

AGENDA ITEM

REPORT TO AUDIT COMMITTEE

28 SEPTEMBER 2015

REPORT OF CORPORATE DIRECTOR OF RESOURCES

ANNUAL GOVERNANCE STATEMENT 2014/15

PURPOSE OF REPORT

This report presents to Members the Council's Annual Governance Statement for 2014/15.

RECOMMENDATIONS

1. That Members approve the Annual Governance Statement for 2014/15.

DETAIL

1. The Accounts and Audit (Amended) Regulations 2011 require all authorities in England to conduct a review at least once a year of the effectiveness of its governance framework and produce an Annual Governance Statement to accompany its Statement of Accounts. The deadline for completion of the Statement of Accounts for 2014/15 is 30 June 2015 at which point they are subject to the external audit process.
2. A further requirement of the regulations state that the Statement should be signed by the Chief Executive and the leading Member of the Council, following approval by the Committee. A key objective of this signing off process is to secure corporate ownership of the statement's contents.
3. The Annual Governance Statement includes an acknowledgement of responsibility for ensuring that proper arrangements are in place around the governance of its affairs and an indication of the level of assurance that the system provides. The statement also includes a description of the key elements forming the governance framework, a description of the process applied in reviewing the effectiveness of this framework, including the system of internal control, and an outline of the actions taken or, proposed to be taken, to deal with significant governance issues.
4. The Council's Annual Governance Statement for 2014/15 is attached at **Appendix A**. At this time the Council has not identified any significant issues that are not being addressed within the Statement. Officers will be present at the meeting to report on the governance framework and control environment in place within the Council that enables the detailed preparation of the statement. Mazars LLP, our external auditors, has been consulted on the process and the identification of key governance issues.

FINANCIAL AND LEGAL IMPLICATIONS

5. The Accounts and Audit (Amended) Regulations 2011 and Statutory Instrument 817/2011 require all English authorities to prepare an Annual Governance Statement and for it to accompany the Statement of Accounts.

RISK ASSESSMENT

6. None directly from this report.

COMMUNITY STRATEGY IMPLICATIONS

7. None directly from this report.

CONSULTATION

8. None directly from this report.

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Annual Governance Statement

Scope of Responsibility

1. Stockton Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper practice, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Stockton Borough Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, Stockton Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
3. Stockton Borough Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". The Framework constitutes 'proper practice in relation to internal control'. This statement explains how Stockton Borough Council has complied with the code and also meets the requirements of regulation 4(4) of the Accounts and Audit Regulations 2011 in relation to the publication of a Statement on Internal Control. The Annual Governance Statement is required to accompany, but is separate from, the Statement of Accounts.

The Purpose of the Governance Framework

4. The Governance Framework comprises the systems and processes, cultures and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
5. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Stockton Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
6. The governance framework has been in place at Stockton Borough Council for the year ended 31st March 2015 and up to the date of approval of the statement of accounts.

The Governance Framework

7. The key elements of systems and processes which comprise the Council's governance arrangements include the areas set out below, stating the linkages to the six dimensions of governance, as stated by the Audit Commission.

Focussing on the Council's purpose and better outcomes for citizens

8. The Council's key strategic plan is the Council Plan 2014- 17 which sets out the overall ambitions and priorities of the Council and charts the objectives, key actions and outcomes we aim to deliver over the next three years. The priorities are set out under a number of themes aligned to the Cabinet portfolio's and identifies the policy principles on which these priorities are based, providing the overarching framework to support decision-making and the allocation of resources.
9. The plan identifies outcomes and the measures of success we will use to challenge and monitor our progress. The plan is a 3 year rolling plan; updated annually. It does not capture the totality of the Council's day-to-day business activity, which is embedded within the individual business plans across the range of service areas. It has identified improvements that will be made to information governance over the life of the plan.
10. The Council Plan is approved by elected members annually through the Cabinet and Council approval process.

Promoting and demonstrating values of good governance through behaviour

11. A framework of policy and procedure is in place, as set out in the Finance & Contract rules. This framework is supported by codes of conduct for members and officers, along with a Code of Corporate Governance. The codes of conduct for members and officers were both reviewed and updated and approved by Council in July 2012.
12. Under the Localism Act, the requirement to have a Standards Committee was abolished on 1 July 2012. New arrangements do not involve a Standards Committee, but instead an elected member panel drawn from a politically balanced list of members considers findings of breach of the new code of conduct following a formal investigation. The Council's Monitoring Officer reviewed these arrangements in June 2013 and recommended that no changes were made to the Code of Conduct for Members. The recommendation was approved by Council in September 2013 and will be reviewed in another twelve months. Subsequently, in December 2013 the descriptions of the principles of conduct in the preamble to the Code were updated in order to reflect the revisions made to the Nolan Principles by the Committee on Standards in Public Life.
13. The Council's Monitoring Officer has responsibility for ensuring that the Council acts within its legal powers at all times, and the Section 151 Officer is responsible for ensuring the proper administration of the Council's financial affairs. Within their respective roles, both have a duty to report formally any adverse matters, a requirement which is set out in the Constitution.
14. The Council operates a whistle-blowing policy, and has a robust complaints process, designed to ensure that all issues are properly investigated.
15. The Internal Audit team undertake investigations into breaches of policy and suspected irregularities, with pro-active work, and developing an anti-fraud culture. The Audit Committee receive regular updates on all Fraud investigations.

Taking proper decisions and managing risk

16. All strategic decisions being presented in reports to the Cabinet must be provided in a standard template. The standard report template includes a risk assessment; consideration of financial and legal implications; an assessment against the themes within the Council Plan, an equalities impact assessment and details on consultation undertaken.
17. The Council's Constitution describes how decisions are to be made, and the processes which must be followed to ensure efficiency, transparency and accountability. Decisions are made by the Cabinet, working within the agreed budget and policy framework. The Cabinet is held to account by the Executive Scrutiny Committee and its supporting select committees. Minutes and papers for Executive and Scrutiny meetings are published on the website, to ensure transparency of process. Notice of forthcoming decisions to be taken by the Cabinet is published via the forward plan. Meetings are held in public, although of necessity a small number of items may be considered in private. Regulatory matters are normally dealt with by specific committees established for the purpose.
18. To enable a more streamlined process, responsibility for certain decisions is delegated to chief and senior officers, in line with powers set out in the Constitution. These arrangements have been reviewed under the Local Authorities (Executive Arrangements) Meetings and Access to Information (England) Regulations 2012 and a report has been received and noted by Cabinet.

Developing the capacity and capability of senior officers and Councillors

19. Development needs of senior officers are identified through the appraisal process, which is carried out at least once per year. A skills framework has been developed, applicable to all managers, which sets out the key skills and attributes which senior officers must display. Through a process of self-assessment, validated by managers, any training needs are identified. Members have their own personal development plans and a training programme. New staff and members are enrolled onto an induction programme to ensure a common understanding.

Engaging with stakeholders

20. The council has strategy in place to ensure effective engagement across the community. It has signed the Armed Forces Community Covenant and has since reviewed it progress. It has put in place arrangements to support and promote Community First Panels, the introduction of Engagement & Compliance Panels for young people and the Community Empowerment Support contract.

Review of Effectiveness

21. Stockton Borough Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of the effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Corporate Governance Working Group and its sub-groups, the Head of Internal Audit's

annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

The Council

22. The Council as a whole is responsible for agreeing the Constitution, which underpins the governance arrangements.

The constitution was reviewed in 2014/15 in order to reflect changes which have occurred such as new legislation, decisions taken by Cabinet or Council or revisions to the functional responsibilities of services as a result of operational or management reviews, or to rectify inconsistencies, errors or presentational issues

The Cabinet

23. The cabinet is the part of the Council and carries out all of the local authority's functions which are not the responsibility of any other part of the local authority, whether by law or under the Constitution. The Cabinet is made up of the Leader of the Council and eight other Members of the Authority, each with responsibility for a particular Portfolio.
24. Proceedings of both Council and Cabinet take place in accordance with the Cabinet Procedures Rules set out in Part 4 of the Constitution.

Scrutiny Committees

25. The Council's scrutiny arrangements were reviewed in 2014/15 and updated to improve focus and challenge and new terms of reference produced. A training programme has been developed to ensure Members have the necessary skills and competencies to meet their new roles under the new scrutiny structure.

The Audit Committee

26. The Audit Committee was formed in accordance with the Local Government Act 2003 and its governance remit has been based on the CIPFA toolkit. Its major responsibilities are around corporate governance, including reports on internal and external audit, risk management, Health and Safety and the constitutional framework. The chair produces an annual report assessing the effectiveness of the committee and forwarded for approval to the committee. The committee meets approximately 4 times each year.

Internal Audit

27. The working of the section is based on a 3 year strategic audit programme approved by Members that is prioritised through the risk assessment process. The section works to standards laid down by the Public Sector Internal Audit Standards (PSIAS) accompanied by a Local Government Application Note produced by CIPFA. The arrangements are endorsed by the Audit Committee. The Internal Audit 2014/15 Annual Report concluded that the Council continues to operate within a control environment that is generally sound. As part of its service, the section distributes annual reports to all Service Groupings on common audit observations. This is done with the aim of driving down the number and severity of recommendations, thus demonstrating continuous improvement in system controls. The Internal Audit Section is subject to regular inspections by the Council's external auditor who places reliance on the work carried out by the section, and to an annual internal review carried out under the remit of the Corporate Governance Group.

28. The Internal Audit risk assessment process was updated in 2014/15 in preparation for producing the 2015/16 audit programme.

Other explicit review/assurance mechanisms

29. The Council has installed an assurance framework to ensure the potential for risk is minimised and objectives are achieved.

Monitoring Officer

30. It is the function of the Monitoring officer to ensure compliance with established policies, procedures, laws and regulations and to monitor legality, ethical governance and maladministration. After consulting with the Chief Executive, Corporate Directors and the Chief Financial Officer, the Monitoring Officer will report to the full Council, or Cabinet (in relation to Executive matters), if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report would have the effect of stopping the proposal or decision being implemented until the report has been considered.

Chief Financial Officer

31. CIPFA's Statement on the Role of the Chief Financial Officer in Local Government describes the role and responsibilities of Chief Financial Officers in Local Government. The Statement sets out five principles that define the core activities and behaviors that belong to the role of the Chief Financial Officer and the organizational arrangements needed to support them.

The Chief Financial Officer in a local authority:

- is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest;
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; and
- must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Chief Financial Officer:

- must lead and direct a finance function that is resourced to be fit for purpose; and
- must be professionally qualified and suitably experienced.

The Chief Financial Officer, the Corporate Director of Resources, works within this framework: responsible for the financial affairs of the authority and ensures controls, procedures and regulations are in place to monitor the financial aspects of the Council.

The CFO works closely with the Chief Executive, the Corporate Management Team and the Monitoring Officer with regard to the legality of transactions, corporate governance and the minimisation of risk. Finance teams have direct

reporting lines to the Chief Financial Officer to assist the financial reporting process.

Policy and Performance teams

32. Undertake a monitoring role on performance against objectives included within the Council Plan, other key plans and strategies and internal Service's Improvement Plans. Monitoring arrangements include monitoring progress against outcomes and targets and regular reports to the Corporate Management Team, Executive and Scrutiny. A Policy Officers Group meets regularly to review progress on strategic planning, performance indicators, risk management, peer assessment and inspection readiness and progress of efficiency reviews.

Risk Management Team

33. The Procurement and Governance Manager takes the lead in compiling and updating the Council's Corporate Risk Register and gaining approval by reporting through the Corporate Management Team to Members. The process includes an action plan to manage and minimise risk. The Council has robust systems for identifying and evaluating all significant risks developed and maintained by the proactive participation of all those associated with planning and delivering services. The Corporate Risk Action Group reviews the actions of managers on a regular basis.

The role of External Agencies

34. In various ways, the above liaise and action issues and recommendations reported by external auditors and agencies who have specific interests in the quality and development of the internal control process. Any significant issues are summarised by the Annual Audit Letter issued by the external auditor, Mazars LLP.

Significant Internal Control Issues

35. In his annual report the Head of Finance, Governance and Assets states in his opinion on the overall adequacy and effectiveness of the Council's governance, risk and control framework: "It is my opinion that the Council continues to have an appropriate, and overall, an effective system of internal control, upon which it can place reasonable reliance to deliver the Council's objectives, and detect fraud and other malpractice within a reasonable period of time. Where weaknesses have been identified through internal audit work, we have worked with management to agree appropriate corrective actions and a timescale for introduction."

By order of the authority

J Danks
Deputy Chief Executive

R Cook
Leader of the Council

Date: 28/09/2015

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