

Meeting: **Audit Committee**

Agenda Item: **7**

Portfolio Area: All

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Annual Governance Statement 2016/17

Author – Elaine Wright, ext 2192

Contributors – All Assistant Directors, Jackie Foglietta, 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 2016/17, 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 2016/17 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. 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 2016/17 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. A transitional period applies and the authority has until the 2018 publication to meet this requirement. The Council have opted to meet the revised publication date for Draft Statement of Accounts 2016/17 and the Annual Governance Statement at Appendix One will be published on the Council's website to accompany the Statement of Accounts, once approved.

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 published July 2014. The Framework requires each local authority to prepare and adopt a local framework to assist in developing and maintaining their own governance arrangements and fulfil their responsibility for proper conduct of public business.
- 3.2.2. The local framework outlining the current process to compile the Annual Governance Statement is attached as Appendix Two.
- 3.2.3. Councils also need to adopt a Local Code of Corporate Governance that sets out a commitment to corporate governance and summarises local corporate governance arrangements in place to reflect the 'Delivering Good Governance in Local Government Framework'. The local framework outlined at Appendix Two facilitates a compliance assessment of the application of the Local Code of Corporate Governance on an annual basis (and proactive assessment in – year as outlined in paragraphs 3.3.1 to 3.3.6)
- 3.2.4. The Council's Local Code of Corporate of Corporate Governance initially approved by Audit Committee on 17 March 2008 and reaffirmed 10 June 2015 requires review to reflect the revised 'Delivering Good Governance in Local

Government Framework'. A revised Local Code of Corporate Governance applicable from the 2017/18 compliance assessment is reported to this Committee (15 June 2017).

3.2.5. The annual compliance assessment against the Local Code of Corporate Governance in place for 2016/17 and the revised CIPFA/SOLACE 'Delivering Good Governance in Local Government Framework' was initially carried out in February 2017. A summary of key enhancements delivered in 2016/17, and future enhancement activity was reported to this Committee on 28 March 2017.

3.2.6. 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.

3.2.7. 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

3.2.8. Application of the CIPFA/Solace Framework 2016 by the Council focuses on seven principles of corporate governance (as set out in paragraph 3.2.9). The local framework (outlined in Appendix Two) sets out a process that should be followed to enable the authority to review and improve governance arrangements. This process, summarised below, has been applied for 2016/17:

- Develop and maintain and 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.

3.2.9. The CIPFA/SOLACE seven core principles are:

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

3.3. 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 behaviours and actions that demonstrate good governance.

3.3.2. During 2016/17 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/SOLACE seven 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 key enhancements delivered in 2016/17, and future enhancement activity was reported to this Committee on 28 March 2017.

- 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 Corporate Backbone is attached as Appendix Three.
- 3.3.4. Corporate Governance Group is chaired by the Assistant Director Finance and Estates 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 2016/17 in respect of the service areas for which they have responsibility. Appendix Four sets out:
- A summary of the progress made against any actions that were identified in 2015/16 statements for delivery in 2016/17.
 - A summary of actions identified for delivery in 2017/18.
- 3.3.6. As a result of the assessment of governance arrangements and procedures outlined in paragraphs 3.3.1 to 3.3.5 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 17/18 of the Statement)
- 3.3.7. 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 should be addressed.
- 3.3.8. Areas identified for enhancement are:
- Activity to promote the consideration of commercial thinking and income opportunities over the wider organisation
 - Development of a new Asset Management Plan to support delivery of the Future Town, Future Council Programme.
 - Ongoing completion and embedding of the Repairs and Voids improvement plan.
 - Restructure of services through Future Council – Business reviews to improve corporate capacity.
 - Enhancements were carried out to governance arrangements associated with data protection and cyber security arrangements during 2016/17. Officer training is being scheduled for 2017/18. A Cyber

Security Action Plan (2017/18) is now in place which identifies a programme of work to deliver cyber security enhancements. Data protection guidance has been reviewed and is awaiting final approval

- Business continuity activity to increase the resilience of the Council's IT and telephony arrangements.

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 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 2016/17 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 paragraph 3.3.5.

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 3.3.8 and Appendix One (pages 17/18)

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: 28 March 2017.
- Stevenage Borough Council – Local Code of Corporate Governance
- External Auditor – Annual Audit and Inspection Letter

7. APPENDICES

- Appendix One – Annual Governance Statement 2016/17
- Appendix Two – Annual Governance Statement: Framework for compiling the AGS
- Appendix Three – Corporate Backbone
- Appendix Four – Overview of Service Based Governance Review 2016/17.