



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
31 st July 2020	
1:30pm	<u>Public</u>

Annual Governance Statement (AGS) and a review of the effectiveness of the Council's Internal Controls and Shropshire Council's Code of Corporate Governance 2019/20

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1. Summary

Shropshire Council is committed to the principles of good corporate governance. It is required, under the Accounts and Audit Regulations 2015, Regulation 6, to produce an Annual Governance Statement (AGS) to accompany the annual statement of accounts, which must be signed by the Leader of the Council and the Head of Paid Service. This statement should be considered after a review of the effectiveness of the Council's system of internal controls as required by the Accounts and Audit Regulations.

As part of the review of the effectiveness of the Council's system of internal controls, Shropshire Council's Code of Corporate Governance has been examined, the results of which have informed the AGS. The Code is compiled based on guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Government Chief Executives (SOLACE) and identifies how the Council achieved reasonable corporate governance in 2019/20.

Members have been asked prior to, by email, and at this Committee to consider the proposed Annual Governance Statement and the basis on which it has been compiled, and comment on its contents. This will help ensure that it remains a true reflection of the internal controls of the Council for 2019/20.

2. Recommendations

- A. The Committee is asked to consider, with appropriate comment, the Annual Governance Statement 2019/20 at **Appendix A**.
- B. The Committee is asked to receive and comment on the Internal Audit conclusion that the Council has reasonable evidence of compliance with the Code of Corporate Governance. The detailed code, incorporating evidence, is contained in **Appendix B**.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. Risk management is part of the overall arrangements for internal control and contributes to the Council's position of strong governance. Corporate Governance is part of the overall internal control framework and contributes to the Council's strong governance arrangements. The AGS has been drafted based on information contained in the risk register alongside data from assurance statements and officer review groups. The strategic risk register is regularly monitored and updated by senior managers and is a useful, up to date tool to identify governance issues. Consequently, this creates a clear link between the AGS, the strategic risk register, business planning and performance.
- 3.2. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015.
- 3.3. There are no environmental consequences of this proposal and consultation has been used to inform the Annual Governance Statement and review of the Code of Corporate Governance by seeking assurances and evidence from senior officers as to the effectiveness of internal controls and governance processes.

4. Financial Implications

- 4.1. Currently there are no financial implications. Any which arise when implementing future improvement activities will be reported upon separately in accordance with approved policies.
- 4.2. By maintaining a system of good governance and managing and mitigating risks where practicable Shropshire Council can ensure that it gets the best value from its assets. The AGS also has a focus on value for money outcomes.

5 Climate Change Appraisal

The AGS recognises the impact of decisions on the climate and the need to reverse policies to improve the climate. There is a distinct activity allocated to the Director of Place and Enterprise to consider the impact of key decisions and target management of such issues in line with the Council's Climate Change Strategy.

6. Background

- 6.1 Shropshire Council is required to prepare an Annual Governance Statement (AGS), **Appendix A**. The AGS is an accountability statement from the Council to stakeholders on how well it has delivered on governance over the course of the previous year. The Council demonstrates how it complies with the principles of corporate governance set out in the CIPFA and Solace governance framework; *Delivering Good Governance in Local Government: Framework*, April 2016, containing seven governance principles. Whilst CIPFA has not established any 'set text' for authorities to use in acknowledging their responsibility for the governance framework, by adopting the framework, the Council ensures that its governance arrangements accord with best practice.

- 6.2 The framework is a discretionary code against which the Council is judged. In addition to the Council acknowledging its responsibility for ensuring governance is effective, the AGS should:
- focus on outcomes and value for money;
 - evaluate against the local code and principles;
 - be in an open and readable style;
 - include an opinion on whether arrangements are fit for purpose;
 - include identification of significant governance issues and an action plan to address them;
 - be signed by the chief executive and leading member in a council.
- 6.3 The framework also requires a section to be included in the AGS that accounts for actions taken in the year to address the significant governance issues identified in the previous year's AGS. This has been integrated within each of the relevant principles and the completed Action Plan is attached as **Appendix C**.
- 6.4 The Audit Committee play a very valuable role in the development of the AGS and in the finished look of the statement. The Committee's terms of reference include a requirement to review and report on the adequacy of the Council's Corporate Governance arrangements. Compliance with the Code helps to ensure that resources are directed in accordance with agreed policy and according to priorities, that there is sound and inclusive decision making and that there is clear accountability for the use of those resources to achieve desired outcomes for service users and communities.
- 6.5 This report looks at those governance arrangements in place for last year to enable the Audit Committee to deliver its year end assurance report. The Committee should also understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the Committee allowing it to provide a valuable reality check for the Statement.
- 6.6 The Committee can send an important message about the value and importance of the AGS, which will assist those providing assurance to support its conclusions. Once the AGS has been received and commented upon, the Committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for governance improvements.
- 6.7 Shropshire Council's Code of Corporate Governance, which forms part of the Constitution, is based on the seven core principles referred to in the CIPFA framework:
- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
 - B. Ensuring openness and comprehensive stakeholder engagement.
 - C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.
 - D. Determining the interventions necessary to optimise the achievement of the intended outcomes.

- E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
 - F. Managing risks and performance through robust internal control and strong public financial management.
 - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.
- 6.8 The Monitoring Officer and Section 151 Officer are responsible for ensuring an annual review of compliance with this Code and Internal Audit independently reviews the governance process. In conducting the review, evidence is collated from prime documents and, following discussions with and statements from key officers, this information is compared to known results of Internal Audit reviews. The assurance is then circulated publicly through Audit Committee which allows for further member and officer challenge. The results of this review are included in the Head of Audit's annual report and will form part of the overall assurance for the Annual Governance Statement.
- 6.9 On a practical basis, the Code contains a corporate governance map defining our framework by reference to key processes, procedures and documents which contribute to our aspiration of excellent corporate governance in Shropshire. This is felt to be a very useful way of illustrating how the Council achieves good corporate governance.
- 6.10 The Council's formally adopted Code of Corporate Governance is compliant with CIPFA/SOLACE guidance. The Code was reviewed by Internal Audit to determine whether the Council complied with the approved Code of Corporate Governance and is assessed as Reasonable; the evidence in **Appendix B** demonstrates in the areas examined there is generally a sound system of control but there is evidence of non-compliance with some of the controls, these have been escalated to senior management
- 6.11 The Annual Governance Statement, **Appendix A**, is meaningful and written as an open and honest reflection of the Council's governance and current challenges. It identifies areas for improvement in an action plan and explains how the Council has complied with the Code of Corporate Governance and meets the requirements of the Accounts and Audit Regulations 2015. It is structured to reflect each of the principles in turn. Compliance with the Council's existing Code of Corporate Governance has been reviewed and assessed and is reported in Appendix B. Significant Governance Issues are identified within the AGS for targeted improvement activities with identified lead officers and time frames and the ongoing impact of COVID19 is considered in the contents.
- 6.12 The Annual Governance Statement is a key corporate document with the Chief Executive (CEO and Head of Paid Service) and the Leader having joint responsibility as signatories for its accuracy and completeness. It is also important that all other senior officers provide assurances to the process. As a corporate document which is owned by all senior officers and members, the preparation of the Annual Governance Statement is overseen and approved by directors supported by senior management.

- 6.13 In compiling the Annual Governance Statement, a review of the effectiveness of the Council's systems of internal controls, as required by the Accounts and Audit Regulations 2015 (3), is conducted and information is obtained from a range of sources. As such, the signatories to the statement can assure themselves that it reflects the governance framework for which they are responsible. **Annex A** of the Annual Governance Statement (AGS) Assurance Framework 2019/20 clearly identifies the areas from which assurance and supporting evidence has been obtained, thereby demonstrating the effectiveness of the Council's systems of internal control. Further key assurances are provided via:
- i) CEO / Head of the Paid Service.
 - ii) Directors and senior management. The Director of Adult and the Director of Children Services are currently and jointly Interim Chief Executive Officers.
 - iii) Head of Finance, Governance and Assurance, Section 151 Officer and Responsible Financial Officer.
 - iv) Head of Legal, Democratic Services, Monitoring Officer.
 - v) Head of Audit.
 - vi) Performance and risk management officers and
 - vii) External Audit and other review agencies.
- 6.14 To moderate their views and to identify the significant governance issues to be identified in the AGS, Directors consider managers' assurances (first line of defence), information from their services and across the authority (second line of defence), and third-party reports such as Ofsted, peer reviews, internal and external audit (third line of defence).
- 6.15 The Annual Governance Statement is a key document which identifies the strong systems and processes the Council has in place to continue its high standards of corporate governance. A copy of the Statement is attached as **Appendix A**.
- 6.16 Satisfactory governance exists but improvements are required to meet good governance standards. Set in the context of continuing to respond to the Coronavirus whilst delivering services to acceptable standards and achieving a balanced budget in 2020/21. The impact of Covid-19 requires a complete review of the current year budget, spending pressures, income targets and savings delivery potential. The 2021/22 Budget cannot yet be considered; Fair Funding and Business Rates Retention have been delayed for a further twelve months and, at present, no confirmation of interim arrangements has been confirmed. A structural funding gap, in the order of £50m per annum and growing, was identified ahead of the Fair Funding review and the impact of Covid-19 and delivering a legal and balanced budget remains the key strategic risk facing the authority in the medium to long term.
- 6.17 The Council will strive to achieve the following outcomes:
- Additional Services and care required during the COVID19 pandemic and afterwards is provided to preserve life.

- Funding available to respond to COVID-19 pandemic and to deliver sustainable services. Targeted savings and income collection are achieved to support funding.
- Plans designed to mitigate the lack of funding and impact of COVID19 that risk statutory functions not being delivered robustly in respect of Adult and Children services.
- Good recruitment and retention of experienced and qualified staff delivering services.
- Efficient use of technical solutions to deliver effective services.
- Recognition of the impact of decisions on the climate and a reversal of policies to improve the climate.

6.18 The associated risks have been identified, remain under close review and will be managed throughout the year given that they are key to ensuring the continued delivery of high quality services. In all cases, Directors have targeted where the risk appetite is to be directed for the end of the year.

6.19 Action plans and programmes of monitoring and evaluation are in place and are regularly updated to support both issues over the current and future years. An overall outcome report will be made to the Audit Committee at the end of the year.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Accounts and Audit Regulations 2015.

International Framework: Good governance in the Public Sector: International Federation of Accountants and CIPFA, July 2014

CIPFA/ SOLACE: Delivering Good Governance in Local Government Framework 2016 edition

CIPFA/ SOLACE: Delivering Good Governance in Local Government Guidance notes for English Authorities 2016 edition

Cabinet Member (Portfolio Holder)

Peter Nutting, Leader of the Council and Peter Adams, Chairman of Audit Committee.

Local Member: N/A

Appendices

Appendix A - Annual Governance Statement 2019/20

Appendix B– Code of Corporate Governance

Appendix C - Annual Governance Statement 2018/19 Action Plan Update