

AUDIT COMMITTEE

Review of Governance and the Annual Governance Statement 2017/18

23 May 2018

Report of the Internal Audit and Assurance Manager

PURPOSE OF REPORT

To approve the Annual Governance Statement (AGS) for inclusion in the Annual Statement of Accounts in July 2018 following a review of the Council's governance arrangements.

This report is public

RECOMMENDATIONS

- (1) **That the Annual Governance Statement (AGS) for 2017/18 be recommended for adoption and for signing by the Chief Executive and the Leader of the Council.**

1.0 Introduction

- 1.1 The AGS is a valuable means of communication. It enables an authority to explain to the community, service users, tax payers and other stakeholders its governance arrangements and how the controls it has in place manage risks of failure in delivering its outcomes.
- 1.2 In accordance with the Accounts and Audit Regulations 2015 the council is required to prepare an AGS, which is published alongside the Statement of Accounts.
- 1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) have jointly issued a Framework and guidance in relation to the AGS; 'Delivering Good Governance in Local Government'. The guidance urges local authorities to prepare a governance statement in order to report publicly on the extent to which they comply with their own code of governance on an annual basis, including how they have monitored effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the corporate governance and internal control framework of an organisation.
- 1.4 At the time of writing, the Council had not adopted a new Local Code of Governance reflecting the contents of the revised Framework. This will be reviewed once a decision has been made where the overall management of the governance statement sits within the organisation. It is expected this will be considered as part of the senior management restructure.
- 1.5 The Framework recognises that effective governance is achieved through seven core principles;
- 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.**

2.0 Proposal Details

- 2.1 The AGS is attached at Appendix A and has been prepared following a workshop with key officers. A document compiled to detail the identified "sources" of assurance for each element of the Code has 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. In addition, service managers have also been asked to complete assurance statements in relation to other external sources of assurance gained.
- 2.2 The timescale for the production of the AGS coincides with that for the approval of the audited financial accounts. The AGS must be approved at a meeting of the Council or delegated committee, in this case, the Audit Committee.
- 2.3 The leader of the Council and the Chief Executive will be asked to sign the AGS certifying that they are aware of the governance issues within the Authority and of the measures that are needed to mitigate them.

3.0 Details of consultation

- 3.1 Following the AGS workshop with key officers, assurance mapping statements from service managers and a further evaluation at Management Team of the conclusions, the AGS is attached at Appendix A.

4.0 Options and options analysis (including risk assessment)

- 4.1 As the production of an AGS is a legislative requirement, no alternative options are identified.

5.0 Conclusion

- 5.1 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

None arising directly from this report.

OTHER RESOURCE IMPLICATIONS, SUCH AS HUMAN Resources, Information Service, Property, Open Spaces:

Responsibility of the Annual Governance Statement currently sits with the vacant Chief Officer (Governance) role, which is at present being covered by the Interim Head of Legal Services. Recognising the vacancy and the interim post, the Internal Audit Section have prepared the AGS on behalf of the organisation for the year 2017/18, however arrangements should be sought going forward to address where responsibility sits.

SECTION 151 OFFICER'S COMMENTS

The Section 151 Officer has been consulted and their comments have been incorporated.

LEGAL IMPLICATIONS

The interim Head of Legal Services has been consulted and their comments have been incorporated.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and their comments have been incorporated.

BACKGROUND PAPERS

n/a

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Annual Governance Statement

2017/18

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 (note that this needs reviewing);
- 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 2017/18.

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 an established values and behaviours framework which is to be used in the appraisal process.
- A register of gifts, hospitality and registering interests is maintained for both members and officers.
- The Council has 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.
- New Members and officers receive training in Code of Conduct and behaviour issues.
- The Standards Committee and Monitoring Officer apply the code of Conduct when investigating 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's decision making reports provides an opportunity for 'equality' to be considered.

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 the annual appointment to external organisations including local NHS bodies, neighbourhood forums, local business and other local authorities.
- The council has carried a wide range of community consultation, for example, the Local Plan. 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.
- The Council has an easy to use website designed to improve the customer experience, and also 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 has a mobile app 'iLancaster' providing a wealth of local information resources for residents, students and visitors.
- The council has initiated stakeholder engagement events to inform its future corporate planning.

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.

- 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).
- 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. Managers use their powers to benefit the council and the community.
- Professional advice on matters that have legal or financial implications is available in support of decision making and the report format provides for a written response.
- The MTFS, revenue budget and capital programme are set in context of the requirements of the Corporate Plan, as far as possible, to help ensure sustainability going forward and are published annually.
- A programme of budget proposals complements the MTFS to help achieve sustainability going forward.

PRINCIPLE E

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

- Managerial communication 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 an 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 best value.

- The Council successfully achieved the 'Developed' level of IIP accreditation, under the revised IIP Framework, alongside the IIP Health and Wellbeing Award and is accredited until 2020.
- The Council launched a 'Celebrating success awards scheme' to recognise achievement, commitment and contribution of its employees.

PRINCIPLE F

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

- Corporate Key Performance Indicators are reported quarterly to the Cabinet and Budget and Performance Panel.
- In support of the Council's draft Risk Management Policy and Strategy, a draft strategic risk register has been produced for consideration by members, alongside the corporate plan.
- The monitoring of risk management effectiveness is a function of the Audit Committee.
- Financial performance is reported monthly to 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 four-year MTFS to inform and support the council's key priorities and objectives, subject to at least an annual review.
- The Council's has 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. 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.
- 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

Internal Audit Assurance

One of the key assurances the Council receives is the Internal Audit Annual Report. In this report, the Internal Audit and Assurance Manager gives an opinion on the council's internal control, risk management and governance framework.

The 2017/18 Annual Report stated that although the council has in place satisfactory controls to be able to maintain an adequate and effective internal control environment, there were concerns around the council's risk management arrangements and the Council's readiness in relation to compliance to the General Data Protection Regulations (GDPR). It requested that both these areas be reported in the AGS as areas requiring attention.

External Audit Assurance

The Council's current 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 External Audit report issued in September 2017, the auditor issued an unqualified opinion on the council's financial statements for 2016/17 and concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The external auditors made no high priority recommendations as a result of their 2016/17 audit work.

A review of key performance indicators

The Council uses a number of key outcome indicators to assess the quality of governance arrangements. Performance in 2017/18 is set out in the table below;

Indicator	Performance in 2017/18
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 code of conduct were reported to the Standards Committee in 2017/18
Proven frauds carried out by councillors or members of staff	None identified in 2017/18
Objections received from local electors	None received in 2017/18
Local Government Ombudsman (LGO) referrals upheld	No referrals have been upheld by the LGO or the Housing Ombudsman in 2017/18

4.0 CONCLUSION AND SIGNIFICANT GOVERNANCE ISSUES

4.1 Following the Annual Governance workshop it was identified that progress has been made during 2017/18 in relation to the following areas highlighted in the 2016/17 Annual Governance Statement (AGS), namely:

- **Business Planning** - a revised business planning template has been introduced for 2018-19 alongside the ongoing development of the new Council Plan 2018-22. Finalised business plans will include information on key functions and resources by team and a summarised SWOT analysis.
- **Performance Management:** Agreed corporate Key Performance Indicators were reported quarterly to Cabinet and Budget and Performance Panel throughout 2017-18, and a newly introduced 'Review of the Year' was published to reflect the Council's key achievements during 2016-17.
- **Risk Management** – The Council is in the progress of updating its Risk Management Policy and Strategy which once completed will be reviewed and submitted to the Audit Committee for approval. Work is underway to strengthen the management and reporting of its key risks which are linked to the draft Council Plan. In the meantime, Internal Audit will continue to develop operational service risk registers to prioritise work and develop the audit plan.

Information Governance - Following the independent specialist advice gained in 2017, the Council has been preparing for the General Data Protection Regulations which come into force on the 25 May 2018. Whilst a considerable amount of work has been completed, the recently appointed Information Governance Manager (IGM) has been working through a comprehensive action plan. Although significant

progress has been made, the IGM highlighted that there is still a lot of work to be completed to ensure the Council is GDPR compliant.

- 4.2 **Staffing capacity** was highlighted in the 2016/17 AGS and it is apparent that this is still a concern. Staffing capacity was also highlighted in the Section 151 Officers report on the Budget to Council. At the time of publication, the organisation was in the early stages of developing a new senior management structure
- 4.3 Whilst the **Council's Constitution** is considered to be a functional framework to assist officers and members when making decisions, a full review has not been carried out for some time. Subject to members approval, a constitutional review group will be formed to review the constitution with the objective being to strengthen and improve the administration of the decision making process.
- 4.4 During 2017/18 **other governance concerns** have been identified surrounding the council's decision making arrangements. Linked to this, a member resolution has been made to ensure that Section 151 and Monitoring Officer advice is sought at the appropriate time
- 4.5 An action plan will be formulated to address all the above issues ensuring improvements are made, which will include a recommendation that governance training is provided across the organisation for both members and officers. This is designed to ultimately improve the council's governance arrangements going forward. The action plan will be monitored by Management Team on a quarterly basis.

5.0 MINOR GOVERNANCE ISSUES

- 5.1 A number of minor governance issues were also identified following the Annual Governance Workshop. These have been documented in an action plan which will be monitored by Internal Audit and reported to 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, 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 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 2018 is satisfactory.

Cllr Eileen Blamire

Leader of Lancaster City Council

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 2018 is satisfactory.

Susan Parsonage

Chief Executive of Lancaster City Council