

# AUDIT COMMITTEE

## Annual Governance Statement 2018/19

12 June 2019

### 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 2019 following a review of the Council's governance arrangements.

**This report is public**

#### RECOMMENDATIONS

**(1) That the Annual Governance Statement (AGS) for 2018/19 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 In 2016, The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) 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 was in the process of reviewing its own local Code of Governance to reflect the contents of the 2016 Framework. Following the recent senior management restructure it has been agreed that the Annual Governance statement will continue to be formulated by the Head of Internal Audit and Assurance with assistance from a number of key officers across the organisation.
- 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 number of meetings 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 meetings with key officers, assurance mapping statements from service managers and a further evaluation of the draft AGS at the Executive Team, 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 issue (risk management) 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:**

None arising directly from this report.

**SECTION 151 OFFICER'S COMMENTS**

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

**LEGAL IMPLICATIONS**

The Acting 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

## 2018/19

### 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;

#### The Council, Cabinet and Leader

- Provide leadership, develop and set policy
- Develop and set policy to maintain the Council's standing
- Support the Council'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 Council's Section 151 Officer is responsible for safeguarding the Council's financial position and ensuring value for money
- The Acting 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**

- The Overview and Scrutiny Committee reviews Council policy and can challenge decisions
- The Budget and Performance panel reviews operational and financial performance
- The 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 (however it is noted that this needs reviewing to ensure reflects the 2016 Framework);
- 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 2018/19.

### **PRINCIPLE A**

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

- A Code of Conduct for both members and staff is in place
- A values and behaviours framework was launched in 2018
- Members values and behaviours are encompassed in the members Code of Conduct
- A register of interests policy is in place for both staff and members
- Council meeting minutes show any declarations made
- A gifts and hospitality policy and register is in place for both staff and Members
- There is an effective standards committee in place
- Effective counter fraud policies are in place
- The Council has a 'Raising Concerns' Policy in place
- Annual Performance Appraisals take place and all staff have attended the launch of the new values and behaviours
- A robust complaints procedure is in place
- An ethical governance survey was completed in 2018
- Guidance procedures for external funding and accountable bodies are documented within the Financial Regulations
- The Council's 'Statement of Business Ethics' communicates commitment to ethical values to external suppliers
- The Council has a Procurement Policy in place
- There are effective policies and procedures in place for dealing with unacceptable behaviours for both officers and Members

- All allegations concerning breaches of the code of conduct by members are investigated by the Monitoring Officer
- Staff appointments are made taking into account the Council's values and behaviours
- The Council has an agreed overview and scrutiny work programme
- The Council complies with CIPFA's Role of the Chief Financial Officer and the role of the Head of Audit in Local Government
- The Constitution includes terms of references, defines decision making powers and describes roles and functions
- Up-to-date job descriptions are in place for key roles; i.e. Chief Executive, Section 151 officer and the Monitoring Officer
- Training is provided for regulatory committees on a regular basis.
- Legal and financial advice is given in advance of decision making
- Compliance to specific legislation, law or guidance is documented in decision making documents
- Limits of lawful activity are recognised by the ultra vires doctrine

## **PRINCIPLE B**

### **Ensuring openness and comprehensive stakeholder engagement**

- The Council Plan is published to all staff, elected members, partners and the community
- An annual 'Narrative Report' is published and accompanies the Statement of Accounts
- The Section 151 publishes annual accounts within statutory deadlines to the community to report on the organisations activities, achievements and its financial position and performance
- The Council is compliant with the Local Government Transparency Code 2015
- An Overview and Scrutiny and Budget and Performance Panel report is published annually
- The Council publishes all key decisions on its website
- A Freedom of Information publication scheme is in place
- Standardised report pro-formas for decision making are in place and a published timetable of reporting deadlines for committees is published on-line
- The Council is committed to ensuring that appropriate consultation and engagement takes place e.g. regular consultation forums took place as part of the Salt Ayre re-development project
- The Council publishes all current and closed consultations on its website
- Customer feedback forms are in place at Salt-Ayre Leisure Centre
- The Council has a Consultation Strategy 2018 – 2022 and an annual consultation plan
- Key partnerships are reviewed as and when required through the audit plan
- Internal Audit are invited to sit on project working groups to ensure key risks are identified and mitigated where possible

- The Council has a number of communication guidance documents in place e.g. the Intranet Policy and the Plain English and Style Guide
- The Council complies with publication dates for reports and the 'forward plan'
- A up-to-date stakeholder database is in place
- Robust arrangements are in place for both the shared service arrangements with Revenue and Benefits and the Corporate Enquiry Team
- An annual stakeholder event was held to consult on the Council's 'Ambitions' as set out in the Corporate Plan
- An annual special stakeholder meeting was held with the Budget and Performance Panel
- A consultative forum was held for all public services in relation to the Council budget
- The Council's vision, strategic plans, priorities and targets are developed in consultations with the local community and other key stakeholders
- The Council has an on-going resident's survey to monitor satisfaction in the local area and the Website includes a 'have your say section'.
- The Council has recently carried out a Council Tax Support consultation with members of the public

## **PRINCIPLE C**

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

- The Council Plan 2018-22 was approved by Full Council in July 2018 and contains a clear statement of the council's vision
- Corporate key performance indicators are reported quarterly to Cabinet and the Budget and Performance Panel
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- There are effective arrangements in place to deal with failure in service delivery via the Council's corporate complaints procedure
- The Medium Term Financial Plan, Revenues Estimates and Capital Programme are designed to deliver the strategic priorities
- The Council has a capital programme of works
- The Council has an approved Capital Investment Strategy
- Individual capital projects are equality impact assessed
- All key decisions are required to consider fair access to services
- The Council has produced a Local Plan which is currently being examined by the Planning Inspectorate
- Procedures are in place to address conflicting interests e.g. the call-in procedure

## **PRINCIPLE D**

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

- Effective mechanisms are in place for documenting evidence for decisions and recording the criteria, rational and consideration on which decisions are based
- Limits of lawful activity are recognised by the ultra vires doctrine and managers strive to use their powers under the council's scheme of delegation to the full benefit of the community
- Proper, professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making
- Member and Officer briefings have taken place for more complex areas of decision making e.g. Canal Quarter, Eden Project and the Local Plan
- The Council's Plan and Ambitions document is refreshed annually and reviewed by the Council's Executive Team
- The Council considers public surveys, demographic information and public health reports when developing the Council Plan
- The MTFs, Revenue Estimates and Capital Programme are soundly configured to meet the requirements of the Council Plan and Ambitions document and are published annually. They are key documents for forecasting budget requirements and planning ahead
- The MTFs sets out the framework for corporately managing the Council's resources in the years ahead and an efficiency programme compliments the MTFs ensuring sustainability going forward
- Corporate Key Performance Indicators are in place and are reported quarterly to Cabinet and the Budget and Performance Panel
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- The Statement of Accounts which include the Annual Governance Statement is reported to the Audit Committee
- Budgeting guidance and protocols are in place and reviewed annually by the Audit Committee
- Both Capital and Revenue bids considered 'social value'

## **PRINCIPLE E**

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

- The Council is member of APSE and regularly benchmarks a number of Council services e.g. Street Cleansing, Council Housing, Internal Audit, Waste Management, Pest Control and Salt Ayre
- The Council has received both blue and green flag status for its clean beaches and parks and open spaces

- The Council has been successful in securing numerous Local Government achievement awards during 2018/19 in relation to effective service delivery e.g. Pest Control Team of the year and Service of the Year and Rising Star
- Member's allowances were reviewed by the Independent Remuneration Panel during 2018/19 with a full review being carried out every four years prior to elections
- The Chief Executive and Section 151 Officer regular attend Lancashire Leaders and Lancashire Chief Finance Officer meetings
- The Chief Executive is responsible and accountable to the Authority for all aspects of operational management and has regular appraisals with the Leader
- The Section 151 Officer is responsible to the Authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control
- There is an established pay and grading structure for employees referred to as the Job Evaluation system and a process for appeals
- There is a clearly defined management structure and a scheme of delegation to officers, which is underpinned by the Members' Code of Conduct and a Protocol for Officer and Member relations
- Financial Regulations and Financial Procedure Rules are reviewed annually by the Audit Committee
- All new members receive a full corporate induction and have personal development plans in place
- A Landlord Forum and a Council Housing Tenants forums are in place to encourage public participation
- The Authority ensures that statutory officers have the skills, resources and support necessary to effectively perform their roles
- An induction programme is provided for all new staff and Members
- All staff have attended mandatory 'Our Values training' to ensure the Council delivers top quality services
- Human Resources Business Partners work with Service Managers to ensure adequate succession planning takes place
- There is an established pay and grading structure in place for employees
- Approximately 85% of staff have had an annual performance appraisal which is linked to corporate and service priorities
- Internal Audit will regularly ensure implemented Human Resources policies are working as intended
- The Council has a number of policies and incentives to support the Health and Wellbeing agenda e.g. Agile Working, Absence Management, discounted gym membership and the Cycle to Work Scheme.

## PRINCIPLE F

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

- The Council has a risk management policy in place which was approved by the Audit Committee in 2015. In addition, the Council has recently drafted a Strategic risk register which was presented to the Audit Committee in February 2019
- Information asset registers and privacy notices are now in place and reviewed by Internal Audit as part of individual service reviews
- The Council has an Overview and Scrutiny Committee and a Budget and Performance Panel which have been set clear roles and responsibilities
- Agreed Key Performance Indicators are reported quarterly to Cabinet and the Budget and Performance Panel and a 'Narrative Report' is published within the Statement of Accounts
- There are effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based
- There is a calendar of dates for submitting, publishing and distributing timely reports to the Council's committees
- An effective Internal Audit Service is resourced and maintained and all Audit reviews are conducted under the Auditing Practices Board Guidelines and in line with Public Sector Internal Audit Standards (PSIAS)
- In accordance with the Accounts and Audit Regulations 2015, an annual assessment of the Council's systems of internal audit is carried out each year using the PSIAS and the checklist provided in the Local Government Application Note published by CIPFA. A recent PSIAS peer review resulted in a full compliance opinion being given
- The Head of Internal Audit and Assurance has developed a Quality Assurance Improvement Programme to ensure the continual improvement of the Internal Audit Service
- An Audit Committee is in place, which is independent of the Executive and the Overview and Scrutiny function
- The Head of Internal Audit and Assurance is a certified and chartered auditor (CIA, CMIIA) and also holds a Qualification in Internal Audit Leadership (QIAL)
- The implementation of internal audit report recommendations is monitored by the Head of Internal Audit and Assurance and the Audit Committee
- The Council has a number of counter-fraud policies in place which assist against fighting fraud and corruption
- The Council has a Money Laundering Policy in place which is reviewed by the Audit Committee
- The Council's Annual Governance Statement is prepared in compliance with CIPFA's 'delivering good governance in Local Government

- The Council uses an on-line e-learning portal to promote the General Data Protection Regulations (GDPR) and information security and is mandatory for all new starters
- The Council has a designated Data Protection Officer and an up-to-date Data Protection Policy in place. The Council continues to work towards ensuring it is fully compliant with GDPR
- Secure arrangements are in place for the transfer of sensitive data (SFTP and encryption tools available within Office 365)
- The Council has both a records management policy and a confidential waste policy in place
- Key performance data is reviewed for accuracy by Internal Audit as part of individual service reviews
- The Revenue and Benefit software has been upgraded to re-inforce GDPR principles and automate a deletion process
- Those making decisions are provided with information that is fit for purpose, relevant, timely and gives clear explanations of technical and financial issues and their implications
- Budget monitoring reports are issued to budget holders on a regular basis
- Financial Regulations and Financial Procedures Rules are regularly reviewed and any changes are presented to the Audit Committee for approval
- Registers of interests are maintained for both officers and elected Members
- The External Auditors issued an unqualified value for money conclusion for the 2018/19 financial year

## **PRINCIPLE G**

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

- The Council is compliant with the Local Government Transparency Code 2015
- A 'Narrative Report' is published within the Statement of Accounts to reflect the Council's key achievements
- The Council's website is accurate and user friendly
- The Council has an on-line Planning Application Policy
- Annual presentations are delivered for elected Members concerning the Council's finances as part of the production of the Revenue Estimates, the Capital Programme and the update of the MTFS
- The Council publishes a Funding the Future Strategy
- The Annual Governance Statement is collated by Internal Audit and is supported by relevant officers. An action plan is monitored by the Executive Team and the Audit Committee
- Executive update reports are prepared annually and the Leader of the Council presents a report to every meeting of the Full Council
- An effective internal audit function is resourced and maintained enabling them to deliver an annual internal audit opinion

- The Council ensures that all audit recommendations are subject to a follow-up audit ensuring that recommendations are acted upon
- The Council complies with both the Public Sector Internal Audit Standards and CIPFA's Statement on the role of the Head of Audit (2010)
- In accordance with the Audit and Account Regulations 2015, an annual assessment of the effectiveness of the internal audit function is completed annually
- The Audit Committee work programme provides the opportunity for the Head of Internal Audit and Assurance to have a private and confidential discussion with the Audit Committee Members
- The council has a RIPA Policy in place and officers who use social media to carry out surveillance have received relevant training
- Key partnerships are periodically reviewed through the Internal Audit Plan
- Arrangements for accountability when working with suppliers and partners are documented within the Procurement Strategy

### **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 2018/19 Internal Audit Annual Report stated that the council has in place satisfactory controls to be able to maintain an adequate and effective internal control environment. The report did however make reference to the concerns around risk management and that significant work was still required to ensure risk management was embedded into working practices across the organisation.

##### External Audit Assurance

The Council's external auditor 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 by KPMG in July 2018, the auditor issued an unqualified opinion on the Council's financial statements for 2017/18 and reported that the Council's Annual Governance Statement complied with the guidance issued by CIPFA/SOLACE ('Delivering Good Governance in Local Government') published in April 2016. They 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 priority recommendations as a result of their 2017/18 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 2018/19 is set out in the table below;

| <b>Indicator</b>  | <b>Performance in 2018/19</b>  |
|---|--|
| Formal reports issued by the Section 151 Officer or Monitoring Officer          | No formal reports have been issued by the Section 151 Officer or the Monitoring Officer. |
| Number of data incidents reported to the Data Protection Officer (DPO)          | 41 incidents were reported to the DPO in 2018/19   |
| Number of Data Breaches reported to the Information Commissioner's Office (ICO) | Of the 41 incidents reported to the DPA, only 2 were reported to the ICO                 |
| Outcomes from Standards Committee or Monitoring Officer investigations          | 5 breaches of the code of conduct were reported to the Standards Committee in 2018/19    |
| Proven frauds carried out by councillors or members of staff                    | There has been no proven frauds carried out by councillors or members in 2018/19         |
| Objections received from local electors   | There have been no objections to registrations received from local electors in 2018/19   |
| Local Government Ombudsman (LGO) referrals upheld                               | No referrals have been upheld by the LGO or the Housing Ombudsman in 2018/19             |

## **4.0 CONCLUSION AND SIGNIFICANT GOVERNANCE ISSUES**

- 4.1 Following the Annual Governance meetings it was identified that reasonable progress has been made during 2018/19 in relation to areas that were raised in the 2017/18 Annual Governance Statement (AGS), namely; Business Planning, Performance Management, Information Governance, Staffing Capacity and the Council's Constitution and that any further work and actions will be monitored through the 'minor governance issues' reporting framework documented at paragraph 5.1.
- 4.2 In relation to risk management, there are a number of good examples across the organisation where it can be demonstrated that robust risk management has been applied to its decision making processes. In addition, The Executive Team have also drafted a Strategic Risks Register which has been presented to the Audit Committee. However, it is still felt that more work is required, to ensure risk management is embedded throughout the organisation. The Internal Audit and Assurance Manager will work with the Corporate Director to identify a number of key activities which will be documented and monitored through the Corporate Services plan.

4.3 In addition, areas of concern were raised during 2017/18 surrounding the Council's decision making arrangements which lead to a member resolution being made to ensure that Section 151 and Monitoring Officer advice is sought at the appropriate time in all future decision making. Discussions with both the Section 151 Officer and the Monitoring Officer have confirmed that they no longer have any major concerns in this area.

## **5.0 MINOR GOVERNANCE ISSUES**

5.1 A number of minor governance issues were identified following the Annual Governance meetings with key officers. These have been documented in an action plan which will be monitored by Internal Audit and reported to the Executive Team on a quarterly basis and the Audit Committee as part of the six monthly progress report.

## **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 number of meetings are 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 these meetings, 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 2019 is satisfactory.

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**Councillor Erica Lewis**

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 2019 is satisfactory.

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**Kieran Keane**

Chief Executive of Lancaster City Council