

AUDIT COMMITTEE

Review of Governance and the Annual Governance Statement 2011/12 19 September 2012

Report of the Chief Executive

PURPOSE OF REPORT

To seek the Committee's approval for the draft Annual Governance Statement for the 2011/12 financial year and for a revised Code of Corporate Governance.

This report is public

RECOMMENDATIONS

- (1) That the draft Annual Governance Statement for 2011/12 (attached as Appendix C) be approved for signing by the Leader of the Council, Chief Executive, Section 151 Officer and Monitoring Officer.
- (2) That the draft revised Code of Corporate Governance at Appendix D is approved.

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 in the Council and to oversee the production of the authority's annual Governance Statement and recommend its adoption.* (The Constitution, part 3 section 8).

Accounts & Audit Regulations

- 1.2 In England, the preparation and publication of an annual governance statement in accordance with proper practices is necessary to meet a statutory requirement set out in Regulation 4(2-4) of the Accounts & Audit (England) Regulations 2011.

2.0 Report

- 2.1 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 (this was approved by Audit Committee on 23rd January 2008) 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.

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

- 2.2 Following the publication of its *“Statement on the Role of the Chief Financial Officer in Local Government, 2010”*, CIPFA has issued an associated *“Application Note to Delivering Good Governance in Local Government”*. This includes a series of “expanded governance requirements” in relation to the Chief Financial Officer’s role which are expected to be incorporated into governance frameworks and the annual review. This has been done this year.
- 2.3 Alongside these expanded requirements, is an expectation that the annual governance statement includes a specific statement on whether the authority’s financial arrangements conform with the governance requirements of the Statement on the Role of the CFO, and where they do not, explain why and how they deliver the same impact. The draft statement for 2011/12 includes a statement that the Council’s arrangements comply with those requirements.

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 January 2008, along with the expanded financial governance requirements referred to in §2.2.. The results of the evaluation exercise are demonstrated in the Overview Charts (including a comparison with the 2010/11 results) and the Evaluation Report 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 current Code of Corporate Governance consists of a set of sixty-seven 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 in previous years 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 As in previous years, individual “assurance statements” have been sought from Service Heads in relation to internal control and governance

arrangements within their areas. This assurance has been built in to the overall evaluation.

Review of the Effectiveness of Internal Audit

- 3.5 The Accounts & Audit (England) Regulations 2011 include a requirement that local authorities undertake an annual review of the effectiveness of their internal audit and that this should form a part of the overall review of governance.
- 3.6 Whilst compliance with professional standards is clearly important in operating a robust service, it is just one in a wide range of factors in effectiveness, defined as the extent to which the service delivered meets the organisation's expectations and adds value. As in previous years, a self-assessment, relating to "characteristics of effectiveness" (including compliance with proper practices) has been undertaken and is attached at Appendix B. Elected Members should also consider their own perceptions and experiences, through the Audit Committee, relating to the work and output of internal audit.
- 3.7 In conclusion, it is felt 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.

Governance Review - Evaluation Results

- 3.8 The charts and table of results shown in Appendix A show that, whilst there have not been any dramatic changes in the evaluation, there have been gradual improvements in a number of areas. It also highlights in some areas that the financial climate and organisational/constitutional changes being experienced raise some additional challenges to maintaining effective governance.
- 3.9 The number of factors in which there remains a perceived shortfall in performance has reduced from 11 to 9. 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 any plans to improve arrangements during 2011/12 and beyond.

The Draft Annual Governance Statement

- 3.10 Following the evaluation exercise, the Annual Governance Statement attached at Appendix C) has been drafted.
- 3.11 The timescale for the production of the Statement coincides with that for the approval of the financial accounts (i.e. 30 September 2012) 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

- 3.12 As well as addressing the requirements of the Accounts and Audit Regulations, the publication of an Annual Governance Statement incorporates and satisfies the requirement under the Local Government Statement of Recommended Practice (SORP) to produce a Statement on Internal Financial Controls (SIFC)

Signatories to the Statement

- 3.13 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 S151 Officer and Monitoring Officer also sign the statement (as has been the case for previous years).

The Code of Corporate Governance

- 3.14 The current Code of Corporate Governance, last revised in 2009, has been reviewed and a proposed draft revision is presented as Appendix D. This updates the previous Code to include the Council's current corporate plan values and priorities. The expanded governance requirements arising from the CIPFA "*Statement on the Role of the CFO in Local Government*" have been incorporated in the revised draft (and are highlighted with a grey background).
- 3.15 The review also identified a number of elements included in the Code which the Council originally added, but which fall outside the CIPFA/SOLACE recommended framework. In the majority of cases, these elements are superseded by the expanded governance requirements mentioned above. It is proposed to delete these elements, which are shown as being struck out from the code.
- 3.16 Members are asked to consider and approve the revised draft Code of Corporate Governance.

4.0 Details of Consultation

- 4.1 As part of the assurance gathering exercise, all Service Heads have provided an assurance statement for their areas of responsibility. Significant matters raised in those statements have been included in the Governance Statement.

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 progress made by the Council during the last twelve months. Addressing the issues identified in the statement will help maintain this progress and contribute towards a further improved position for 2012/13.

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 s151 Officer has been involved in the governance review process 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 involved in the governance review process and has no further comments.

BACKGROUND PAPERS

Accounts and Audit (England) Regulations 2011

Contact Officer: Derek Whiteway

Telephone: 01524 582028

E-mail: dwhiteway@lancaster.gov.uk

Ref: aud/ctee/audit/2012/120919/ags