

Somerset County Council
Audit Committee – 21 June 2018

Draft Annual Governance Statement 2017/2018

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Cabinet Member: Cllr Mandy Chilcott, Cabinet Member for Resources

Division and Local Member: All

1. Summary/link to the County Plan

- 1.1. This report invites members of the Audit Committee to consider the attached draft Annual Governance Statement (AGS) for the County Council.

Subject to members' comments, this will then be signed by the Leader of the Council and the Chief Executive, and the Statement will form part of the 2017/2018 Statement of Accounts.

- 1.2. Good governance, as evidenced in the Annual Governance Statement, is an essential pre-requisite to any organisation pursuing its vision effectively, and underpins that vision with effective control mechanisms and risk management.

2. Issues for consideration

- 2.1. Members of the Audit Committee are asked to comment on the content of the draft Annual Governance Statement for 2017/2018 (Appendix A).

3. Background

- 3.1. The Accounts and Audit (Amendment) (England) Regulations 2015 require the County Council as proper practice to produce an Annual Governance Statement to sit alongside the County Council's Statement of Accounts. The purpose of this statement is to provide assurance that the County Council has a sound governance framework in place to manage the risks that might prevent achievement of its statutory obligations and organisational objectives.

The production of an Annual Governance Statement is therefore a mandatory requirement.

- 3.2. The County Council is also required to carry out, at least annually, a review of effectiveness of its governance framework. This review of internal controls provides additional assurance that the Statement of Accounts gives a true and fair view of the County Council's financial position at the reporting date and its financial performance during the year.

As noted within the Annual Governance Statement itself, this review was informed by a wide range of internal and external sources. The review sought to consider whether there were any serious governance weaknesses and what actions would be needed to deal with them.

Members are reminded that both the format and the review process are heavily prescribed for us. To ensure that all local authorities carry out this process in the same way and to the same standards, there is specific guidance in 2016 by CIPFA / SOLACE in “**Delivering Good Governance in Local Government**” and through extensive guidance notes.

The circular diagram included in the Annual Governance Statement shows the 7 key principles of governance that authorities are obliged to consider. Beneath each of these principles are a number of sub-principles and beneath the sub-principles are behaviours and actions that would demonstrate evidence of having a suitable governance framework in place (91 in total). There are also examples of what could be used to demonstrate compliance with CIPFA / SOLACE.

The 2017/2018 financial year was the second year that this guidance was in force. Significant work was required to ensure that Somerset could provide evidence of 91 separate lines for 2016/2017. Our approach was to delegate the responses to the appropriate officer (e.g. the Monitoring Officer for anything constitutional), and where possible to use existing documentation and links in responding. The output was a spreadsheet detailing the evidence in some considerable detail. For 2017/2018 we have simply followed the same approach and asked the relevant officers to either confirm that the governance arrangements are the same, or to update where appropriate. The 7 relevant sections in the Annual Governance Statement have again been drafted from our detailed review.

Where possible, I have included 2017/2018 examples of the consultations we have carried out and governance reviews, such as the Corporate Peer visit.

3.3. There are a very few areas amongst the 91 behaviours where we still cannot demonstrate complete compliance. These have not changed since last year’s review: -

- The framework suggests that “members appraisals” would be one possible example under the “behaving with integrity” principle. There is no Council appraisal of the performance of individual councillors, but we do have a Members Code of Conduct and a Standards Committee, and members can have a personal development plan. We are not alone amongst local authorities in not fully meeting the framework in this respect.
- One behaviour is to ensure that external providers of services are required to act with integrity and high ethical standards. It is very difficult for us to actually “ensure” this. There are a number of ways we try to manage in this area, such as anti-collusion declarations during any tendering process, qualitative measures in our contract appraisal, agreements in place when we enter into partnerships for service delivery, and our Anti-Fraud policy, where “zero tolerance” extends to everyone.

The conclusions from this latest review are that we still have a strong governance framework in place, and that we can demonstrate our compliance.

Members should note that having a strong governance framework in place will fully mitigate our risks, nor can the existing of a framework guarantee full compliance with our governance requirements. This is evident from some of the

“Partial” assurance audits that are being reported to Audit Committee by SWAP, and potentially in breaches of various Codes of Conduct and any necessary HR actions that results.

- 3.4.** There are other sections of the Annual Governance Statement that are required in order to give the necessary assurance about our arrangements, either through the Delivering Good Governance in Local Government framework itself or from other CIPFA publications.

The CIPFA Statement of the Role of the Chief Financial Officer in Local Government is a specific requirement. The ability of the s151 officer to be involved in and influence the strategic direction of the authority is an essential control, particularly as the financial situation for all authorities remains a high risk. It would be a serious governance issue if we could not demonstrate that the s151 officer was in a position and had the necessary attributes to carry out his or her statutory role.

The table in the Annual Governance Statement confirms our compliance in this matter for 2017/2018.

- 3.5.** In accordance with the CIPFA “disclosure requirements”, when the draft Annual Governance Statement is formally approved, the Governance Board will turn the remaining outstanding issues and forward work into a single Action Plan. This will comprise all the steps that officers believe would further strengthen our governance. Many of these will already be known and on-going actions, such as the continual review of the Constitution and key financial policies.

For the last financial year, we closely aligned this Plan with the Healthy Organisation report that was completed in early 2017, and which already included a number of governance recommendations.

The work arising out of the current draft Annual Governance Statement will again be informed and updated when we get the Healthy Organisation report from SWAP later this financial year. Officers will then be in a position to incorporate the latest SWAP recommendations with our own plans.

- 3.6.** Generally speaking, the majority of the requirements of an Annual Governance Statement make it a backwards-looking document, providing the necessary assurance that a reliable framework was in place for the financial year that aligns to the Statement of Accounts.

However, best practice suggests that the Annual Governance Statement should reflect the unique features and challenges of the County Council, and that it should also anticipate known and potential governance challenges ahead. This year’s Statement has again deliberately included Somerset examples of both good governance measures that have been implemented locally, and also of the significant challenges ahead. By doing so, it also highlights some of the areas, which if not controlled adequately, could present additional corporate risks in 2018/19. For example, this would include where we are planning to work differently with our partners, or where we are exploring new ways of delivering

services to our residents and undertaking significant major projects

- 3.7.** The contents of the Annual Governance Statement will need to be reviewed immediately before the publication of the final accounts to ensure that the governance framework and risks have not significantly changed since the review was carried out.

This will give Audit Committee members a final opportunity to review and confirm that the Statement (at the July meeting) is in accordance with their understanding.

- 3.8.** The Council continues to go through a period of great change and challenge, as it delivers of the Council's new objectives with fewer resources and potentially through new mechanisms for delivery. All these changes increase the potential for risk, which must be recognised and managed.

The Governance Board therefore believes that ensuring strong governance continues throughout the organisation remains critical.

4. Consultations undertaken

- 4.1.** The Monitoring Officer and the s151 Officer have both been consulted in the preparation of the Annual Governance Statement. Members of Governance Board have been involved in the preparation of the Annual Governance Statement which also reflects the agendas and work of this Board. We have also held discussions with officers in other key areas, such as Performance and Communications.

5. Implications

- 5.1.** All included above.

6. Background papers

- 6.1.** Delivering Good Governance in Local Government: a framework (CIPFA/SOLACE)

The Role of the Chief Financial Officer in Local Government (CIPFA)

Note For sight of individual background papers please contact the report author