

## Audit Committee

Committee Date – 29 August 2024



---

### **Somerset Council Draft Annual Governance Statement 2023/24 and Action Plan for 2024/25 and 2025/26**

Executive Member(s): Cllr Bill Revans, Leader of the Council

Lead Officer: Duncan Sharkey, Chief Executive and David Clark, Service Director- Governance, Democratic & Legal Services

Author: Scott Wooldridge, Interim Head of Governance & Democratic Services

Contact Details: 01823 357628 [scott.wooldridge@somerset.gov.uk](mailto:scott.wooldridge@somerset.gov.uk)

#### **Summary / Background**

1. The Account and Audit (Amendment) (England) Regulations 2015 require the Council to produce an Annual Governance Statement (AGS) to sit alongside the annual Statement of Accounts. The AGS provides assurance that the Council has a sound governance framework in place to manage the risks that might prevent its achievement of statutory duties and organisational objectives.
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.
3. The AGS 2023/24 (see Appendix A), is the first AGS for Somerset Council since it became a unitary council. Annex 4 sets out the Council's Local Code of Corporate Governance in support of the AGS. A range of governance issues have been identified (Annex 5) and an Action Plan for 2024/25 and 2025/26 developed (see Annex 1).

#### **Recommendations**

4. Ahead of sign-off by the Leader of the Council and the Chief Executive, it is recommended that the Audit Committee reviews and comments on the draft Annual Governance Statement 2023/24 (Appendix A), the Action Plan for 2024/25 and 2025/26 (Annex 1), the supporting evidence (Annexes 2, 3 and 5) and the Local Code of Corporate Governance (Annex 4).

Note – the final version of the AGS will be presented to the Audit Committee on 30 September 2024 as part of the annual Statement of Accounts 2023/24.

## **Reasons for Recommendations**

7. The Audit Committee is a key component of the Council's governance framework. The Committee provides an independent and high-level focus on the adequacy of the Council's governance, risk and control arrangements.
8. This report provides an opportunity for the Audit Committee to be assured by the governance framework and Action Plan for 2024/25 and to provide any comments on the draft Annual Governance Statement 2023/24.

## **Background to the AGS 2023/24**

9. The Council is 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 Council's financial position at the reporting date and its financial performance during the year.
10. 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 (see Annex 5) and what actions would be needed to deal with them (see Action Plan in Annex 1). It is proposed to report progress with the Action Plan to the Audit Committee on a six-monthly basis.
11. To ensure that all councils carry out the evaluation of their governance framework 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.
12. The circular diagram included in the new Corporate Governance Code (Appendix 1) 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. There are also examples of what could be used to demonstrate compliance with CIPFA / SOLACE.
13. The Annual Governance Statement has been built upon the evidence set out within its Local Code of Corporate Governance (See Annex 4). Officers have either confirmed that the governance arrangements are adequate or where action is required.

14. 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.

15. However, best practice suggests that the Annual Governance Statement should also reflect the unique features and challenges of the Council, and that it should therefore anticipate known and potential governance challenges ahead. This year's Statement includes the following examples:

- Financial Emergency
- Improvement and Transformation Programme
- Exceptional Financial Support
- Statement of Accounts 2022/23 for five legacy councils
- Anti-Fraud and corruption
- Review of the Council's Constitution
- Embedding committee and internal governance arrangements
- Managing risks through internal control
- Establishing a Statutory Officers Board with oversight of AGS and actions

16. By doing so, it highlights these areas which could present significant corporate risks during 2022/23 and future financial years. The Committee can be reassured that mitigations and management actions are already underway on these matters.

17. The Council's self-assessment against the CIPFA Financial Management Code was reported to the Audit Committee on 29 March 2024 :

RAG Rating	Progress Report	Number of Financial Management Standards
GREEN	Compliance is being demonstrated	9
AMBER	Minor to Moderate improvements are required to demonstrate compliance	6
RED	Moderate to Significant improvements are required to demonstrate compliance	2
TOTAL		17

18. The Head of Internal Audit's annual opinion gives limited assurance as to the effectiveness of the Councils internal control environment for 2023-24 is:

“The control framework is not operating effectively to mitigate key risks. A number of key controls are absent or are not being applied to meet business objectives.

- Significant number of medium and/or critical risk rated weaknesses identified in individual audit engagements.
- Isolated critical and/or high risk rated weaknesses identified that are not systemic.
- Internal audit has concerns about managements approach to resolving identified issues. “

19. Internal Audit has highlighted that as a newly formed council on the 1 April 2023 Somerset Council had the challenge of bringing the five legacy councils together as well as the additional challenge of implementing a new financial system. The organisation has not benefited from well-established core financial controls and governance arrangements with a stable staffing structure to support them.

Internal Audit recognise that the Council has been proactive in taking steps to strengthen spend controls through the creation of the spend control boards and the governance around how it operates since the financial emergency declaration.

20. Internal Audit has recognised that controls and governance were strengthening during 2023-24, although not at a pace to provide reasonable assurance for the 2023-24 financial year.

21. The Annual Audit Report from Grant Thornton in respect of 4 of the 5 predecessor councils was considered at Audit Committee on 25 January 2024. It highlighted a number of issues that the new council has inherited and will need to be addressed. EY (Ernst & Young) produced their Annual Audit Report on Mendip District Council in March 2024. Grant Thornton, has made no statutory recommendations to the Council as a result of their findings but has made seven key recommendations and six improvement recommendations.

22. The evaluation of the evidence base and development of the AGS 2023/24 provides assurance that the Council has a good governance framework. It has identified that there are some issues with compliance across the Council and the need for action to improve specific areas. However since the Council is in its first year of operation, it is recognised that the types of governance issues identified are consistent with similar local government reorganisations and implementing the harmonisation of governance policies, framework and the organisational culture of a new council.

23. The opinion of the S151 Officer (Chief Financial Officer) is that the Council continues to operate robust internal controls and good public financial management. Further action is required to manage financial pressures and develop strategies to meet the long-term financial challenges that face the Council. There has been no need for the S151 Officer to exercise their statutory escalatory powers. The Council complies with its financial regulations and procedures together with relevant codes of practice and guidance.

24. It is the opinion of the Monitoring Officer, that the Council has complied with its Constitution and its corporate governance arrangements are sound.

### **Other options considered**

25. None as it is a legal requirement to produce an Annual Governance Statement.

### **Links to Council Plan and Medium-Term Financial Plan**

26. Links to the principles set out in the Council Plan of 'A responsible council that acts with integrity'.

### **Financial and Risk Implications**

27. The AGS sets out the Council's response to the financial emergency and how it manages risks through internal control arrangements.

28. The Action Plan identifies a number of actions in relation to financial sustainability and outstanding internal audit recommendations regarding limited assurance of financial controls.

29. The development of the AGS and its supporting annexes, including the proposed Action Plan aim to mitigate the risk score for the council's governance framework by 31 March 2025 to:

<b>Likelihood</b>	<b>3</b>	<b>Impact</b>	<b>4</b>	<b>Risk Score</b>	<b>12</b>
-------------------	----------	---------------	----------	-------------------	-----------

### **Legal Implications**

30. The Account and Audit (Amendment) (England) Regulations 2015 require the Council to produce an Annual Governance Statement (AGS) to sit alongside the annual Statement of Accounts.

## **HR Implications**

31. Action Plan identifies a number of actions for Executive Directors and their staff. Effective management and adequate resourcing will be essential to ensure the actions are not adversely impacted by organisational change. Ongoing governance training and support will continue to be provided.

## **Equalities Implications**

32. Action Plan identifies an action for production of Workforce Equalities Report for 2023/24 in accordance with the Equalities Act 2010.

## **Health and Safety Implications**

33. Action Plan identifies actions in 2024/25 relating to Health and Safety for Gov 23-24/F9 (improve regular oversight by Executive, Scrutiny and Executive Leadership Team) and Gov 23-24/F13 (housing landlord health and safety compliance).

## **Community Safety, Climate Change and Sustainability, Health and Well-Being and Social Value Implications**

34. None directly from this report.

## **Background Papers**

The background papers used in producing this are:

- Delivering Good Governance in Local Government: a framework (CIPFA/SOLACE)
- The role of the Chief Financial Officer in Local Government (CIPFA)
- 2022/23 Annual Governance Statements of legacy councils
- CIPFA FM Code
- Council's Constitution and Scheme of Delegation
- Internal Audit Progress Report for Somerset Council 2023/24 – report to Audit Committee on 28 March 2024
- Strategic Risk report to Audit Committee on 28 March 2024
- CIPFA FM Code report to Audit Committee on 28 March 2024

## **Appendices**

- **Appendix A** – draft Annual Governance Statement 2023/24
- **Annex One** – Action Plan for 2024/25 and 2025/26
- **Annex Two** – AGS development and governance
- **Annex Three** – AGS evidence base
- **Annex Four** – Local Code of Corporate Governance
- **Annex Five** – Governance Issues 2023/24

## Report Sign-Off

	Officer Name	Date Completed
Strategy, workforce & Localities	Alyn Jones	12/8/24
Service Director	David Clark	5/8/24
Executive Lead Member	Cllr Bill Revans	12/8/24