



**Policy, Finance and
Development
Committee**

**Tuesday, 20
September 2016**

**Matter for Information
and Decision**

Title: Annual Governance Statement 2015/16

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1. Introduction

The purpose of this report is to advise the Committee on the contents of the Council's Annual Governance Statement for 2015/16 following the review of the effectiveness of the Council's system of financial control.

All local authorities are required to produce an Annual governance Statement (AGS) in line with proper practice and guidance. The purpose of the AGS is to set out and evaluate the Council's corporate governance arrangements. The AGS must be approved by this Committee prior to its certification by the Leader of the Council and Chief executive, and published alongside the Council's Statement of Accounts. Good governance arrangements are also essential in ensuring that the Council gets the basics right. Good governance leads to good management, good performance, good stewardship of public money, good public engagement and ultimately a good outcome for citizens and service users. The AGS articulates these arrangements and is set out in Appendix 1.

This paper provides the Committee with a draft of the Statement, prior to its scrutiny by the Council's external auditors, ahead of its formal approval in September 2016. The Accounts and Audit Regulations 2011 established the requirements that all local authorities must adhere to in relation to systems of internal control. This has implications for the Council and for the services it provides. The Regulations require the Council to have a sound system of internal control that facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The Council is required to review at least annually the effectiveness of the system of internal controls and make a statement alongside its Statement of Accounts.

Whilst the legislation requiring this statement is placed within the Accounts and Audit Regulations, this is not just an accounting or auditing issue. The Annual Governance Statement is a key measure of the overall effectiveness of the Council.

2. Recommendations

That the Annual Governance Statement 2015/16 as set out in Appendix 1 be approved and referred to the Leader of the Council and Chief Executive for formal certification.

3. Background

The Council has a statutory requirement to produce an Annual Governance Statement (AGS) in accordance with the Local Government Framework and Guidance produced jointly by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE). The statutory requirement is set out in Regulation 4(3) of the Accounts and Audit Regulations 2011. In doing so the Council complies with the principles of corporate governance set out in the

CIPFA/SOLACE Good Governance Framework (2007- reviewed and revised in 2012).

All aspects of the work of the Council are affected by the corporate governance regime as well as the Council's partners in service delivery and other agencies with which the Council shares information. External bodies in particular need to have confidence in the way the Council operates and this can be achieved by demonstrating robust corporate governance arrangements that are fully embedded.

The purpose of the AGS is to report publicly on the extent to which the Council complies with its own code of governance (known as the Local Code), including how it has monitored the effectiveness of governance arrangements in year, or any planned changes in the current period. The process of preparing the AGS should itself add value to the corporate governance and the internal control framework of the Council.

The framework is a discretionary code but the Council is judged against it as part of best practice. The original framework outlines six core principles of good governance focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and leads the community. In July 2014, a joint report from CIPFA and the International Federation of Accountants (IFAC) was produced on the, "International Framework: good governance in the Public Sector". This report looks at governance across all public sector bodies and in reviewing the Annual Governance Statement has been referred to and used to further inform the process.

Both frameworks emphasise that good governance should be corporately owned. The degree to which the Council follows these principles should be declared in its Annual Governance Statement. The purpose of the Annual Governance Statement is to provide assurance that the Council has sound governance arrangements in place that are supported by effective systems of internal control.

The six core principles referred to in the CIPFA framework defining the principles of good governance are:

- (i)** Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
- (ii)** Members and officers working together to achieve a common purpose with clearly defined functions and roles.
- (iii)** Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- (iv)** Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
- (v)** Developing the capacity and capability of members and officers to be effective.
- (vi)** Engaging with local people and other stakeholders to ensure robust public accountability.

In compiling the Annual Governance Statement the guidance identifies it should include the following information:

- (i)** Scope of Responsibility.
- (ii)** The purpose of the governance framework.
- (iii)** A description of the governance framework and the key elements of the systems and processes that comprise the authority's governance arrangements.
- (iv)** Review of effectiveness.

- (v) Significant governance issues including an outline of the actions taken, or proposed, to deal with any significant governance issues identified.

The Annual Governance Statement is a key corporate document with the Chief Executive (CEO and Head of Paid Service) and the Leader having joint responsibility as signatories for its accuracy and completeness. It is also important that all other senior officers provide assurances to the process. The preparation of the Annual Governance Statement is overseen and approved by Senior Management Team supported by service managers as a corporate document which is owned by all senior officers and members.

In compiling the Annual Governance Statement assurance a review of the effectiveness of the Council's systems of internal controls, as required by the Accounts and Audit Regulations 2011 4(2), is conducted and information is obtained from a range of sources so that the signatories to the Statement can assure themselves that it reflects the governance framework for which they are responsible.

4. Significant Governance Issues

- 4.1. Where any significant governance issues are identified within the assurances received these must be identified in the Annual Governance Statement.

The Head of Internal Audit's Annual Report for 2015/16 identified the following significant internal control issues:

4.2 *Budgetary Control/Medium Term Financial Strategy*

The review provided 'moderate assurance' and highlighted the weakening of budget monitoring and forecasting procedures due to the increased reliance on interim managers and staff through much of 2015/16 due to the unplanned absence of several senior managers. As a result, staff in the Finance Section often had to identify reasons for service level variances and to make budget outturn forecasts in isolation. The Auditor also noted in this context that at its meeting in February 2016 the PFD Committee approved the use of reserves to ensure that the originally approved revenue budget at the start of the 2015/16 financial year was not exceeded.

4.3 *Financial Systems – Key Controls Review*

The review provided 'moderate' and 'limited' assurance in relation to Creditors and Debtors respectively. The key matters highlighted related to: Creditors – compliance and evidencing of compliance, with Contract procedure Rules, and lack of independent review to confirm that any changes to the creditors masterfile were authorised and valid; Debtors – timeliness and accuracy of invoicing, and lack of debt collection, recovery and write-off processes operated during the year.

4.4 *Building Control – Value for Money Review*

The review provided 'limited assurance' and highlighted matters mainly relating to the scheme of charges and review.

4.5 *Payroll & Expenses*

The review provided 'moderate assurance' and highlighted matters relating to the agreement with and data transfer to the payroll provider, and compliance with payroll procedures.

The Head of Internal Audit's report also noted that some planned reviews have been delayed at management request, for delivery in 2016/17, and accordingly he has not reflected an assurance opinion on these reviews.

All of the matters raised by the Head of Internal Audit are currently being addressed and improvements put in place. Progress is reported regularly to the Council's Policy, Finance & Development Committee.

4.6. Organisational issues arising from the investigation into the grievance brought by Council senior managers against the Council's Senior Management Team

In May 2015 a collective grievance raised by a number of officers against the Chief Executive, Director of Services and Director of Finance. Through the Local Government Association an Independent Investigator was appointed to look into the grievances. In the event, the Investigator found none of the grievances to be substantiated, and this was reported to the Council's Change Management Committee in April 2016.

As a by-product of this, the Council agreed two action plans – one for immediate action which is currently being delivered, and a plan for further review of key aspects of the Council's operation that cannot be addressed in the immediate short-term. The Council is being supported in this work by the Local Government Association. The project is led at an officer level by the Chief Financial Officer on behalf of the Senior Management Team, who reports regularly on progress to the Change Management Committee.

The associated risks have been identified, remain under close review and will be managed throughout the year given that they are key to ensuring the continued delivery of high quality services. Action plans and programmes of monitoring and evaluation are in place and are regularly updated to support both of these issues over the current and future years.

Background Documents:-

CIPFA/SOLACE - Delivering good governance in Local Government
 Oadby & Wigston Borough Council - Local Code of Corporate Governance
 KPMG - Annual Audit and Inspection Letter
 Internal Audit - Annual Report 2015/16

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Implications	
Financial (MHo)	Robust scrutiny of the Council's AGS and framework applied in line with best practice will further strengthen the Council's sound base of strong financial management and assist in reducing risk.
Legal (AC)	The preparation and publication of the AGS in accordance with the CIPFA/SOLACE framework is necessary to meet the statutory requirements set out in Regulation 4(3) in the Accounts and Audit Regulations 2011. Effective corporate governance practice is essential if the Council is to demonstrate that it is acting in the best interests of the communities it serves. The Council's governance arrangements are tested through audit and other means of scrutiny.
Risk (MHo)	A strong internal control environment contributes to the overall effective

	management of the Council and will minimise the risk of the Council failing to achieve its ambitions, priorities and service improvements.
Equalities (MHo)	Ensuring the Council has arrangements in place to ensure inclusion, diversity and community cohesion forms part of the Council's governance arrangements.
	Equality Assessment:-
	<input type="checkbox"/> Initial Screening <input type="checkbox"/> Full Assessment <input checked="" type="checkbox"/> Not Applicable