



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
29 <sup>th</sup> June 2017	
9:30am	<u>Public</u>

## **ANNUAL GOVERNANCE STATEMENT (AGS) AND REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S SYSTEM OF INTERNAL CONTROLS 2016/17**

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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. 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 2016/17.

### **2. Recommendations**

The Committee is asked to consider and approve, with appropriate comment, the Annual Governance Statement 2016/17 at **Appendix A**.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1. Risk management is part of the overall arrangements for internal control and contributes to the Council's position of 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. In doing so the Council complies with the principles of corporate governance set out in the CIPFA and Solace new governance framework; *Delivering Good Governance in Local Government: Framework*, in April 2016, containing seven new governance principles. By adopting the new Framework the Council ensures that its governance arrangements in practice are in accordance with the framework's principles. The AGS is an accountability statement from the Council to stakeholders on how well it has delivered on governance over the course of the previous year. The benchmarks that are used to make that statement are the principles in the Framework.
- 5.2 The framework is a discretionary code which the Council is judged against as part of best practice. In addition to the Council acknowledging its responsibility for ensuring governance is effective, the AGS should:
- focus on outcomes and value for money;
  - evaluate against the local code and principles;
  - be in an open and readable style;
  - include an opinion on whether arrangements are fit for purpose;
  - include identification of significant governance issues and an action plan to address them;
  - be signed by the chief executive and leading member in a council.
- 5.3 The framework also requires a section that accounts for actions taken in the year to address the significant governance issues identified in the previous year's AGS. This has been integrated within each of the relevant principles. CIPFA has not established any 'set text' for authorities to use in acknowledging their responsibility for the governance framework.
- 5.4 The statement is meaningful and written as an open and honest reflection of the Council's governance and current challenges. It identifies areas for improvement in an action plan
- 5.5 The Audit Committee play a very valuable role in the development of the AGS and in the finished look of the statement. The Committee should understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the Committee. The Committee provides a valuable reality check for the document.
- 5.6 The Committee can send an important message about the value and importance of the AGS, which will assist those providing assurance to support its conclusions. Once the AGS has been approved, the Committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for improvement in governance.
- 5.7 The seven core principles referred to in the CIPFA framework are:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- B. Ensuring openness and comprehensive stakeholder engagement.
- C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
- D. Determining the interventions necessary to optimise the achievement of the 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.

5.8 The attached Annual Governance Statement, **Appendix A**, explains how the Council has complied with the Code of Corporate Governance and meets the requirements of the Accounts and Audit Regulations 2015. It is structured to reflect each of the principles in turn. Compliance with the Council's existing Code of Corporate Governance has been reviewed and assessed and is reported elsewhere on the Committee's agenda. Significant Governance Issues are identified for targeted improvement activities with identified lead officers and time frames.

5.9 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.

5.10 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 (AGS) Assurance Framework 2016/17 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) Head of Audit.
- vi) Performance and risk management officers and

vii) External Audit and other review agencies.

5.11 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).

5.12 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**.

5.13 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 2017/18 and the overall funding gap of £80m as identified as part of the Corporate Plan and Financial Strategy. To ensure this is delivered, and strategic risks managed, the Council will strive to achieve the following outcomes:*

- Services review, identify and deliver efficiency savings, financial assumptions become more refined and budget plans are in place to deliver services within the resources available.
- The workforce requirements are met by a sustainable source of people resources, flexible enough to reflect the changing needs of the Council.
- Staff are healthy and happy in the workforce and therefore perform to a high standard.
- Adults are safeguarded to the highest standards.
- Children are safeguarded to the highest standards.
- Improved business processes with embedded controls providing enhanced access to customers, better service delivery to clients and business continuity in the event of a disaster.
- Increased pressures on social and health services are known and managed in the most effect way within budget provisions.
- A clear long term budget is identified allowing for certainty in the delivery of future services.
- Contracts are well managed and maximum impact is obtained.
- Strategies deliver outcomes that support the overall direction of the Council.

5.14 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. In all cases, Directors have targeted where the risk appetite is to be directed for the end of the year.

- 5.15 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.
- 5.16 The action plan attached to the 2016/17 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. Framework 2016 Edition.
- CIPFA/SOLACE - Publication: Delivering Good Governance in Local Government: Guidance Notes for English authorities 2016 Edition.
- Accounts and Audit Regulations 2015.
- International Framework: Good governance in the Public Sector: International Federation of Accountants and CIPFA, July 2014

**Cabinet Member (Portfolio Holder)**

Peter Nutting, Leader of the Council and Peter M Adams, Chairman of Audit Committee.

**Local Member** N/A

**Appendices**

Appendix A - Annual Governance Statement 2016/17