

## Report of the Chief Auditor

Special Audit Committee – 11 July 2017

### DRAFT ANNUAL GOVERNANCE STATEMENT 2016/17

<b>Purpose:</b>	This report provides the draft Annual Governance Statement 2016/17 and allows the Audit Committee the opportunity to contribute to the annual review of governance.
<b>Policy Framework:</b>	None
<b>Reason for Decision:</b>	To allow the Audit Committee to discuss, review and contribute to the Annual Governance Statement 2016/17.
<b>Consultation:</b>	Corporate Management Team, Legal, Finance and Access to Services.
<b>Recommendation(s):</b>	It is recommended that Committee review and discuss the draft Annual Governance Statement 2016/17.
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#### 1. Introduction

- 1.1 The Council is required by the Accounts and Audit (Wales) Regulations 2014 to undertake a review of its governance arrangements, at least annually. The review is intended to show how the Council has complied with its Code of Corporate Governance.
- 1.2 The Audit Committee's role in Corporate Governance is set out in the Local Government (Wales) Measure 2011. Paragraph 9.2 of the statutory guidance relating to the Measure states that one of the functions of the Audit Committee is to:

*‘Review, scrutinise and issue reports and recommendations on the appropriateness of the authority’s risk management, internal control and corporate governance arrangements’*

- 1.3 The review of governance is brought together in the Annual Governance Statement (AGS) which is to accompany the Council’s Annual Statement of Accounts. The AGS is an important document in providing assurance to the Council, stakeholders and public regarding the corporate governance arrangements.
- 1.4 This report provides the opportunity for the Audit Committee to review and contribute to the annual review of governance prior to the AGS being finalised, signed off and published.

## **2. Code of Corporate Governance**

2.1 Following a number of high profile cases of failed corporate governance, in both the private and public sectors, the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) published a Framework for Delivering Good Governance in Local Government in 2007. The Framework was reviewed by CIPFA and SOLACE in 2015 to ensure it remained fit for purpose and a revised Framework was published in spring 2016. The new *‘Delivering Good Governance in Local Government Framework 2016’* applies to annual governance statements prepared for the financial year 2016/17 onwards.

2.2 The governance framework comprises the systems and processes, culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

2.3 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority’s policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised and to manage them efficiently, effectively and economically.

2.4 The revised framework defines governance as:

*‘Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.’*

The Framework also states that:

*‘To deliver good governance in the public sector, both governing bodies and individuals working for public sector entities must try to achieve their entity’s objectives while acting in the public interest at all times,*

*Acting in the public interest implies primary consideration of the benefits for society, which should result in positive outcomes for service users and other stakeholders.’*

- 2.5 The new Framework introduces 7 new principles as follows:
- 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 string public financial management.
  - G) Implementing good practices in transparency, reporting and audit to deliver effective accountability.
- 2.6 The concept underpinning the Framework is that it is helping local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure:
- Resources are directed in accordance with agreed policies and according to priorities.
  - There is sound and inclusive decision making.
  - There is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.
- 2.7 To achieve good governance, each local authority should be able to demonstrate that its governance structures comply with the core and sub-principles contained in the Framework. It should therefore develop and maintain a local Code of Corporate Governance reflecting the principles set out in the Framework.
- 2.8 Council is due to approve the revised Code of Corporate Governance based on the 7 principles outlined above on 24<sup>th</sup> August 2017.

- 2.9 In 2016/17 a new Annual Governance Statement Group was established, tasked with the compilation of a revised Code of Corporate Governance, as well as a revised Annual Governance Statement. The Group is comprised of the Head of Financial Services & Service Centre, the Head of Legal, Democratic Services & Business Intelligence, the Chief Internal Auditor and the Business Performance Manager. The Group meets periodically to discuss the governance arrangements of the Council and provides updates to the Audit Committee, the Corporate Management Team and Cabinet when necessary.
- 2.10 An annual review of compliance with the Code of Corporate Governance has been completed and published each year which is now in the format of the Annual Governance Statement.

### **3. Annual Governance Statement**

- 3.1 The AGS should report publically on the extent to which the Council has complied with its own code of governance on an annual basis, including how it has monitored and evaluated the effectiveness of the governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the AGS should itself add value to the effectiveness of the corporate governance and internal control framework.
- 3.2 The draft AGS 2016/17 is attached in Appendix 1 and has been subject to consultation with the Corporate Management Team prior to reporting to the Audit Committee.
- 3.3 The final version of the AGS will be reported to Cabinet in September for approval before being signed by the Chief Executive and Leader and then published with the audited Statement of Accounts 2016/17.

### **4. Equality and Engagement Implications**

- 4.1 An EIA is not required as there are no equality and engagement implications associated with this report.

### **5. Financial Implications**

- 5.1 There are no financial implications associated with this report.

### **6. Legal Implications**

- 6.1 Production of the Annual Governance Statement is required under the Accounts and Audit (Wales) Regulations 2014 and supports the Annual Statement of Accounts.

**Background Papers:** None

**Appendices:** Appendix 1 Draft Annual Governance Statement 2016/17