

# AUDIT COMMITTEE

## Review of Governance and the Annual Governance Statement 2016/17

13 September 2017

### Report of the Chief Executive

#### PURPOSE OF REPORT

To seek the Committee's recommendation for the adoption of the Annual Governance Statement for the 2016/17 financial year.

**This report is public**

#### RECOMMENDATIONS

- (1) **That the Annual Governance Statement (AGS) for 2016/17 (attached as Appendix A) be recommended for adoption and for signing by the Chief Executive and the Leader of the Council.**

#### 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 AGS in accordance with the Accounts and Audit Regulations 2015 and recommend its adoption (The Constitution, part 3 section 8).*

#### 2.0 Report

- 2.1 In relation to the production of a governance statement, "proper practices" are defined as those set out in a revised framework and guidance issued by CIPFA and SOLACE<sup>1</sup> during 2016 ("the Framework") and applying from the 2016/17 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 19 September 2012) and to prepare an AGS in order to report publicly on an annual basis on the extent to which the Council complies with its own Code.
- 2.2 At the time of writing, the Council had not adopted a new Local Code of Governance reflecting the contents of the revised Framework.

#### 3.0 Proposal Details

##### Review of compliance with the Code of Governance

- 3.1 Pending the development and adoption of a refreshed Local Code of Corporate Governance, a review has been undertaken of the Council's position and performance against the elements included in the Framework.

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<sup>1</sup> "Delivering Good Governance in Local Government" – CIPFA and SOLACE 2016

- 3.2 The Framework consists of a set of ninety-one elements within the following seven core principles, which underpin a council's system of governance:
- 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; and**
  - G. **Implementing good practices in transparency, reporting, and audit to deliver effective 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.
- 3.5 The Internal Audit and Assurance Manager's (IAAM's) Annual Report and Assurance Statement for 2016/17 concluded that the Authority still has ongoing governance issue in relation to its information management arrangements and that this should be disclosed in the AGS. In terms of assurance from internal audit work over the past year, the IAAM concluded that internal audit work had not identified significant issues regarding the council's framework of governance, risk management and control, and it was his opinion that reasonable assurance can be provided 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)* concluded that the Audit Committee can take reasonable assurance that internal audit is operating effectively and can 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 AGS.

### **The Annual Governance Statement (AGS)**

- 3.8 Following the evaluation exercise and Management Team's review of the conclusions, the AGS is attached at Appendix A.
- 3.9 The timescale for the production of the statement coincides with that for the approval of the audited financial accounts (i.e. 30 September 2017) and the statement must be approved at a meeting of the Council or delegated committee (i.e. the Audit Committee).

#### **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 AGS is a legislative requirement, no alternative options are identified.

#### **6.0 Conclusion**

6.1 The AGS and the results of the review reflect the developments and issues impacting the Council's governance arrangements during the last twelve months. Addressing the significant 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 Monitoring 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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# Annual Governance Statement

## 2016/17

### 1.0 INTRODUCTION

1.1 Local authorities are statutorily required to review their governance arrangements at least once a year. Preparation and publication of an Annual Governance Statement in accordance with the CIPFA/SoLACE Delivering Good Governance in Local Government Framework (2016) (the Framework) fulfils this requirement. The Framework requires local authorities to be responsible for ensuring that:

- their business is conducted in accordance with all relevant laws and regulations;
- public money is safeguarded and properly accounted for; and
- resources are used economically, efficiently and effectively to achieve agreed priorities which benefit local people.

1.2 The Framework also expects that local authorities will put in place proper arrangements for the governance of their affairs which facilitate the effective exercise of functions and ensure that the responsibilities set out above are being met. Key elements of the Council's governance framework are summarised below;

#### **Council, Cabinet and Leader**

- Provide leadership, develop and set policy
- Develop and set policy to maintain the City's standing
- Support the City's diverse communities and distinctive neighbourhoods to thrive and succeed

#### **Management Team and Statutory Officers**

- The Head of Paid Service is the Chief Executive who is responsible for all Council staff and leading an effective corporate management team of Chief Officers
- The Chief Officer (Resources) is the Council's Section 151 Officer and is responsible for safeguarding the Council's financial position and ensuring value for money
- The Interim Head of Legal Services is the Council's Monitoring Officer, who is responsible for ensuring legality and promoting high standards of public conduct

#### **Decision making**

- Meetings are held in public
- Agendas, minutes and decisions are recorded on the Council's website

#### **Scrutiny and Review**

- Overview and Scrutiny Committee reviews Council policy and can challenge decisions
- Budget and Performance panel reviews operational and financial performance
- Audit Committee reviews internal control, fraud, risk management and governance

## 2.0 HOW WE COMPLY WITH THE CIPFA / SOLACE FRAMEWORK

2.1 The Council has approved and adopted:

- a Code of Corporate Governance;
- the requirements of the CIPFA/SoLACE Framework Delivering Good Governance in Local Government Framework 2016; and
- a number of specific strategies and processes for strengthening corporate governance.

2.2 Set out below is how the Council has complied with the seven principles set out in the CIPFA/SoLACE Framework during 2016/17. New or enhanced arrangements as part of the Council's continuous improvement in its governance have been highlighted in **bold**.

### PRINCIPLE A

#### Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- The Constitution sets out the responsibilities of staff and elected members by defining decision-making powers, providing clear terms of reference and describing roles and functions.
- The Council has a Code of Conduct for elected and co-opted Members and a Code of Corporate Governance which provides guidance for officers and Members on expected standards of behaviour to ensure integrity.
- **The Council has recently developed a new values and behaviours framework, which will be used as part of the appraisal process.**
- A register of gifts, hospitality and registering interests is maintained for both members and officers.
- The Council has set four priorities which are: to put community leadership and working with partners at the heart of all it does, promote and support the positive health and wellbeing of residents; maintain and build upon the district's reputation for being 'clean and green'; and take advantage of opportunities and demographic need to develop the local economy.
- Members and officers receive training in Code of Conduct and behaviour issues.
- The Standards Committee and Monitoring Officer keep Codes of Conduct up to date and investigate any suspected breaches.
- The Raising Concerns at Work policy places emphasis on the agreed ethical values of Members and employees, providing protection for individuals to raise concerns in confidence about suspect behaviour or poor performance and ensuring that any concerns raised are properly investigated.
- All Council decisions have to consider legal implications which are recorded on the Council's website. Senior officers and other key post holders receive support from Legal Services in this regard and if specialist legal advice is required then the Council will engage external advisors.
- The Section 151 and Monitoring Officers have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to elected Members.

- The Council complies with the Chartered Institute of Public Finance and Accountant (CIPFA) statement on the Role of the Chief Financial Officer in Local Government.
- **The Council has recently strengthened its decision making procedures through the introduction of Equity Impact Assessments.**

## PRINCIPLE B

### Ensuring openness and comprehensive stakeholder engagement

- All meetings are open to the public and all agenda papers, reports and decisions made by the Council are published on the Council's website together with details of forthcoming consultation exercises, surveys and, public meetings, except those determined as exempt from publication.
- The Council's constitution sets out how it engages with stakeholders and partners through a combination of joint working arrangements, partnership boards and representation on the governing bodies of external organisations including local NHS bodies, neighbourhood forums, local business and other local authorities.
- The council has carried out a wide range of community consultation, for example, to inform the draft Lancaster District Local Plan 2011-31. In addition, a number of services monitor customer satisfaction.
- The Council sends every household the annual magazine – *Your District Council Matters*. The Council also sends all its housing tenants the 'Your Council Housing Matters' magazine twice each year. These publications are also available online and the Council utilises various online communication channels including Twitter and Facebook.
- **This year, the Council introduced a new look and easy to use website designed to improve the customer experience, and also introduced free Wi-Fi 'hotspots' for easy access to a range of interactive services and information whilst on the move**
- **The Council, in collaboration with Lancaster University launched in 2016 the mobile app *iLancaster* providing a wealth of local information resources for residents, students and visitors.**
- **The council has undertaken significant stakeholder engagement as part of its preparation of a new Local Plan for the district.**

## PRINCIPLE C

### Defining outcomes in terms of sustainable, economic, social and environmental benefits

- The Council's strategic vision for the district is set out in its Corporate Plan 2016-2020, and development of a refreshed corporate strategy is currently in progress. To ensure that it delivers this vision the Council develops various strategies to define specific outcomes for key service areas.
- Each Council service determines how it will deliver the outcomes relevant to its area of work in the context of the agreed budget for the year ahead and the overall Medium Term Financial Strategy (MTFS).
- To maintain a focus on delivering sustainable social and environmental benefits, the Council is currently developing an Economic Growth Strategy as well as a number of environmental strategies, including the Greener Action Plan and the Air Quality Strategy. Environmental impact assessments for major capital works and infrastructure development are mandatory.
- Budget proposals are developed by services and challenged by members.

- The Council works with ward councillors, parish and town councillors, community / friends of groups and other partner organisations to identify local issues and priorities.
- The development of the local plan specifically addresses the important and demographic challenges that could undermine the sustainability of the local economy in future years.

## PRINCIPLE D

### Determining the interventions necessary to optimise the achievement of the intended outcomes

- All service decisions are subject to scrutiny by lead Members, review of options and risk by officers and Members and key performance indicators are in place for directorates.
- Limits of lawful activity are recognised by the ultra vires doctrine and managers strive to utilise their powers to the full benefit of the council and the community.
- Professional advice on matters that have legal or financial implications are available and recorded in advance of decisions making and used appropriately.
- The MTFs, revenue budget and capital programme are set in context of the requirements of the Corporate Plan to help ensure sustainability going forward and are published annually.
- An efficiency programme complements the MTFP ensuring sustainability going forward.

## PRINCIPLE E

### Developing the entity's capacity, including the capability of its leadership and the individuals within it

- **The Council's new Chief Executive took up her post on 1 July 2016.** The Council is developing its senior management capacity through the establishment of an Assistant Chief Executive post for 12 months and also a Chief Officer (Legal and Governance) post.
- Managerial communication and capability has been developed through the establishment of a corporate Leadership Team of senior service managers and a wider Leadership Group of line managers.
- **The Council's Performance Appraisal process aims to ensure that all employees have regular individual meetings with their manager and a personal training and development plan.**
- The Council has a new Online Learning Portal available to all employees and covering a range of key topics including mandatory training.
- **The Council works across a broad set of partnerships and collaborative arrangements, and uses commissioning and procurement processes to optimise capacity by delivering services in the most effective and efficient way.**
- The Council is preparing for its re-accreditation of the Investors in People award. The inspection will be carried out in August 2017 with the results being delivered in October 2017.
- The Council is developing, ready for a summer launch a 'Celebrating success awards scheme' to recognise achievement, commitment and contribution of its employees.
- Work started in March 2017 to assess the council's critical and key positions within each service to assist with its succession planning and the challenge it

faces in delivering a number of major corporate regeneration and other projects concurrently.

## PRINCIPLE F

### Managing risks and performance through robust internal control and strong financial management

- The Council has recognised the need to develop its performance management arrangements and is in the process of implementing a new corporate framework.
- Alongside this, the Council is also reviewing its Risk Management Strategy covering the corporate approach to identifying and controlling risk. The monitoring of risk management effectiveness is a function of the Audit Committee.
- Financial performance is monitored monthly by managers and operational and financial performance are monitored and reported quarterly to both the Council's Cabinet and Budget and Performance Panel.
- The Council's Financial Regulations set out expected standards in, and responsibilities for, financial planning, management and reporting and in the control and use of resources.
- The Chief Officer (Resources) has statutory responsibility for the financial administration and stewardship of the council, in accordance with Section 151 of the Local Government Act 1972 and in compliance with the CIPFA Statement on The Role of the Chief Financial Officer (2010).
- The council adopts a bi-annually reviewed four-year Medium Term Financial Strategy to inform and support the council's key priorities and objectives.
- The Council's has an Anti-Fraud, Bribery and Corruption strategy and a dedicated counter-fraud team operating in collaboration with Preston City and Fylde Borough councils.
- The internal audit team provides regular reports on the effective management of risk and operation of internal controls, together with an annual assessment and opinion on the overall control environment.

## PRINCIPLE G

### Implementing good practices in transparency, reporting, and audit to deliver effective accountability

- All council decisions are published online together with supporting information to outline why that decision was chosen above other options. The Council follows the Government Communication Service guidance on providing clear and accurate information.
- The Council publishes information on its website in accordance with the requirements of the Government's Transparency Code.
- The Council reports performance against targets and financial targets on a regular basis. This reporting incorporates services provided by all models of delivery including services shared with other authorities, partnerships and contracted out services.
- **The Council published its annual review of the Corporate Plan.**
- Internal Audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and the CIPFA statement on "The role of the head of internal audit in public service organisations" (2010). All audit conclusions and progress



with resulting action plans are reported to the Audit Committee, to ensure that appropriate action is taken.

### 3.0 REVIEW OF EFFECTIVENESS

3.1 The Council uses a number of ways to review and assess the effectiveness of its governance arrangements. These are set out below:

#### Assurance from Internal and External Audit

One of the key assurance statements the Council receives is the annual report and opinion of the Internal Audit and Assurance Manager. During 2016/17 the Internal Audit and Assurance Manager reported that internal audit work had not identified significant issues regarding the council's framework of governance, risk management and control, and it was therefore his opinion that reasonable assurance could be provided for the period. No issues were identified for disclosure in the Governance Statement.

The Council's external auditor, KPMG, provides assurance on the accuracy of the year-end Statement of Accounts and the overall adequacy of arrangements for securing and improving value for money. In the most recent Audit Letter, issued in October 2016, the auditor issued an unqualified opinion on the council's financial statements for 2015/16 and provided an unqualified conclusion on the council's arrangements for securing value for money. The external auditors made no high priority recommendations as a result of their 2015/16 audit work.

#### Self-assessment and review of key performance indicators

A self-assessment review has been undertaken to confirm that the arrangements described above have been in place throughout the year. Management Assurance Statements, signed by senior officers, have also been obtained to provide confirmation that Codes of Conduct, Financial Regulations, and other corporate governance processes, have been operating as intended throughout the year so far as they are aware.

The Council uses a number of key outcome indicators to assess the quality of governance arrangements. Performance in 2016/17 is set out in the table below:

Indicator	Performance in 2016/17
Formal reports issued by the Section 151 Officer or Monitoring Officer	None issued
Outcomes from Standards Committee or Monitoring Officer investigations	No breaches of the Codes of Conduct have been reported to Standards Committee
Proven frauds carried out by councillors or members of staff	None identified in 2016/17
Objections received from local electors	One objection received
Local Government Ombudsman (LGO) referrals upheld	Out of 12 cases considered by the LGO, 3 were subject to detailed investigation. The LGO upheld 2 of those 3 complaints. Both upheld complaints have now been closed by the LGO following implementation of their recommended actions

### 4.0 CONCLUSION AND SIGNIFICANT GOVERNANCE ISSUES

4.1 The Council is satisfied that appropriate governance arrangements are in place however it remains committed to maintaining and where possible improving these arrangements.

4.2 The significant issues identified in 2016/17 are as follows;

**Information Governance** – In preparation for the new General Data Protection Regulation, the Council has commissioned independent specialist advice and is currently implementing an action plan which has been formulated to assist with compliance.

**Staffing capacity** - Staffing resources and capacity is still an issue corporately. The organisation will be looking at ways to improve the resilience of the Council ensuring it can be flexible enough to respond to new challenges. This will include working on strategic prioritisation, reviewing how the council can recruit and retain its staff in key positions, a corporate approach to succession planning and looking at new ways of working for delivering our services.

**Risk Management** – At present, the Council does not have an embedded risk management strategy. Work has been carried out to develop operational risk registers, however at present they are only used by internal audit to priorities work and develop the audit plan. Work will commence this year to develop and implement a risk management strategy which will provide the council the assurances it requires that both its strategic and operational key risks are being managed effectively.

**Business Planning and Performance Management** - At present the council does not have a corporate approach to business planning. Guidance has recently been developed and rolled out requiring services to develop business plans that align with the council's corporate plan and priorities and its recently adopted values and behaviours.

- 4.3 We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation through quarterly monitoring and as part of our next annual review.

## **5.0 MINOR GOVERNANCE ISSUES**

- 5.1 Following the workshop with the council's Chief Officers, minor issues have also been identified which will be documented in an action plan that will be monitored by Management Team on a quarterly basis.

## **6.0 REVIEWING AND REPORTING ARRANGMENTS**

- 6.1 The CIPFA/SOLACE guidance recommends that authorities should undertake annual reviews of their governance arrangements to ensure continuing compliance with best practice as set out in the framework.
- 6.2 Each year, prior to the publication of the Annual Governance Statement (AGS), a governance workshop is held with key officers of the council who have the most appropriate knowledge, expertise and levels of seniority to consider the extent to which the organisation complies with the principles set out in the good governance framework. The principles are discussed in length and evidence is put forward to demonstrate how the council is meeting each of the principles. It is also an opportunity to identify any issues or gaps that could lead to a weaker governance structure. Following this meeting, the AGS and an action plan of minor issues is submitted for consideration by the Leader and Chief Executive who then sign to certify they are aware of the governance issues within the Council and of the measures that are required to improve the controls around the council's governance framework.

## **7.0 CERTIFICATION**

As the Leader of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2017 is satisfactory.

**Cllr Eileen Blamire**

Leader of Lancaster City Council

*M. E. Blamire*

As the Chief Executive of the Council, I am aware of the governance issues within this Authority and of the measures that are needed to improve the control environment. Overall, my assessment of the control environment as at 31st March 2017 is satisfactory.

A handwritten signature in black ink, appearing to read 'Susan Parsonage', written in a cursive style.

**Susan Parsonage**

Chief Executive of Lancaster City Council