

Open Report on behalf of Pete Moore, Executive Director Finance and Public Protection

Report to:	Audit Committee
Date:	26 June 2017
Subject:	Review of Governance Framework & Development of Annual Governance Statement 2017

Summary:

This report proposes that the Audit Committee considers and approves the Annual Governance Statement 2017.

The Council is required to reflect on how well the Council's governance framework has operated during the year and identify any governance issues that we need to draw to the attention of Lincolnshire's residents.

Good governance underpins everything we do as a Council and how we deliver services often comes under close scrutiny.

A 'good' Annual Governance Statement is an open and honest self-assessment of how well we have run our business across all activities - with a clear statement of the actions being taken or required to address any areas of concern.

The Audit Committee oversees the development of the Annual Governance Statement and recommends its approval to the Council.

This paper provides the Committee with the opportunity to review the contents of the draft statement - ensuring that it accurately reflects the Committee's terms of reference.

Recommendation(s):

That the Committee considers the contents of the Annual Governance Statement 2017 and:

1. Agree that it accurately reflects how the Council is run;
2. That the statement includes the significant governance issues / key risks it would have expected to be published;
3. Identify any changes it wishes to make to the statement

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| 4. Identify any assurance requirements for its work plan |
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Background

What do we mean by Governance?

1. Each year the Council is required to reflect on how its governance arrangements have worked – identifying any significant¹ governance issues that it feels should be drawn to the attention of the public – in the interests of accountability and transparency. We do this through the Annual Governance Statement.

2. Good Governance can mean different things to people – in the public sector it means:

"Achieving the Intended Outcomes While Acting in the Public Interest at all Times"

"If management is about running the business – governance is about seeing that it is run properly"²

3. It is comprised of systems, processes and culture and values, by which the Council is directed and controlled and through which they account to, engage with, and where appropriate, lead their communities.

¹ Significance = The relative importance of a matter within the context in which it is being considered, including quantitative and qualitative factors, such as magnitude, nature, effect, relevance and impact.

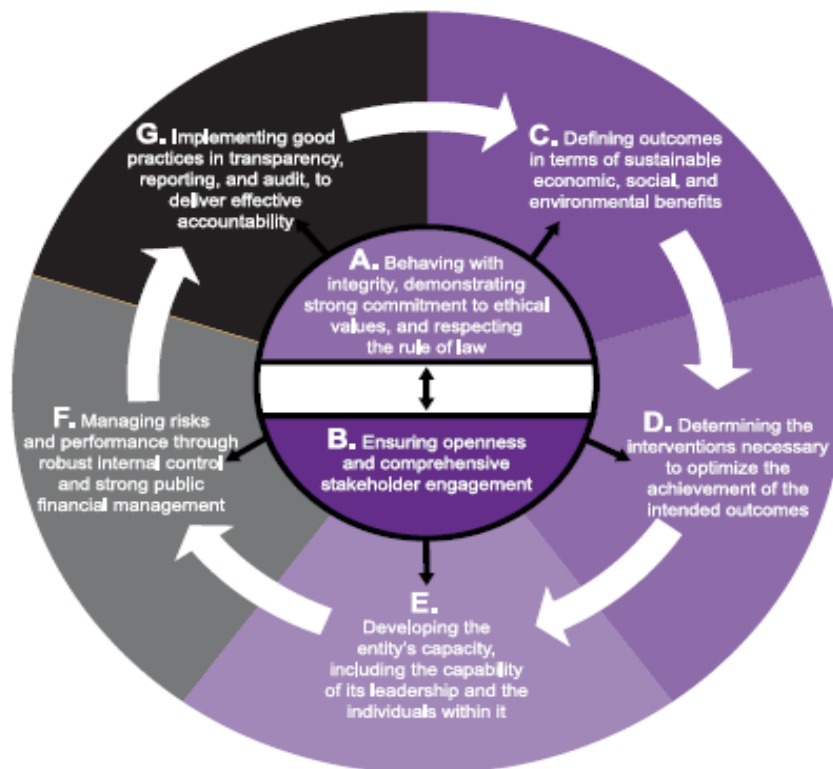
² Robert Tricker. An expert in Corporate Governance.

What is the Governance Framework?

- Each local authority operates through a governance framework which brings together an underlying set of legislative requirements, governance principles and management processes. It ensures that the Council's business is conducted in a legal and proper way – ensuring that public money is properly used - economically, efficiently and effectively.
- In April 2016, CIPFA / SOLACE published an updated 'Delivering Good Governance in Local Government – Framework and Guidance'. This sets out the latest good practice operating in the current public sector environment. It defines seven core principals by which a Council can test out their governance arrangements. These are shown in **Figure 1** below.

Figure 1 – Good Governance principals

Achieving the Intended Outcomes While Acting in the Public Interest at all Times"

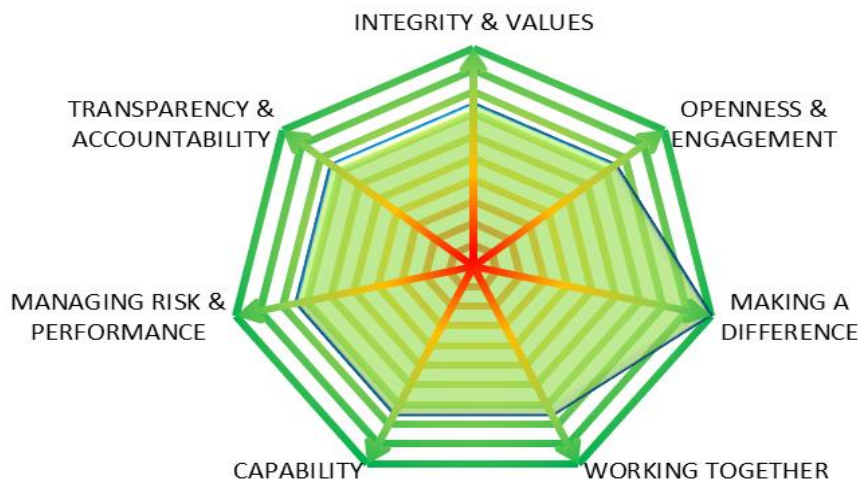


The International Framework notes that:

Principles A and B permeate implementation of principles C to G. The diagram also illustrates that good governance is dynamic, and that an entity as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

6. An Internal Audit on the Council's governance framework was undertaken during 2016 – benchmarking its arrangements against this Framework and Guidance. .
7. Overall the audit confirmed that the Council has the appropriate systems and processes in place to ensure good governance is maintained. **Figure 1** shows how this pans out for each good governance principle.

Figure 1 – Evidence demonstrating good governance



Principle A - Integrity & Values	Substantial Assurance
Principle B- Openness & Engagement	Substantial Assurance
Principle C - Working together	Substantial Assurance
Principle D - Making a difference	High Assurance
Principle E - Capability	Substantial Assurance
Principle F Managing risk & performance	Substantial Assurance
Principle G Transparency & accountability	Substantial Assurance

8. One common theme identified in the audit was the impact of operating with reduced resources. Whilst teams could no longer do certain tasks – the audit still found that governance was being leveraged from other sources – minimising gaps in the Council's framework. It was refreshing that there were no "surprises" identified or significant improvement areas. Some suggested improvements were recommended around completing the ethical audit and updating the financial procedure on Partnerships, Trading and External Funding (Financial Procedure 8).

Annual Review of our Governance Framework

9. The annual review and development of the Annual Governance Statement is undertaken by the Governance Group in consultation with the Executive Directors. The Council's Governance Group comprising of:
 - Monitoring Officer - Executive Director – Environment and Economy
 - Section 151 Officer - Executive Director – Finance and Public Protection
 - County Finance Officer
 - Audit and Risk Manager (Head of Internal Audit)
 - Chief Legal Officer
 - Democratic Services Manager
 - Corporate Management Board
10. The sources of information used to develop the Governance Statement include:
 - The assurance arrangements of the Council, particularly each Directors Combined Assurance Status reports.
 - Head of Internal Audit annual audit opinion (Annual Report 2016/17)
 - Council's Strategic Risk Register and risk management arrangements
 - External Audit Annual Audit Letter
 - Ombudsman investigations
 - Complaints and lessons learnt
 - Comments of the Corporate Management Board

Governance Issues

11. As a result of our annual review we have identified the following areas where further work is required to improve systems or monitor how the key risks facing the Council are being managed. These are:
 - IT Governance (included in 2015/16 statement)
 - Financial sustainability (included in 2015/16 statement)
 - Financial control environment (included in 2015/16 statement)
 - Market Supply in Adult Care
 - SERCO contract – Lessons Learnt KPMG report
 - Delivery of Support Services Improvements - SERCO
 - Collaborative working – Governance arrangements

The draft Annual Governance Statement 2017 is attached in **Appendix A**.

12. These areas are highlighted because of the need for the Council to be realistic and open about those functions and activities which require, or are likely to require, support (including but not limited to financial support) over the next year in order to ensure that they are working effectively and efficiently. This in turn should ensure that any future problems in those

areas are averted or at the very least minimised. They also represent some of the key areas that will help us deliver Council priorities

13. In conducting the review, there were a number of areas identified by the Corporate Management Team that were not significant issues but warrant keeping a 'watching brief' over through the Executive Director. These were:

Resilience	Ability to deliver services in the event of an incident (Emergency Planning or Business Continuity incident) over a prolonged period of time – our Business Continuity Arrangements. Currently limited Assurance over this critical business activity and 2 year work plan in place.
Key Projects	Level of Assurance and oversight for CMB (Linked to the KPMG report)
Financial Procedure 8	Approval of update <ul style="list-style-type: none">• Partnership• Income Generation• Trading Companies
Ethical Audit	Phase 2 of the Governance Review being progressed:
Political Governance	Support review of how well the new scrutiny structure is working following implementation.
Clinical Governance	Ensure that appropriate governance, risk and control measures in place in the new delivery model.

- 14 The draft Annual Governance Statement can be found in Appendix A. It is presented to the Committee for your consideration and 'challenge' of the contents eg:

- Does it accurately reflect the Committee's understanding of how the Council is run?
- Reflecting on evidence presented to the Committee during the year and other relevant information are the significant governance / key risks those that the committee expected to see published? Are there any surprises / gaps?

Note: Recognising that the statement is a reflective / backward look at the Council from April 2015 to June 2016 but does need to be contemporary at the time of publication.

15. The CIPFA Better Governance Forum has issued some guidance for Audit Committees to help when considering the development of an effective Annual Governance Statement – this is attached in **Appendix B**.
16. Our governance framework and annual review covers all activities of the Council including Fire and Rescue and Pensions.

Conclusion

17. Overall the Council has the appropriate systems and processes in place to ensure good governance is maintained - which is demonstrated by the realistic and open assessment of its functions and activities.
18. Officers have identified a number of governance issues to be included in the Annual Governance Statement. The Audit Committee is asked to independently review and approve these for ‘realism’.
19. The final Annual Governance Statement will be presented to the Committee in September for approval

Consultation

a) Have Risks and Impact Analysis been carried out??

No

b) Risks and Impact Analysis

Any changes to services, policies and projects are subject to an Equality Impact Analysis. The considerations of the contents and subsequent decisions are all taken with regard to existing policies

Appendices

These are listed below and attached at the back of the report	
Appendix A	Appendix A Lincolnshire County Council - Annual Governance Statement 2017
Appendix B	Appendix B CIPFA Better Governance Forum - Audit Committee Update Issue 22

Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report

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