

Governance & Audit Committee

Item
12

27 June 2017

Report of	Assistant Chief Executive	Author	Hayley McGrath 508902
Title	Review of the Governance Framework and Draft Annual Governance Statement		
Wards affected	Not applicable		

This report concerns the Annual Governance Statement for 2016/17

1. Decisions Required

- 1.1 To consider and note the review of the Council's compliance with the seven principles of good governance (CIPFA Internal Framework: Good Governance in the Public Sector 2014) including the review of effectiveness of the internal control arrangements.
- 1.2 To approve the Annual Governance Statement for 2016/17.

2. Reasons for Decision(s)

- 2.1 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.'
- 2.2 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.
- 2.3 The review of the system of internal control assesses the Council's compliance with the seven principals of good corporate governance (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.
- 2.4 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.

3. Alternative Options

- 3.1 None.

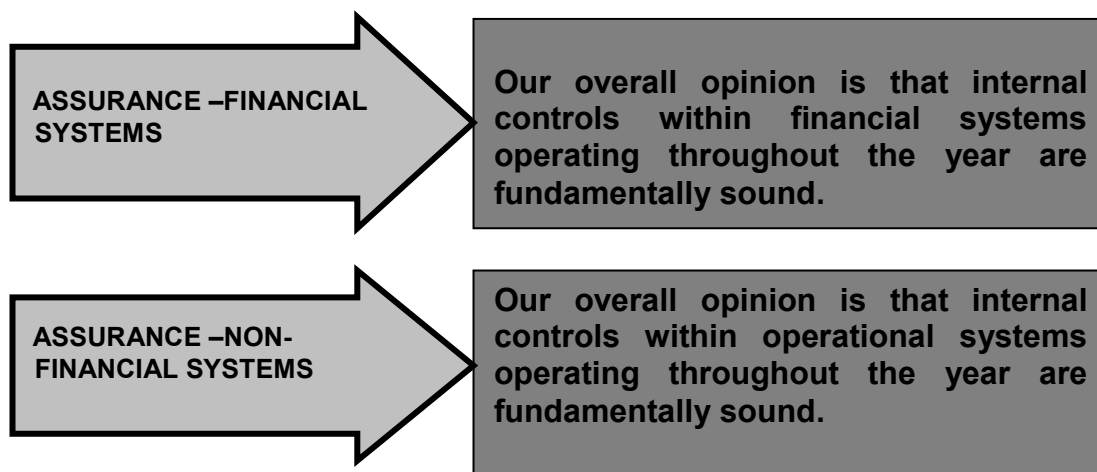
4. Supporting Information

- 4.1 Colchester Borough Council has adopted a Local Code of Corporate Governance based on the 2016 CIPFA and SOLACE guidance document – Delivering Good Governance in Local Government. The purpose of the AGS is to review compliance with the seven principles of good governance outlined in the guidance and contained in Colchester's Local Code of Corporate Governance.
- 4.2 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.
- 4.3 As part of the governance review it is a requirement that the Council reviews the effectiveness of internal control 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:-

2016/17 Year Opinion

Internal Control

From the Internal Audit work undertaken in compliance with the PSIAS (Public Sector Internal Audit Standards) in 2016/17 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 2017 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:



4.4 The overall summary from the report states:

'We have noted a change in Colchester Borough Council's control environment during the audit year. During the 2016/17 year, 21 (73%) of internal audit projects were rated 'full/substantial assurance' compared with 30 (81%) in the prior year. We have noted a small increase in the number of internal audit projects rated 'limited assurance' up from seven (19%) to eight (27%). There were no 'nil assurance' audits this year.'

4.5 It is recognised that the reduction in full/substantial assurance ratings is due in part to managers raising concerns themselves and asking for assistance in improving processes.

4.6 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 Statement of Internal Control for 2015/16.
- 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 (2010).

4.7 The AGS for 2016/2017 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.

4.8 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 on in the financial year.

4.9 As stated earlier the Governance Committee is required to approve the AGS, which will then be signed and included within the Statement of Accounts.

5. Proposals

5.1 That the committee consider the review of governance and internal control arrangements and approve the Annual Governance Statement for 2016/17.

6. Strategic Plan Implications

- 6.1 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.

7. Risk Management Implications

- 7.1 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.

8. Other Standard References

- 8.1 There are no direct Publicity, Financial, Consultation, Human Rights, Community Safety or Health and Safety implications as a result of this report.

Background Papers

Head of Internal Audit report for the year ended 31 March 2017.