

AUDIT COMMITTEE

Review of Governance and the Annual Governance Statement 2015/16

14 September 2016

Report of the Chief Executive

PURPOSE OF REPORT

To seek the Committee's recommendation for the adoption of the draft Annual Governance Statement for the 2015/16 financial year.

This report is public

RECOMMENDATIONS

- (1) That the draft Annual Governance Statement for 2015/16 (attached as Appendix B) be recommended for adoption and for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.

1.0 Introduction

- 1.1 The terms of reference of the Audit Committee include: "*To monitor the effective development and operation of risk management and corporate governance by considering the effectiveness of the Council's adopted local Code of Governance. Also to oversee the production of the authority's annual Governance Statement in accordance with the Accounts and Audit Regulations 2015 and recommend its adoption..* (The Constitution, part 3 section 8).
- 1.2 At its meeting on 29th June 2016 the Audit Committee considered a report from the Internal Audit and Assurance Manager providing an update on the 2015/16 governance review and the production of a draft Annual Governance Statement.

2.0 Report

- 2.1 The Annual Governance Statement as drafted at 29th June 2016 was published in draft format alongside the approved annual accounts for 2015/16 and made available for consideration by the Council's external auditor as part of the annual audit process.
- 2.2 As reported to the Audit Committee in June, the draft Governance Statement was considered and developed by Management Team (with the previous Chief Executive) at its meeting on 29th June 2016. The substance and conclusions of the governance review and the draft Statement were re-considered by Management Team and the current Chief Executive on 9th August 2016.

- 2.3 In relation to the production of a Governance Statement, “proper practices” are defined as those set out in a framework and guidance issued by CIPFA & SOLACE¹ during 2007, applying from the 2007/08 financial year onwards. Specifically, the Council is required to develop and maintain a Local Code of Corporate Governance (the current version was approved by Audit Committee on 19th September 2012) and to prepare a Governance Statement in order to report publicly on an annual basis on the extent to which the Council complies with its own Code.

3.0 Proposal Details

Review of Compliance with the Code of Governance

- 3.1 A review has been undertaken of the Council’s position and performance against the Code of Governance approved in September 2012. The results of the evaluation exercise are demonstrated in the Overview Chart and the Evaluation Summary which are attached at Appendix A. Please note that these will be printed in black and white but may be viewed in colour on computer screens.
- 3.2 The Code of Corporate Governance consists of a set of seventy-eight elements within the following six core principles, which underpin a council's system of governance:
- 1. Focusing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.**
 - 2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.**
 - 3. Promoting the values of the authority and demonstrating the values of good governance through behaviour.**
 - 4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.**
 - 5. Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers - also have the capability and capacity to deliver effectively.**
 - 6. Engaging with local people and other stakeholders to ensure robust local public accountability.**

Assurance

- 3.3 A document compiled to detail the identified “sources” of assurance for each element of the Code has again been updated. Sources of assurance range from a record of official policy and strategy documents such as the Constitution to the results of reviews such as Internal Audit and External Audit reports, to procedures such as one-to-one management meetings.
- 3.4 Individual “assurance statements” have been sought from managers at the level immediately below Chief Officer level, in relation to internal control and governance arrangements within their areas and this assurance has been built in to the overall evaluation.

¹ “Delivering Good Governance in Local Government” – CIPFA & SOLACE 2007

- 3.5 The Internal Audit and Assurance Manager's Annual Report and Assurance Statement for 2015/16 was considered by the Audit Committee on 29th June 2016. The report concluded that the Authority had a significant ongoing governance issue in relation to its information management arrangements and that this should be disclosed in the Governance Statement. The Internal Audit and Assurance Manager also advised that, whilst the audit work completed had not identified significant issues regarding the council's framework of governance, risk management and control, reductions in the amount of assurance work meant that he was only able to provide 'Limited' assurance for this particular period.

Annual Review of Internal Audit

- 3.6 An annual review of Internal Audit, providing an update on the position regarding Internal Audit's compliance with the *Public Sector Internal Audit Standards (PSIAS)* was considered by the Audit Committee on 29th June 2016.
- 3.8 The report concluded that the Audit Committee could take reasonable assurance that Internal Audit is operating effectively and could place reliance on its reports and work in considering the overall effectiveness of governance arrangements. The review did not identify any issues meriting disclosure in the Governance Statement and the current position regarding compliance with the PSIAS is reflected in the draft Governance Statement.

Governance Review - Evaluation Results

- 3.9 The Code of Governance comprises seventy-eight elements and the overall position is that, whilst there have not been any dramatic changes in the evaluation over the last year, the number of factors demonstrating a perceived shortfall in performance is 15, an increase of 3 on the number identified in the 2014/15 review. There is no factor with a perceived shortfall of more than one point. Where a shortfall exists, comments/conclusions are included in the evaluation on the current position and on any plans to improve arrangements during 2016/17 and beyond.
- 3.11 In reviewing the results of the evaluation, Management Team have judged that the Governance Statement should acknowledge the following events which occurred during or after the 2015/16 financial year, and which will present governance challenges in the current and future years:
- Regional funding issues, particularly those affecting Lancashire County Council;
 - The establishment of the Lancashire Combined Authority;
 - The impacts of Storm Desmond;
 - Changes in staffing resources and capacity;
 - National political events, particularly the vote to withdraw from the EU.

The Draft Annual Governance Statement

- 3.12 Following the evaluation exercise and Management Team's review of the conclusions, the Annual Governance Statement attached at Appendix B has been drafted.
- 3.13 The timescale for the production of the Statement coincides with that for the approval of the audited financial accounts (i.e. 30 September 2016) and the Statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee). The Statement itself follows the statutorily prescribed format, with the following headings:
1. Scope of Responsibility

2. The Purpose of the Governance Framework
3. The Governance Framework
4. Review of Effectiveness
5. Significant Governance Issues

Signatories to the Statement

- 3.14 The statutory requirement is that the most senior officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent) should sign the Statement. They must be satisfied that the document is supported by reliable evidence and accurately reflects the internal control environment. This emphasises that the document is about all corporate controls and is not confined to financial issues. As the statement covers the requirements to produce a statement on Corporate Governance and on Internal Financial Control, it is recommended that the Section 151 Officer and Monitoring Officer also sign the statement (as has been the case for previous years).

4.0 Details of Consultation

- 4.1 As part of the assurance gathering exercise, senior managers have provided an assurance statement for their areas of responsibility, with any matters raised being considered by Management Team and built in to the evaluation exercise.

5.0 Options and Options Analysis (including risk assessment)

- 5.1 As the production of an annual statement is a legislative requirement, no alternative options are identified.

6.0 Conclusion

- 6.1 The draft Annual Governance Statement and the results of the review reflect the developments and issues impacting the Council's governance arrangements during the last twelve months. Addressing the issues identified in the statement will help ensure the Council maintains and improves its standards of governance in the future.

CONCLUSION OF IMPACT ASSESSMENT

(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

There are no direct financial implications arising from this report

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and has no further comments.

LEGAL IMPLICATIONS

There are no legal implications arising from this report

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments.

BACKGROUND PAPERS

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