



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
23rd June 2016	
9:30am	<u>Public</u>

ANNUAL GOVERNANCE STATEMENT (AGS) AND REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S SYSTEM OF INTERNAL CONTROLS 2015/16

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1. Summary

The Council is required under Regulation 6 of the Accounts and Audit Regulations 2015, to produce an Annual Governance Statement to accompany the annual statement of accounts, which must be signed by the Leader of the Council and the Head of Paid Service. This statement should be considered after a review of the effectiveness of the Council's system of internal controls as required by the Accounts and Audit Regulations 3. Members are asked to consider the proposed statement and the basis on which it has been compiled, and comment on its contents. This will help ensure that it remains a true reflection of the internal controls of the Council for 2015/16.

2. Recommendations

The Committee is asked to consider and approve, with appropriate comment, the Annual Governance Statement 2015/16 at **Appendix A**.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. Risk management is part of the overall internal control arrangements and contributes to the Council's strong governance. The AGS has been drafted based on information contained in the risk register alongside data from assurance statements and officer review groups. The strategic risk register is regularly monitored and updated by senior managers and is a useful, up to date tool to identify governance issues. Consequently this creates a clear link between the AGS, the strategic risk register, business planning and performance.
- 3.2. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.

- 3.3. There are no environmental consequences of this proposal and consultation has been used to inform the Annual Governance Statement by seeking assurances from senior officers as to the effectiveness of internal controls.

4. Financial Implications

- 4.1. Currently there are no financial implications in respect of the Statement. Any which arise when implementing future improvement activities will be reported upon separately.

5. Background

- 5.1 Shropshire Council is required to prepare an Annual Governance Statement; a statutory requirement set out in Regulation 6 of the Accounts and Audit Regulations 2015. In doing so the Council complies with the principles of corporate governance set out in the CIPFA/SOLACE Good Governance Framework (2007- reviewed and revised in 2012). The framework is a discretionary code which the Council is judged against it as part of best practice. The original framework outlines six core principles of good governance focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and leads the community. In July 2014, a joint report from CIPFA and the International Federation of Accountants (IFAC) was produced on the, "International Framework: good governance in the Public Sector". This report looked at governance across all public sector bodies and in reviewing the Annual Governance Statement has been referred to and used to further inform the process.
- 5.2 Both frameworks emphasise that good governance should be corporately owned. The degree to which the Council follows these principles should be declared in its Annual Governance Statement. The purpose of the Annual Governance Statement is to provide assurance that the Council has in place sound governance arrangements that are supported by effective systems of internal control.
- 5.3 The six core principles referred to in the CIPFA framework are:
- i) Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
 - ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles.
 - iii) Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
 - iv) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
 - v) Developing the capacity and capability of members and officers to be effective.
 - vi) Engaging with local people and other stakeholders to ensure robust public accountability.
- 5.4 In line with best practice the Council's existing Code of Corporate Governance has been reviewed and compliance assessed in light of the guidance issued. Looking forward, CIPFA have produced an updated framework and guidance note on good governance and this will be applied when reviewing the governance in place for the 2016/17 financial year.

- 5.5 Current guidance recommends that the Annual Governance Statement should include:
- i) Scope of Responsibility.
 - ii) The purpose of the governance framework.
 - iii) A description of the governance framework and the key elements of the systems and processes that comprise the authority's governance arrangements.
 - iv) Review of effectiveness.
 - v) Significant governance issues including an outline of the actions taken, or proposed, to deal with any significant governance issues identified.
- 5.6 The Annual Governance Statement is a key corporate document with the Chief Executive (CEO and Head of Paid Service) and the Leader having joint responsibility as signatories for its accuracy and completeness. It is also important that all other senior officers provide assurances to the process. As a corporate document which is owned by all senior officers and members, the preparation of the Annual Governance Statement is overseen and approved by directors supported by senior management.
- 5.7 In compiling the Annual Governance Statement a review of the effectiveness of the Council's systems of internal controls, as required by the Accounts and Audit Regulations 2015 (3), is conducted and information is obtained from a range of sources. As such, the signatories to the Statement can assure themselves that it reflects the governance framework for which they are responsible. **Annex A** of the Annual Governance Statement Framework 2015/16 clearly identifies the areas from which assurance and supporting evidence has been obtained, thereby demonstrating the effectiveness of the Council's systems of internal control. Further key assurances are provided via:
- i) CEO / Head of the Paid Service.
 - ii) Directors and senior management.
 - iii) Head of Finance, Governance and Assurance, Section 151 Officer and Responsible Financial Officer.
 - iv) Head of Legal, Democratic and Strategic Planning Services, Monitoring Officer.
 - v) Audit Service Manager.
 - vi) Performance and risk management officers and
 - vii) External Audit and other review agencies.
- 5.8 In being responsible for the first line of defence, Management have provided assurance as to whether adequate and effective governance arrangements are operating within their service area and whether they are promoting a strong risk culture within the Council as a whole. A summary of assurances from the senior managers is collated in the following diagram:

First line of defence - managers assurances 2015/16

Overall Assurance	
Purpose, Outcomes and Vision	Reasonable
Members and Officers functions and roles	Reasonable
Good governance, promoting values and demonstrating high standards of conduct and behaviour	Reasonable
Informed decision making, effectively scrutinised and managing risks	Good
Capacity and capability of members and officers	Reasonable
Engagement and robust public accountability	Reasonable

- 5.9 In order to moderate their views and to identify the significant governance issues to be identified in the AGS, Directors consider managers' assurances (first line of defence), information from their services and across the authority (second line of defence), and third party reports such as Ofsted, peer reviews, internal and external audit (third line of defence).
- 5.10 The Annual Governance Statement is a key document which identifies the strong systems and processes the Council has in place to continue its high standards of corporate governance. A copy of the Statement is attached as **Appendix A**.
- 5.11 The Council has identified the following significant governance issues.
- "The main challenges facing the Council appear below and are set in the context of delivering services to acceptable standards whilst achieving the budget savings required in 2016/17 and the overall funding gap of £80m as identified as part of the Business Plan and Financial Strategy. To ensure this is delivered and strategic risks managed, the Council will strive to achieve the following outcomes:*
- *Regular Sound engagement is in place between health and social care for the future provision of services, which includes the agreement of Clinical Health Commissioning funding on a case by case level through to service redesign and commissioning through the Better Care Fund, the Transforming Care Partnership and the Strategic Transformation Plan.*
 - *The Council is considering devolution opportunities with at least four partners:*
 - *The Marches*
 - *West Midlands Combined Authorities*

- Northern Gateway
- Middle England Authorities

- *Shropshire Council has maximised all opportunities from the Marches LEP*
- *There is an Economic Vision and Strategy for Shropshire*
- *The Council is communicating where it is going to all stakeholders through an approved Corporate Plan and associated strategies (E.g. workforce and IT).*
- *There are clear links between service delivery and the Corporate Plan.*
- *The Council's IT Strategy is established and underpins the Corporate Plan.*
- *IT solutions and systems have robust controls embedded within them to ensure business continuity in the event of a disaster.*
- *A balanced budget is achieved and resources allocated and managed effectively within known financial constraints.*
- *Human resources are skilled, knowledgeable and appropriate to deliver the Council's Corporate Plan. Especially in the areas of ICT and commissioning.*
- *Structural changes aligned to business plans are consulted upon, supported by staff and members, implemented and monitored for effectiveness.*
- *Adults and children are safeguarded. There are supporting governance arrangements and processes in place and consultation with key stakeholders.*

5.12 The associated risks have been identified, remain under close review and will be managed throughout the year given that they are key to ensuring the continued delivery of high quality services.

5.13 Action plans and programmes of monitoring and evaluation are in place and are regularly updated to support both of these issues over the current and future years. An overall outcome report will be made to the Audit Committee at the end of the year.

5.14 The action plan attached to the 2015/16 statement has been reviewed, details of which are incorporated into the AGS.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

- CIPFA/SOLACE - Publication - Delivering good governance in local government. Guidance note for English Authorities and Framework, 2007
- CIPFA: Delivering Good Governance in Local Government: Framework Addendum 2012
- Accounts and Audit Regulations 2015.
- Application Note to Delivering Good Governance in Local Government: A Framework CIPFA/SOLACE (March 2010)
- International Framework: Good governance in the Public Sector: International Federation of Accountants and CIPFA, July 2014

Cabinet Member (Portfolio Holder)

Malcolm Pate, Leader of the Council and Tim Barker, Chairman of Audit Committee.

Local Member N/A
Appendices
Appendix A - Annual Governance Statement 2015/16