

Somerset County Council
Audit Committee – 20 June 2019

Draft Annual Governance Statement 2018/19

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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 final 2018/19 Statement of Accounts. (Note that due to the timing of the Audit Committee meeting, as has been the case in some years in the past, the draft unsigned version of the AGS has been attached to the Statement of Accounts submitted to the external auditor on 31 May 2019. The auditors will be up-dated on any amendments made between then and the final signing of the AGS by 31 July 2019).

- 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 2018/19 (Appendix A). Any relevant changes will be reflected in the final version before sign-off by the Leader of the Council and then Chief Executive.

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 has been specific guidance since 2016 from 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 2018/19 financial year was the third year that this guidance was in force. This governance statement has built upon the 91 separate lines of evidence first developed for 2016/2017. Officers have followed the same approach and either confirmed that the governance arrangements are the same or updated where appropriate. The Annual Governance Statement itself has been based on the detailed review.

Where relevant examples of the consultations and governance reviews that have taken place in 2018/19 have been included, such as the Corporate Peer Challenge recommendations reported to Council in May 2018 and the Governance Review undertaken by the Monitoring Officer.

- 3.3. There are a very few areas where complete compliance remains to be demonstrated. It is important to note that these have not changed since the previous year's review:
- The framework suggests that "members appraisals" would be one possible example under the "behaving with integrity" principle. There is no mandatory or policy requirement for the Council to undertake an appraisal of the performance of individual councillors, but the Council does have a Members Code of Conduct and a Constitution & Standards Committee, and members can voluntarily request to have a personal development plan (been in place for two years). The Council is 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 the Council still has a strong governance framework in place, and that the Council can demonstrate compliance.

Members should note that having a strong governance framework in place will not fully mitigate the council’s risks, nor can the existing of a framework guarantee full compliance with governance requirements. The existence of “Partial” assurance audits is evidence of this. These are reported to Audit Committee by SWAP. Members of the Committee will be aware of the SWAP Healthy Organisation internal audit report completed in January 2019 which awarded the council an overall medium assurance, albeit the area of Corporate Governance received high assurance / low risk.

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

For example, 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. This has been especially important during 2018/19 and the table in the Annual Governance Statement confirms the Council’s compliance in this matter for 2018/19.

- 3.5.** In accordance with the CIPFA “disclosure requirements”, following formal approval of the draft Annual Governance Statement, the Governance Board will develop an Action Plan to take forward the remaining outstanding issues aimed at further strengthening the Council’s 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, the actions built upon the Healthy Organisation report that was first completed in early 2017 and reported again in January 2019, and the adverse value for money conclusion reached by the external auditor in July 2018. Throughout 2018/19, the Governance Board have been tracking actions against a Healthy Organisation Governance Scorecard & Value For Money Tracker.

The work arising out of the current draft Annual Governance Statement will again be informed and updated when the council receives the Healthy Organisation report from SWAP later this financial year and once the VFM assessment conclusion is known. Officers will then be able to incorporate the latest SWAP recommendations with the Council’s own plans.

- 3.6.** The main purpose of the Annual Governance Statement is to provide 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 2019/20.

Three reviews that will feed into the forward-looking actions for 2019/20 include:

- the follow up Corporate Peer Review feedback (review undertaken in April 2019 and formal feedback report pending);
- the findings from the Centre for Public Scrutiny (CfPS) review (undertaken in April 2019 and formal feedback reports to Scrutiny Committees in early Autumn 2019), and;
- the external auditors VFM Assessment (which will form part of the Councils Statement of Accounts audit to conclude by 31 July 2019).

- 3.7.** Ahead of publication of the final accounts for 2018/19, Audit Committee members will have a final opportunity (at the July meeting) to review and confirm any final changes made are in accordance with their understanding.

4. Consultations undertaken

- 4.1.** The Monitoring Officer and the S151 Officer have both been fully involved in the preparation of the Annual Governance Statement. Also, members of Governance Board have been proactively involved in the preparation of the Annual Governance Statement given that this reflects the agendas and work of this Board. Further discussions with officers in other key areas, such as Performance and Communications have been held as appropriate.

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