

Report to: Audit Committee

Date of meeting: 29 June 2017

Report of: Bob Watson – Head of Finance (shared services)

Title: Annual Governance Statement (AGS) 2016/17

1.0 SUMMARY

1.1 This report enables the Committee to agree the Annual Governance Statement for inclusion in the Draft Statement of Accounts.

2.0 RECOMMENDATIONS

- 2.1 That, the Committee considers and approves the Annual Governance Statement (AGS) attached as Appendix 1, the 2016/17 AGS Action Plan attached as Appendix 2 and the Local Code of Governance attached as Appendix 3.
- 2.2 That, subject to any changes required prior to their signing, the AGS be included in the Statement of Accounts for 2016/17.

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Report approved by: Joanne Wagstaffe Director of Finance

3.0 DETAILS

- 3.1 *The Report of the Committee on the Financial Aspects of Corporate Governance* (the Cadbury Report 1992) identified three fundamental principles of corporate governance – openness, integrity and accountability.
- 3.2 The Committee on Standards in Public Life (the Nolan Committee 1995) stated that the principles of public life are selflessness, integrity, objectivity, accountability, openness, honesty and leadership.
- 3.3 In 2001, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) published *Corporate Governance in Local Government – A Keystone for Community Governance: Framework*. This set out best practice for authorities to develop their own locally adopted codes.
- 3.4 In June 2007, CIPFA and SOLACE published *Delivering Good Governance in Local Government: Framework*. This recommended that a review of the effectiveness of the system of internal control should be reported in an AGS. The Framework informed authorities in England that its provisions were mandatory from 2007/08.
- 3.5 In March 2010, CIPFA published an Application Note to the Framework dealing with the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)*. This extended the contents of the AGS to include a specific statement on whether the authority's financial management arrangements conform to the governance requirements of the CIPFA Statement, and where they do not, to explain why and how they deliver the same impact.
- 3.6 Regulation 4 of *The Accounts and Audit (England) Regulations 2011* requires the Council to:
- Ensure that it has a sound system of internal control;
 - Conduct a review at least once a year of the effectiveness of its system of internal control;
 - Consider the findings of the review (either at a committee meeting or at Council) and, following that consideration, approve an AGS prepared in accordance with proper practices, and,

- Ensure that the AGS accompanies the Statement of Accounts (amending the need to produce a Statement on Internal Control),

3.7 The *Code of Practice on Local Authority Accounting in the United Kingdom 2015/16* (CIPFA/LASAAC) states that the preparation of an AGS fulfils the statutory requirement for a local authority to conduct a review at least once in each financial year of the effectiveness of its system of internal control, and that authorities should include an AGS reporting on the review in its Statement of Accounts. It also says that:

- The AGS should relate to the governance system as it applied during the financial year for the accounts that it accompanies;
- Significant events or developments relating to the governance system that occur between the year-end and the date on which the Statement of Accounts is signed by the responsible financial officer should be reported;
- Where an authority undertakes significant activities through group relationships, the review of the effectiveness of internal control should include the group activities

3.8 In April 2016, CIPFA/SOLACE published a 'Delivering Good Governance in Local Government: Framework and Guidance' that reflects the International Framework: Good Governance in the Public Sector (CIPFA/IFAC 2004).

This Framework document is intended to be followed as best practice for developing and maintaining a local code of governance and for discharging accountability for the proper conduct of public business, through the publication of an annual governance statement that will make the adopted practice open and explicit.

3.9 It is important that there is corporate involvement in, and ownership of, the process for preparing the AGS. Assurances have been sought from all service heads and other managers.

3.10 Each head of service assurance statement poses a number of questions concerning governance. The template is attached at Appendix 4. Heads of service were asked to indicate whether the matter has been fully addressed, partly addressed or not addressed at all. Heads of service and managers have indicated that every matter has been fully addressed.

- 3.11 The AGS also takes into account the matters identified in the Internal Audit Annual Report for 2016/17.
- 3.12 In the SIAS Annual Report for 2016/17 (elsewhere on this Agenda), The Head of Assurance has provided an assurance opinion on corporate governance and risk management. This states the Council's corporate governance and risk management framework substantially complies with the best practice guidance on corporate governance issued by CIPFA/SOLACE. This conclusion is based primarily on the work undertaken by the Council and reported in its Annual Governance Statement for 2016/17.

The Head of Assurance also provided the following assurance opinions on the adequacy and effectiveness of the internal control environment in the Council's systems, based on the programme of work undertaken by SIAS in the year:

- A substantial assurance opinion on financial systems, and
- A moderate assurance opinion on non-financial systems.

There are no qualifications to this assurance

- 3.13 The Head of Assurance is able to report a substantial level of conformance with the Public Sector Internal Audit Standards and considers the internal audit service to be effective. The exercise did not identify any significant deviations from Standards which warrant inclusion in the Council's AGS.
- 3.14 The proposed AGS for 2016/17 is attached at Appendix 1. It will need to include any significant events or developments relating to the governance system that occur between the year-end and the date on which the Statement of Accounts is signed. These will be agreed with the Committee at the time.

4.0 **IMPLICATIONS**

4.1 **Financial**

4.1.1 None Specific.

4.2 **Legal Issues** (Monitoring Officer)

4.2.1 None Specific.

4.3 Equalities

4.3.1 None Specific.

4.4 Potential Risks

The ongoing review of the Governance Statement is designed to minimise the risk of over-looking important issues. Failure to do so could lead to problems for the council, including financial loss, reputational risk and adverse comment from the external auditor.

Potential Risk	Likelihood	Impact	Overall score
Failure to correctly identify key issues	2	4	8

APPENDICES

- 1 Annual Governance Statement 2016/17
- 2 Action Plan
- 3 Local Code of Governance
- 4 Service assurance statement - template