



## Governance & Audit Committee

Item

23 June 2020

<b>Report of</b>	<b>Assistant Director of Corporate &amp; Improvement Services</b>	<b>Author</b>	<b>Hayley McGrath 508902</b>
<b>Title</b>	<b>Review of the Governance Framework and Draft Annual Governance Statement</b>		
<b>Wards affected</b>	Not applicable		

### 1.0 Executive Summary

This report relates to the Council's duty to produce an Annual Governance Statement, that reviews the effectiveness of the Council's internal control systems for the 2019/2020 financial year, which is required for the 2019/2020 Statement of Accounts.

### 2.0 Recommended Decisions

- 2.1 To consider and note the review of the Council's compliance with the seven principles of good governance (CIPFA International Framework: Good Governance in the Public Sector 2014) including the review of effectiveness of the internal control arrangements.
- 2.2 To approve the Annual Governance Statement for 2019/20.

### 3.0 Reasons for Recommended Decisions

- 3.1 Regulation 3 of the Accounts and Audit Regulations 2015 states that:  
*'A relevant authority must ensure that it has a sound system of internal control which facilitates the effective exercise of its functions and the achievement of its aims and objectives; ensures that the financial and operational management of the authority is effective; and includes effective arrangements for the management of risk.'*
- 3.2 Regulations 6(1) and (2) go on to place a requirement on the Council to conduct a review of the effectiveness of its system of internal control at least once a year, and to report the findings to this committee. Following the review, the committee must approve an Annual Governance Statement (AGS), prepared in accordance with proper practices in relation to internal control.
- 3.3 The review of the system of internal control assesses the Council's compliance with the seven principals of good corporate governance, set out in the 2016 CIPFA / SOLACE guidance – Delivering Good Governance in Local Government, and the effectiveness of the policies and procedures that make up the Council's governance framework. The process also produces a management action plan to address any identified weaknesses.
- 3.4 CIPFA's proper practice requires the Chief Executive and the Leader of the Council to sign the AGS. They must be satisfied that the document is supported by reliable evidence and accurately reflects the authority's governance and control arrangements.

### 4.0 Alternative Options

- 4.1 None.

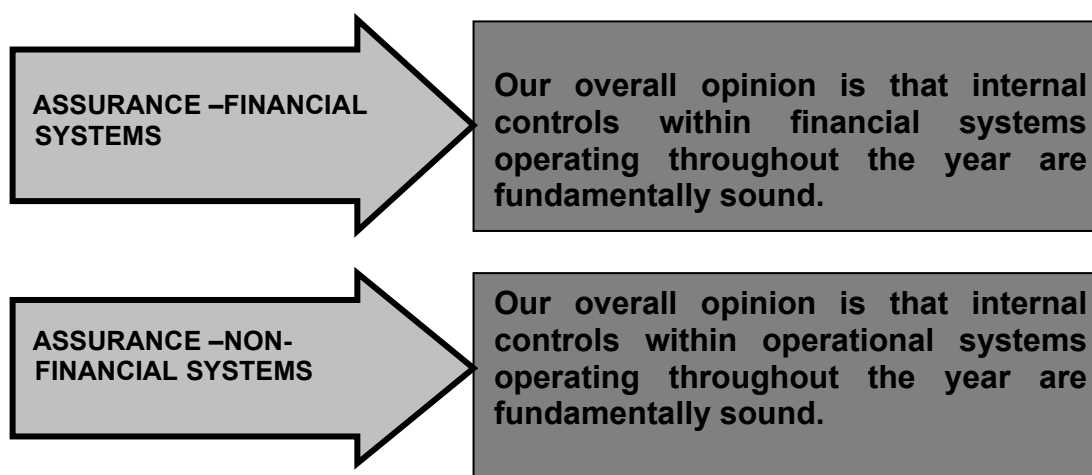
## 5.0 Background Information

- 5.1 Colchester Borough Council has adopted a Local Code of Corporate Governance based on the 'Delivering Good Governance in Local Government' guidance. The purpose of the AGS is to review compliance with the seven principles of good governance outlined in the guidance and the Council's Local Code of Corporate Governance.
- 5.2 The seven principles of Corporate Governance are:
- Principle 1: Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
  - Principle 2: Ensuring openness and comprehensive stakeholder engagement.
  - Principle 3: Defining outcomes in terms of sustainable economic, social, and environmental benefits.
  - Principle 4: Determining the interventions necessary to optimise the achievement of the intended outcomes.
  - Principle 5: Developing the entity's capacity, including the capability of its leadership and the individuals within it.
  - Principle 6: Managing risks and performance through robust internal control and strong public financial management.
  - Principle 7: Implementing good practices in transparency, reporting, and audit to deliver effective accountability.
- 5.3 As part of the governance review the Council has to demonstrate the effectiveness of its internal control arrangements, and this is primarily evidenced by the Head of Internal Audit Report, produced by the Council's Internal Audit provider, Mazars. A copy of the report is available as a background paper. The key statement from this report is detailed below: -

### 2019/20 Year Opinion

#### Internal Control

From the Internal Audit work undertaken in compliance with the PSIAS (Public Sector Internal Audit Standards) in 2019/20, it is our opinion that we can provide **Substantial Assurance** that the system of internal control in place at Colchester Borough Council for the year ended 31 March 2020 accords with proper practice, except for the significant control environment issues as documented in the detailed report. The assurance can be further broken down between financial and non-financial systems, as follows:



- 5.4 The overall summary from the report states:  
*'we have noted a slight deterioration in the Council's control environment during the audit year. During 2019/20, 25 (74%) of internal audit projects were rated 'full/substantial assurance' compared with 25 (83%) in the prior year. We have noted an increase in the number of internal audit projects rated 'limited assurance' from five (17%) to nine (26%) in 2019/20. There were no 'nil assurance' audits this year, which is consistent with the previous period.'*
- 5.5 In addition, the further steps taken in producing the AGS have been as follows: -
- A full review of the Council's code of corporate governance including detailed assessment of evidence supporting each principle.
  - Assurance assessments relating to key areas of governance and control have been completed by senior management.
  - Consideration of risk management issues.
  - Detailed follow up of issues with relevant managers to provide evidence of controls in place.
  - Review of the action plan from the Annual Governance Statement for 2018/19.
  - Review of the implementation of recommendations made by Internal Audit.
  - Review of issues raised in External Audit reports, principally the Annual Audit Letter.
  - Assessment that the financial arrangements comply with the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2016).
- 5.6 The AGS for 2019/20 is attached at appendix 1. The format of the statement takes into account both the mandatory pro-forma contained within CIPFA's proper practice guidance, together with subsequent examples of best practice.
- 5.7 The AGS includes a table showing significant internal control issues and planned actions to address these. A more detailed action plan is set out within this report at Appendix 2. The AGS should be an ongoing assessment and therefore a review of the progress against the recommendations will be reported to the Committee later in the financial year.
- 6.0 Equality, Diversity and Human Rights implications**
- 6.1 There are no equality, diversity or Human Rights implications as a result of this report.
- 7.0 Strategic Plan Implications**
- 7.1 The achievement of the strategic plan requires a sound system of governance to ensure the effective delivery of services. Therefore, improving on existing governance arrangements will help to ensure that the strategic plan objectives can be achieved.
- 8.0 Risk Management Implications**
- 8.1 Risk Management is a fundamental part of the Governance process and a failure to implement the action plan may have an effect on the ability of the Council to control its risks. Therefore, the actions should be incorporated into the risk management process.
- 9.0 Other Standard References**
- 9.1 There are no direct Publicity, Financial, Consultation, Community Safety or Health and Safety implications as a result of this report.

**Appendices**

Appendix 1 – The Annual Governance Statement for 2019/20

Appendix 2 – The Annual Governance Statement Action Plan for 2020/21

**Background Papers**

Head of Internal Audit report for the year ended 31 March 2020.