



## Governance Committee

Item

11

28 June 2016

<b>Report of</b>	<b>Assistant Chief Executive</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		

**This report concerns the Annual Governance Statement for  
2015/16**

### 1. Decisions Required

- 1.1 To consider and note the review of the Council's compliance with the six principles of good governance including the review of effectiveness of the internal control arrangements.
- 1.2 To approve the Annual Governance Statement for 2015/16.

### 2. Reasons for Decision(s)

- 2.1 Regulation 4(1) of the Accounts and Audit Regulations 2011 states that :  
*'The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.'*
- 2.2 The regulation goes 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 six 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 2007 CIPFA and SOLACE guidance document – Delivering Good Governance in Local Government (updated 2012). The purpose of the AGS is to review compliance with the six principles of good governance outlined in the guidance and contained in Colchester’s Local Code of Corporate Governance.

4.2 The six principles of Corporate Governance are:

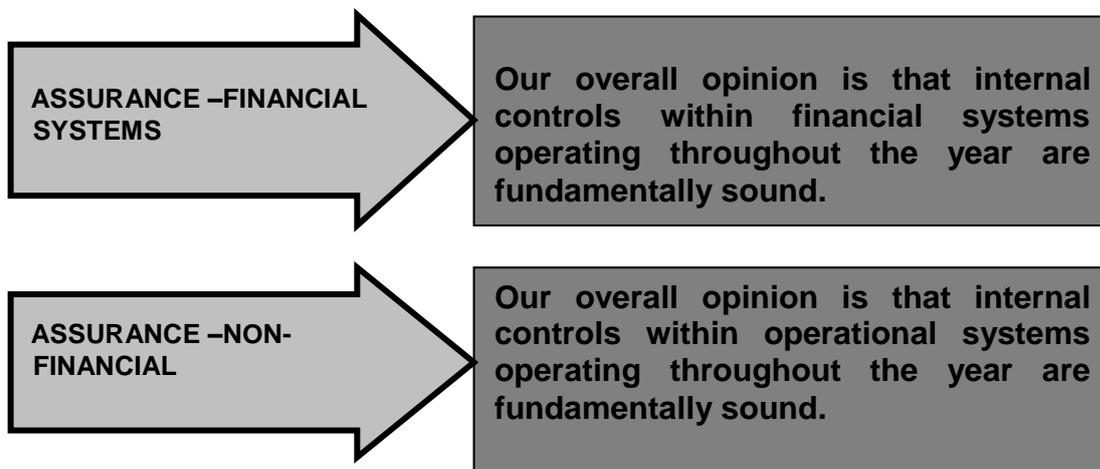
- **Focusing on the purpose** of the authority and on outcomes for the community and creating and implementing a vision for the local area
- **Members and officers working together** to achieve a common purpose with clearly defined functions and roles.
- **Promoting values** for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- **Taking informed and transparent decisions** which are subject to effective scrutiny and managing risk.
- **Developing the capacity** and capability of members and officers to be effective.
- **Engaging with local people** and other stakeholders to ensure robust 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:-

### 2015/16 Year Opinion

#### Internal Control

From the Internal Audit work undertaken in compliance with the PSIAS (Public Sector Internal Audit Standards) in 2015/16 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<sup>st</sup> March 2016 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 2015/16 year, 29 (81%) of internal audit projects were rated 'full/substantial assurance' compared with 32 (97%) in the prior year (although the number of full assurance ratings increased to seven from one the previous year). We have also noted an increase in the number of internal audit projects rated 'limited assurance' up from one (3%) to seven (19%). There were no 'nil assurance' audits this year.'*

4.5 It is recognised that the reduction in 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 2014/15.
- 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 2015/2016 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 2015/16.

## **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 2016 by Mazars.