

**North East Derbyshire District Council**

**Audit & Corporate Governance Scrutiny Committee**

**17 May 2018**

<p><b><u>Annual Governance Statement 2017/18</u></b></p>
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**Report of the Head of Finance & Resources**

This report is public

**Purpose of the Report**

- To seek the agreement of the Audit & Corporate Governance Scrutiny Committee to the conclusions and content of the Annual Governance Statement which it is proposed to incorporate within the Council's Statement of Accounts for 2017/18.
- To review the Local Code of Corporate Governance.
- To increase awareness of Governance Issues amongst Members and Employees of the Council and more generally amongst all stakeholders.

**1 Report Details**

- 1.1 As part of its Statement of Accounts the Council is required to include an Annual Governance Statement. Preparation of the Statement needs to be undertaken in line with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) framework which sets out the fundamental principle of corporate governance that need to be addressed. The CIPFA / SOLACE Framework sets out the following core principles which Authorities should follow:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
- Ensuring openness and comprehensive stakeholder agreement.
- Defining outcomes in terms of sustainable economic, social and environmental benefits.
- Determining the interventions necessary to optimise the achievement of the intended outcomes.
- Developing the entity's capacity including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency, reporting and audit to deliver effective accountability

One of the main purposes of the Annual Governance Statement is to assess the extent to which the above key principles are in place within an authority and are adhered to in practice. In short it is an annual assessment process for the Council's Governance arrangements. As part of this process the Audit & Corporate Governance Scrutiny Committee will also be requested to give consideration to the Council's Code of Corporate Governance which is attached as Appendix 2.

- 1.2 A key principle for CIPFA/SOLACE is that the Annual Governance Statement together with the Code of Corporate Governance are corporate documents, which must be owned by the whole organisation. In order to maintain awareness of the principles of good governance which underpin both the Code and the Annual Governance Statement it is considered appropriate that a recommendation is made that an appropriate awareness raising session is provided to a future meeting of the Council.
- 1.3 Some key principles which are set out in the Code are as follows:
  - The key focus of the governance structures should be the attainment of sustainable economic, societal and environmental outcomes.
  - Local authorities must focus on the long term having responsibilities to more than their current electors as they must take into account the impact of current decisions and actions on future generations.
  - Local Authorities should assess their Governance structures and partnerships on at least an annual basis reporting publicly on compliance
- 1.4 The Draft Annual Governance Statement for consideration and approval by this Committee is attached as **Appendix 1**. While it is anticipated that the version considered by the Audit & Corporate Governance Scrutiny Committee will effectively be the final version of the Annual Governance Statement there may be a requirement to make some final changes before the Statement of Accounts is authorised for issue by the Chief Financial Officer. All such changes together with the audited account will be brought back to the July meeting of this Committee.
- 1.5 The preparation of the draft Annual Governance Statement takes place at the same time as the review of the Council's local Code of Corporate Governance. The Code of Corporate Governance is attached as Appendix 2 to this report for consideration by the Audit & Corporate Governance Scrutiny Committee. Included as an Appendix within the Code of Corporate Governance is an assessment of the arrangements which were operational within the Council during the 2017/18 financial year. That Appendix is extracted for the CIPFA / SOLACE framework and provides a benchmark against which to assess the policies, procedures and behaviours which are in place at the Council. That review supports the assessment that the Council is operating in line with good practice and that the areas where improvement is required are those identified by the work of Internal Audit. Officers are of the view that this works serves to satisfy the requirement that a comprehensive assessment of the Council's governance arrangements be undertaken and ensure compliance with the requirement to undertake an annual review of the system of internal control.
- 1.6 While the evidence from the structured assessment that has been undertaken demonstrates that appropriate procedures and processes are in place, it should be noted that there remain a small number of issues of Corporate Governance where further work is necessary if we are to continue to comply with the good

governance requirement. The issues that have been identified as a result of the work of external review (including external audit), internal audit, and the routine work of the Council's own officers will be addressed by way of the Key Issues of Financial Governance report which is a standing item on the agenda of the Audit & Corporate Governance Scrutiny Committee. Other areas of underperformance will be addressed by way of the Performance Management framework.

- 1.7 In addition to the assessment contained within the Code of Governance given in Appendix 2, there is at Appendix 3 a further benchmarking exercise between the CIPFA / SOLACE Code and the draft Annual Governance Statement. The results of this benchmarking confirm the assessment that the Council meets the requirements in respect of the Annual Governance Statement.
- 1.8 Finally, **Appendix 4** is the draft memo from this Committee (to be signed by the Chair) the Chief Financial Officer and Monitoring Officer to the Leader and Chief Executive which recommends that the Annual Governance Statement gives a true and fair view of the position within the authority, and that accordingly it would be reasonable for the Chief Executive and the Leader to sign the Statement off on behalf of the authority.

## **2 Conclusions and Reasons for Recommendation**

- 2.1 The report requests the Audit & Corporate Governance Scrutiny Committee to consider the attached draft Annual Governance Statement. In particular the Committee's role is to make any comments on either the contents of the Governance Statement, the supporting documents, or the processes that have been used in order to arrive at the draft Annual Governance Statement.

### **Reasons for Recommendation**

- 2.2 To enable the Audit & Corporate Governance Scrutiny Committee to assess the appropriateness of the draft Annual Governance Statement and to make recommendations concerning any amendments which they consider appropriate.

## **3 Consultation and Equality Impact**

### **Consultation**

- 3.1 There are no issues arising from this report which necessitate a detailed consultation process.

### **Equalities**

- 3.2 There are no direct implications, although the preparation of the Governance Statement will provide some high level assurances regarding the operation of current arrangements in these areas.

## **4 Alternative Options and Reasons for Rejection**

- 4.1 A requirement of the Accounts and Audit Regulations is that the Council publish an Annual Governance Statement. Accordingly there is not an option that such a statement should not be prepared. The processes involved in its development

reflect accepted good practice. With respect to the content of the Annual Governance Statement this reflects the deliberation and views of a range of Council officers and the Audit & Corporate Governance Scrutiny Committee which has enabled alternative options in respect of the content to be considered.

## **5 Implications**

### **5.1 Finance and Risk Implications**

#### **Financial**

There are no financial implications arising directly from this report.

#### **Risk**

Effective governance arrangements for local authorities are crucial if authorities are to meet the standards of accountability, integrity, consumer focus, democratic engagement and organisational effectiveness that are expected of them. The preparation of the Annual Governance Statement is one of the mechanisms that helps ensure that effective governance arrangements are in place. The gross impact of not having effective Governance arrangements in place would be significant with the CIPFA / SOLACE guidance taking the view that effective governance lies at the heart of a Council's managerial, performance and financial arrangements. The Governance Statement and supporting documentation do, however, demonstrate that the Council has in place a range of processes and procedures which taken together amount to a culture of effective governance. While there remain a limited number of significant individual issues that need to be addressed and resolved to improve the Council's Governance arrangements the overall framework is sound and provides an appropriate base from which to address the individual issues identified within this report.

### **5.2 Legal Implications including Data Protection**

The requirement to include an Annual Governance Statement within the Council's Statement of Accounts is set out within the Accounts and Audit Regulations and associated best practice. The processes outlined in the report should be sufficient to ensure that the Council's Governance Statement together with the Local Code of Corporate Governance meets the requirements of both the relevant legislation and associated good practice.

### **5.3 Human Resources Implications**

None arising directly from this report.

## **6 Recommendations**

- 6.1 That Audit & Corporate Governance Scrutiny Committee consider the draft Annual Governance Statement as set out in Appendix 1 and make any observations or recommendations which they consider to be appropriate prior to the final version being incorporated within the Council's Statement of Accounts.

- 6.2. That the Audit & Corporate Governance Scrutiny Committee approve the local Code of Corporate Governance as set out in Appendix 2.
- 6.3. That the Audit & Corporate Governance Scrutiny Committee having reviewed the effectiveness of the Governance Framework are satisfied that the Council's governance and internal control arrangements are fit for purpose.

## 7 **Decision Information**

<b>Is the decision a Key Decision?</b> A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds: <i>BDC: Revenue - £75,000 <input type="checkbox"/></i> <i>Capital - £150,000 <input type="checkbox"/></i> <i>NEDDC: Revenue - £100,000</i> <i>Capital - £250,000</i> <i>* Please indicate which threshold applies</i>	No
<b>Is the decision subject to Call-In?</b> (Only Key Decisions are subject to Call-In)	No
<b>District Wards Affected</b>	All
<b>Links to Corporate Plan priorities or Policy Framework</b>	Robust financial Governance arrangements underpin the effective operation of the Council and its ability to secure the full range of Corporate Plan Priorities.

## 8 Document Information

Appendix No	Title
1	Draft Annual Governance Statement 2017/18
2	Code of Corporate Governance (May 2017)
3	Assurance Schedule – Based upon CIPFA / SOLACE Guidance.
4	Memorandum to the Signatories of the Annual Governance Statement.
<b>Background Papers</b> (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (BDC) or Executive (BDC) you must provide copies of the background papers)	
KPMG “Annual Audit Letter” Audit & Corporate Governance Scrutiny Committee Meeting November 2017 KPMG “Report to those Charged with Governance (ISA 260) 2016/17” Audit & Corporate Governance Scrutiny Committee Meeting July 2017 “Internal Audit Consortium Annual Report 2017/18” Audit & Corporate Governance Scrutiny Committee Meeting May 2018	
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