

Meeting: AUDIT COMMITTEE

Agenda Item:

Date: 10 June 2008

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ANNUAL GOVERNANCE STATEMENT 2007/08

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1 PURPOSE

That Members review the Council's Annual Governance Statement before its inclusion in the 2007/08 Statement of Accounts.

2 RECOMMENDATIONS

That the 2007/08 Annual Governance Statement be reviewed and any comments from the Audit Committee be presented to the Audit Committee at its next meeting on 24 June 2008.

3 BACKGROUND

3.1 Regulation 4 of the 2003 Accounts and Audit Regulations requires that:-

- the Council shall be responsible for ensuring that the financial management of the Council is adequate and effective and that the Council has a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes 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 and shall include such a statement in its Statement of Accounts.

3.2 The Accounts and Audit (Amendment) (England) Regulations 2006 introduced the following requirement:

- 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
- required bodies to review the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a

committee of the body, or by the body as a whole

- 3.3 In August 2006, circular 03/2006 issued by the Department for Communities and Local Government gave further guidance to clarify what is deemed as “proper practice”. This included the following documentation:-
Delivering Good Governance in Local Government: Framework and Guidance Note produced by CIPFA/SOLACE.
- 3.4 Circular 03/2006 has real significance for local authorities as it clarifies that the Annual Governance Statement (AGS) is assigned proper practice status and therefore has statutory backing. It took effect from 1 April 2007 and means the Annual Governance Statement formally replaces the Statement on Internal Control with effect from 2007/08. The proposed AGS is attached as Appendix 1.
- 3.5 The CIPFA/SOLACE Framework document focuses on the six key principles of corporate governance and has been endorsed by the Government, LGA and the Audit Commission. The Framework document commands each local authority to prepare and adopt a framework to assist in developing and maintaining their own governance arrangements and discharge their responsibility for proper conduct of public business.
- 3.6 As part of the framework, Council’s need to adopt a local Code of Corporate Governance that sets out a commitment to corporate governance and how they will demonstrate and implement that Code. The Audit Committee on 17 March 2008 approved this Council’s local code and embraced the CIPFA/SOLACE Framework.
- 3.7 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, law and regulations
 - ensure the economic, efficient and effective use of resources and securing 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.
- 3.8 The six key 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.

3.9 The Framework sets out a clear path for what authorities need to do to achieve Good Governance by applying the recommended principles. These actions are summarised below:-

- review existing governance arrangements against the CIPFA/SOLACE model Framework
- develop and maintain an up to date local code of governance, including arrangements for ensuring its ongoing application and effectiveness
- prepare a governance statement for inclusion in the 2007/08 Statement of Accounts
- 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.

3.10 The control environment is evidenced by a number of policies and plans, which are the 'Corporate Backbone' of the Council. A list of the documents, which make up the Corporate Backbone is attached as Appendix 2 for information.

3.11 A range of tasks were identified to enable the Council to meet the requirements and these included:-

	Task	Progress
1	Self assessment to determine how far our current processes and documentation meet the suggested criteria for each principle	Completed
2	Action Plan to address any gaps following the self assessment	Completed
3	Joint workshop arranged for members of the Audit and Standards Committees to discuss how the Council relates to each of the six principles	Completed
4	Review of best practice examples and case studies – 'not to re-invent the wheel'	Work in progress
5	Workshop with some Heads of Service to agree compliance with the six principles and how this is implemented across all services	Completed
6	Introduction of a toolkit to assess and review the quality of partnerships so that the Council has a consistent and rigorous approach to partnership working	Work in progress

	Task	Progress
7	Submission of a Local Code of Corporate Governance and agreement on the development of a Local Framework	Completed
8	Preparation of an Annual Governance Statement to be included in the annual Statement of Accounts	Completed

4 REASONS FOR RECOMMENDED COURSE OF ACTIONS AND OTHER OPTIONS

- 4.1 The Annual Governance Statement (AGS) forms part of the Statement of Accounts which will be presented to the Audit Committee on 24 June and then recommended to Council on 25 June for approval. In accordance with best practice the AGS has to be reviewed and approved by the Audit Committee as the Council's Committee responsible for receiving audit reports before its inclusion in the Statement of Accounts.
- 4.2 The proposed AGS for 2007/08 is attached as Appendix 1. The statement is intended to demonstrate 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 what the Council has done to put in place good business practice, high standards of conduct and sound governance. It links to the core and supporting principles of good governance.
- 4.3 In order to assist with supporting the Annual Governance Statement and indeed the assurance process, for the first time, all Heads of Service have completed, certified and returned a Service Based Governance Statement. This is a requirement under the CIPFA/SOLACE Framework. To complete the Service Based Governance Statement, Heads were required to:
- assess how effectively the control environment operated during 2007/08 in respect of the service areas for which they have responsibility
 - review the operation of the Council's system of internal control, within their service area, including risk management, score and supply evidence against each responsibility
 - identify risk areas/areas for improvement and related planned actions for improvement.
- 4.4 The draft 2007/08 AGS included as Appendix 1 has been reviewed by the Strategic Director – Resources (Chief Financial Officer) and endorsed by the Strategic Management Board. It has been reviewed by Internal Audit and also had input from SHL management. The latter is required because there is a statutory requirement where a Council has a group relationship in its Statement of Accounts, the AGS also covers all group activities. This also previously applied to the SIC.
- 4.5 Continuing emphasis is being placed on local authorities to improve their financial management arrangements. As part of the Audit Commission's review of local authorities, the Council undergoes annual Use of Resources assessments. The Annual Governance Statement forms part of the Internal Control theme. Overall, this theme deals with risk management and seeks to establish that:-

- the Council manages its significant business risks
- the Council has arrangements in place to maintain a sound system of internal control.

5 IMPLICATIONS

5.1 Financial Implications

5.1.1 None arising directly from this report

5.1.2 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 policies, aims and objectives.

5.1.3 Robust scrutiny of the Council's Annual Governance Statement and Framework in line with best practice, including the Audit Commission's Use of Resources assessment, will further strengthen the Council's sound base of strong financial management and assist in reducing risk.

5.2 Risk Management Implications

Risk Implication	Inherent Risk Score	Controls	Controlled Score
Category: Service Provision and Continuity Risk: If robust governance arrangements are not in place, this could interfere with service continuity due to a reduced level of understanding, awareness and evidence monitoring	Medium	Creation and adherence to the Local Code of Corporate Governance and Framework	Low
Category: Reputation Risk: Adverse comments in the Annual Audit and Inspection Letter with potential negative influence on any future CPA and Use of Resources outcome	High	Creation and adherence to the Local Code of Corporate Governance and Framework with continuous monitoring and annual review	Medium
Category: Reputation Risk: A diminished perception of the Council's governance arrangements by the public and other key stakeholders	High	Publication of the Local Code and Framework with it being made available on the Council's website	Medium

Risk Implication	Inherent Risk Score	Controls	Controlled Score
Category: Compliance Risk: Less evidence being available to the Chief Executive and the Leader of the Council when certifying the Annual Governance Statement on behalf of the Council	High	Use of Local Code and Framework to review current governance arrangements and compile evidence for the Annual Governance Statement	Medium

5.3 Legal Implications

It is a requirement for the Council to publish an Annual Governance Statement

5.4 Other Implications

All aspects of the work of the Council are affected by the corporate governance regime 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 corporate governance arrangements that are fully embedded.

BACKGROUND PAPERS

Stevenage Borough Council - The Review of the Effectiveness of the System of Internal Audit Report

CIPFA/SOLACE Document - Delivering Good Governance in Local Government

Stevenage Borough Council - The Local Code of Corporate Governance

Audit Commission – Review of Internal Audit Management Arrangements

Audit Commission – Annual Audit and Inspection Letter

APPENDICES

Appendix 1 – Annual Governance Statement 2007/08

Appendix 2 – Corporate Backbone

Appendix 3 – SHL's Annual Governance Statement 2007/08

Appendix 4 - Annual Governance Statement: Framework for Compiling the AGS