

## **HIGH PEAK BOROUGH COUNCIL**

### **Report to the Audit & Regulatory Committee**

**25th July 2018**

<b>TITLE:</b>	<b>Annual Governance Statement 2017/18</b>
<b>EXECUTIVE COUNCILLOR:</b>	<b>Councillor Emily Thrane – Executive Councillor for Finance &amp; Operational Services</b>
<b>CONTACT OFFICER:</b>	<b>Andrew Stokes – Executive Director (Transformation) &amp; Chief Finance Officer</b>
<b>WARDS INVOLVED:</b>	<b>Non-Specific</b>

#### **Appendices Attached:**

**Appendix 1 - Annual Governance Statement Framework**

**Appendix 2 - Annual Governance Statement 2017/18**

#### **1. Reason for the Report**

- 1.1 Regulation 6 (1) (a) of the Accounts and Audit Regulations 2015 requires the Council to conduct a review each financial year of the effectiveness of its system of internal control and approve an Annual Governance Statement (AGS).
- 1.2 The statement needs to be prepared in accordance with proper practices in relation to accounts and must be approved in advance of the Council approving the statement of accounts. 'Proper practices in relation to accounts' relates to those accounting practices which are contained in a code of practice or other document which is identified for the purposes of this provision by regulations made by the Secretary of State. Such guidance is contained in the CIPFA/SOLACE framework and guidance on 'Delivering Good Governance in Local Government'.

#### **2. Recommendation**

- 2.1 That the committee approve the Annual Governance Statement 2017/18.

#### **3. Executive Summary**

- 3.1 Guidance on the production of the AGS is contained within the 2016 edition of CIPFA/SOLACE's 'Delivering Good Governance in Local Government'

Framework'. The structure and framework for the production of the AGS is summarised in **Appendix 1**.

3.2 In essence, the Annual Governance Statement is the formal statement that recognises, records and publishes our governance arrangements as defined in the CIPFA/SOLACE framework. The AGS includes the following information:

- An acknowledgement of responsibility for ensuring that there is a sound system of governance;
- the purpose of the governance framework;
- the key elements of the systems and processes that comprise the governance arrangements;
- the process that has been applied in maintaining and reviewing the effectiveness of the governance framework;
- the identification of any significant governance issues and any actions taken or proposed to address these issues.

3.3 The AGS is a key corporate document. The most senior officer (the Chief Executive) and the most senior Councillor (the Leader) have joint responsibility as signatories for its accuracy and completeness. As a corporate document the AGS should be owned by all senior officers and Councillors of the authority. The signatories need to ensure that the AGS accurately reflects the governance framework for which they are responsible. In order to achieve this they will need to rely on many sources of assurance, such as:

- Executive Director & Chief Finance Officer;
- Executive Director & Monitoring Officer;
- Heads of Service & Service managers;
- Members;
- the Audit Manager;
- performance and risk management;
- third-parties eg. partnerships;
- external audit and other review agencies.

3.4 The production of the 2017/18 AGS has been undertaken in line with the CIPFA guidance. The process has been co-ordinated through a Corporate Governance Management Group containing the key officers who are given ultimate responsibility for drafting the AGS, evaluating assurances and the supporting evidence.

3.5 An analysis of the relevant assurances and supporting evidence has been undertaken to produce a fully compliant AGS for 2017/18. The AGS is attached at **Appendix 2** for Councillors consideration and approval.

#### **4. How this report links to Corporate Priorities**

4.1 The Annual Governance Statement is the formal statement that recognises, records and publishes the Council's governance arrangements as defined in

the CIPFA/SOLACE framework and therefore helps to confirm effective use of financial and other resources to ensure value for money.

## **5. Options and Analysis**

- 5.1 Approve the 2017/18 Annual Governance Statement (*Recommended*). The AGS will provide an accurate representation of the governance arrangements in place during the year whilst highlighting those areas where improvement is required. Compliance with the Accounts and Audit Regulations 2015 will be achieved.
- 5.2 Do not approve the 2017/18 Annual Governance Statement (*Not Recommended*). Compliance with the Accounts and Audit Regulations 2015 will not be achieved unless an amended version of the AGS is approved.

## **6. Implications**

- 6.1 Community Safety - (Crime and Disorder Act 1998)  
None.
- 6.2 Workforce  
None.
- 6.3 Equality and Diversity/Equality Impact Assessment  
This report has been prepared in accordance with the Council's Diversity and Equality Policies.
- 6.4 Financial Considerations  
In resolving any issues that have arisen from the outcome of the AGS, it is anticipated that corrective action will be implemented within existing budgetary provision.
- 6.5 Legal  
Inadequacies in governance arrangements, if not addressed, pose a litigation risk. The extent and nature of such risks will vary depending on the nature and extent of the deficiency and the resulting damage/loss (if relevant). However, the suggested action to be taken to address the governance weaknesses will assist greatly in minimising the risks and potential legal implications identified.
- 6.6 Sustainability  
None.
- 6.7 Internal and External Consultation  
Key officers who are given ultimate responsibility for drafting the AGS, evaluating assurances and the supporting evidence have been consulted in the compilation process.

6.8 Risk Assessment

The AGS takes assurance from the Council's Risk Management Framework.

**ANDREW P STOKES**  
**Executive Director (Transformation) & Chief Finance Officer**

**Web Links and**

**Background Papers**

CIPFA/SOLACE Publication –  
Delivering Good Governance  
In Local Government:  
Framework and Guidance  
Notes for English Authorities  
2016 Editions

**Location**

Moorlands House - Leek

**Contact details**

Andrew P Stokes  
Executive Director (Transformation) & Chief  
Finance Officer  
Tel: (01538) 395622  
e-mail: [andrew.stokes@staffsmoorlands.gov.uk](mailto:andrew.stokes@staffsmoorlands.gov.uk)

## **7. Background and Detail**

7.1 During 2016, CIPFA/SOLACE produced a new Delivering Good Governance in Local Government Framework and Guidance Notes for English Authorities. The Framework defines the principles that should underpin the governance of the Council and provides a structure to help with our approach to governance. The Council should therefore test our governance structures and partnerships against the principles contained in the Framework by:

- reviewing existing governance arrangements;
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring ongoing effectiveness;
- reporting publicly on compliance with our code on an annual basis and on how we have monitored the effectiveness of our governance arrangements in the year and on planned changes.

7.2 The Framework outlines seven core principles of good governance as follows:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
- Ensuring openness and comprehensive stakeholder engagement;
- 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.

7.3 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. Each Authority should therefore develop and maintain a local code of governance / governance arrangements reflecting the principles set out in the Framework.

7.4 Local Authorities are required to prepare an Annual Governance Statement in order to report publicly on the extent to which they comply with their own code of governance, which in turn, is consistent with the good governance principles in the Framework. It is this statement that has the legal backing of Regulation 6 (2) of the Accounts and Audit Regulations 2015. HPBC's current Code of Corporate Governance which forms part of the ethical framework of the Council, complies with the requirements of the framework and reflects the format of the most recent guidance.

7.5 The arrangements required for gathering assurances for the preparation of the AGS provide an opportunity for authorities to consider the robustness of their governance arrangements. In doing so, authorities need to recognise that this is a corporate issue, affecting everyone in the organisation. It is also important

to recognise that the purpose of the AGS is not just to be 'compliant', but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required. This will also demonstrate to stakeholders what those arrangements are.

- 7.6 Once the AGS has been produced it is required to be reviewed and approved by an independent review body of the Council as a separate item from the Statement of Accounts. The purpose of this report is to present the 2017/18 AGS to the members of the Audit & Regulatory Committee for consideration and approval.

## **8. Compilation of the AGS**

- 8.1 In drafting the AGS, it is essential to bear in mind its purposes. In essence, the AGS is the formal statement that recognises, records and publishes the Council's governance arrangements as defined in the CIPFA/SOLACE framework. The flowchart detailed at **Appendix 1** sets out the framework for compiling the AGS. It identifies some typical dynamics of an AGS that should be considered and shows how they can be brought together and evidenced.

- 8.2 The AGS is a key corporate document. The most senior officer (the Chief Executive) and the most senior Councillor (the Leader) have joint responsibility as signatories for the accuracy and completeness of the AGS. The signatories need to ensure that the AGS accurately reflects the governance framework for which they are responsible. In order to achieve this they are likely to rely on many sources of assurance, such as:

- The Chief Financial Officer and the Monitoring Officer - the statutory functions undertaken by these two officers provide a key source of assurance that the systems and procedures of internal control that are in operation are effective, efficient and are being complied with on a routine basis. Both officers are involved in the production of the AGS.
- Management – Senior managers are charged with the responsibility of ensuring that policies within their service area are complied with and are held accountable for their actions/operations in delivering the service and achieving objectives. All Directors, Heads of Service and Service Managers were asked to complete and sign a Managers Assurance Statement to document the level of assurance that they could give for the internal controls in place in their service area and their effectiveness with regard to ensuring accountability, prudence, VFM, data quality, compliance with policy, Financial Regulations and Procedure Rules, Contract Procedure Rules and delivery of the Council's objectives. In providing this assurance, Directors, Heads of Service and Service Managers were asked to identify any material issues where they consider the controls are not adequate or are absent. In providing such assurance statements it is accepted that Managers can only be expected to give reasonable assurance for their service area of activity and not a full guarantee.

- Internal Audit - The Public Sector Internal Audit Standards (PSIAS) defines Internal Audit as “an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.” Internal Audit produces an annual report that gives a summary of its work and provides an independent and objective opinion on the authority’s activities. The annual report and the work of Internal Audit have been used to inform the AGS. A review of the effectiveness of the system of internal audit has been undertaken to ensure that reliance can be placed on the work of internal audit and its contribution to the AGS.
- Risk Management – the Council’s strategic risk register details those issues considered to be a risk which may prevent the Council from achieving its corporate objectives and outlines the controls in place to mitigate those risks. This source of assurance has been used to inform the AGS.
- External Audit and Other Review Agencies – assurance can be taken from the work of external bodies such as the Council’s external auditors. Work undertaken by the external auditors has been used to inform the Annual Governance Statement.

8.3 As a corporate document the AGS should be owned by all senior officers and Councillors of the authority. It is essential that there is a buy-in at the top level of the organisation; otherwise there is a risk that the preparation of the AGS is not perceived as the important task that it is by managers and other staff. If the work is delegated to a single officer it is likely to dilute the statement’s significance.

8.4 At the centre of the production of the 2017/18 statement is a Corporate Governance Management Group who are given ultimate responsibility for drafting the AGS, evaluating assurances and the supporting evidence and this group has been established for a number of years. Each member of the group has supplied assurances and evidence to support the various elements of the AGS and action points to address weaknesses, some of which are significant and warrant specific mention in the AGS itself, have been drawn up.

## 9. The Statement

- 9.1 The assurances and evidence have been evaluated and the AGS, prepared in accordance with recommended guidance, is attached as **Appendix 2**. The statement is structured as follows: -
- An acknowledgement of responsibility for ensuring that there is a sound system of governance;
  - the purpose of the governance framework;
  - the key elements of the systems and processes that comprise the governance arrangements;

- the process that has been applied in maintaining and reviewing the effectiveness of the governance framework;
- the identification of any significant governance issues and any actions taken or proposed to address these issues.

9.2 In compiling an AGS, issues that are considered to fall short of the expected standards (whether or not set out in the organisation’s local code of corporate governance) could arise. In this case a decision needs to be made about how significant the issue is and whether or not it needs to be commented on in the Statement. It is not possible to give a single definition as to what constitutes a “significant governance issue” and judgement has to be exercised. Judgements are therefore based on the following factors:-

- the issue has seriously prejudiced or prevented achievement of a principal objective;
- the issue has resulted in a need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another service area;
- the issue has led to a material impact on the accounts;
- the Audit Manager has reported on it as significant, for this purpose, in the Internal Audit Annual Report;
- the issue, or its impact, has attracted significant public interest or has the potential to seriously damage the reputation of the Council;
- the issue has resulted in formal action being taken by the Chief Financial Officer and/or Monitoring Officer.

9.3 The 2016/17 AGS contained three significant internal control issues which have not been fully addressed during the year as they are still ongoing and they are therefore included again within the 2017/18 AGS as significant issues.

9.4 The table below details the significant governance issue that remains at the end of 2017/18 together with the action that was and is being taken to address this issue:

Governance Issue	Action taken during 2017/18	Continuing Action
The implications of the central government reforms of housing finance.	<ul style="list-style-type: none"> <li>• A number of financial savings/efficiencies have been identified and incorporated into the latest revision of the business plan.</li> <li>• The Housing Revenue Account Business Plan Working Group has developed a programme of work to ensure a balanced Housing Revenue Account business plan.</li> </ul>	<ul style="list-style-type: none"> <li>• The outstanding work relates to the assessment of stock condition. A 100% survey was completed during the year and the results are being used to develop a smooth 30 year programme of investment within the resources available.</li> </ul>

Governance Issue	Action taken during 2017/18	Continuing Action
The significant investment requirements for a number of the Council's non-housing properties.	<ul style="list-style-type: none"> <li>The Council has continued to implement the investment programme to ensure its assets remain fit for purpose. Work on the Pavilion Gardens Octagon and the Opera House have been substantially completed during the year and work on Glossop Halls will commence soon.</li> </ul>	<ul style="list-style-type: none"> <li>A strategic plan covering all of the Council's assets is continuing to be implemented to ensure its assets remain fit for purpose.</li> </ul>
There is an imminent change in the operation model for the Council's waste collection, street cleansing and grounds maintenance services.	<ul style="list-style-type: none"> <li>The new 'teckal' company established to deliver the services has been developed and the initial phase implemented which saw the Council's waste Collection Service transfer in August 2017.</li> </ul>	<ul style="list-style-type: none"> <li>The new company arrangements will continue to be developed and implemented.</li> </ul>

9.5 The significant issues identified in the 2017/18 AGS highlight weaknesses in the Council's governance framework. If these issues are not addressed then the Council could be facing a range of risks including, in a worst case scenario, breaches of legislation, breaches of internal procedures/guidelines, financial losses, insurance claims, etc. The actions identified for each significant issue will, if implemented, minimise the risks faced by the Council. No system of review can give full assurance that all risks have been minimised and all controls have been operating effectively throughout the year, only reasonable assurance can be given.

9.6 Progress in addressing the governance issues identified and outlined during the AGS assurance gathering process, both significant and non-significant, and their required actions will be monitored by the Corporate Governance Management Group during the following financial year and reported to the Audit & Regulatory Committee.