services
Principle C	Reference to the updated Local Development Scheme which was agreed by Executive in April 2019, which sets out milestones for the examination of the Local Plan and its adoption, has been added
Principle C	Reference to the FTFC Programme Board added
Principle D	Reference to the Council's five year Capital Strategy added.
Principle D	Reference to the five year Housing Asset Management Strategy and action plan, which was approved by Executive in March 2019, added.
Principle D	Reference to the General Fund Asset Management Strategy and rolling five year action plan added.
Principle D	Reference to the Housing Development and Regeneration Executive Committee added
Principle E	Reference to REAL Conversations added.
Principle E	Reference to the Competency Framework for all staff added
Principle E	Reference to new induction training arrangements via e-learning and targeted induction training added
Principle E	Reference to new e-learning for all staff added
Principle F	Reference to InPhase, the Council's performance and governance system added
Principle F	Reference to Corporate Governance Group added
Principle F	Reference to new General Data Protection Regulations and the Council's revised arrangements to meet the requirements of these Regulations added.

Principle G	Reference to the arrangements for responding to Freedom of Information requests has been added.
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3.2.7. It is being recommended that in future the Council's Local Code of Corporate Governance is reviewed each year and reported as an Appendix to the Annual Governance Statement to Audit Committee. This will ensure that the Local Code of Corporate Governance is kept up to date and aligns with the Annual Governance Statement.

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 Three.

3.3.3. The Chief Finance Officer 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.

3.3.5. The Local Framework (outlined in Appendix Three) 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 2019/20:

- 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 2019/20 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.
- 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 Four.
- 3.4.4. Corporate Governance Group is chaired by the Strategic Director (Chief Finance Officer), 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 2019/20 in respect of the business units for which they have responsibility. Appendix Five sets out:
- A summary of the progress made against any actions that were identified in 2018/19 statements for delivery in 2019/20.
 - A summary of actions identified for delivery in 2020/21.
- 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 31-34 of the AGS).

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 Actions identified for 2020/21 are:

- Implementation of the key action identified in the General Fund Asset Management Strategy Action Plan to undertake Local Asset reviews of the Council's current land and buildings.
- Continue to ensure good governance of the key regeneration projects including the Queensway and SG1 Schemes.
- Ensure the Shared Hertfordshire Home Improvement Agency, operated by Hertfordshire County Council, can deliver its financial targets in the medium term, as well as ensure that minimum key standards are being met, enhance its governance structure and ensure the service is offering value for money.
- Ensure there is a clear governance structure through a corporate landlord function and ensure compliance of the Council's non-housing property by carrying out a review of the current arrangements and responsibilities for maintaining these properties.
- A programme of work to be carried out to ensure that the Council's ambitious commercial agenda can be achieved. This will include increased commercial capacity and information as well as enhancing the financial and legal skills of those involved in complex investment or commercial decision making.
- A programme of work in response to the COVID-19 pandemic, to ensure the Council can reinstate and continue to deliver services, continue to meet its FTFC ambitions and enable recovery from the effects of the virus in the town.
- 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 2020/21 on undertaking a skills/capacity gap analysis, introducing tools and techniques to manage change, development of communication/engagement strategies that will enable staff to have a clear understanding of organisational direction and recruitment to a number of key posts across the Council.
- The Shared IT service to implement a programme of activity to further 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.
- Continue to further enhance Health and Safety arrangements to ensure health and safety compliance and performance across the Council.

3.4.9 The Shared Internal Audit Service (SIAS) has assigned Satisfactory' assurance for both financial systems and non-financial systems for 2019/20: 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.

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

3.4.11 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 2019/20 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 3.4.5
- 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 31-34 of the AGS).

4.6 The Council's Local Code of Corporate Governance has been updated to reflect changes in the Council's governance arrangements since its last review in June 2017 and the changes are reflected in this report in paragraph 3.2.6. The revised Local Code is attached at Appendix Two.

- 4.7 To ensure that the Code is kept up to date and aligns with the Annual Governance Statement, it is being recommended that the Local Code is reviewed and updated each year to reflect governance changes in year and reported as an Appendix to the Annual Governance Statement to Audit Committee.

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)
- External Auditor – Annual Audit and Inspection Letter

7. APPENDICES

- Appendix One – Annual Governance Statement 2019/20
- Appendix Two – Local Code of Corporate Governance (June 2020)
- Appendix Three – Annual Governance Statement: Framework for compiling the Annual Governance Statement
- Appendix Four – Corporate Backbone
- Appendix Five – Overview of Service Based Governance Review 2019/20.