

**FINANCE, AUDIT & RISK COMMITTEE**  
**12 JUNE 2017**

**\*PART 1 – PUBLIC DOCUMENT**

**AGENDA ITEM No.**

**14**

**TITLE OF REPORT: DRAFT ANNUAL GOVERNANCE STATEMENT 2016/17**

REPORT OF THE SENIOR LAWYER  
EXECUTIVE MEMBER: [NON-EXECUTIVE FUNCTION]  
COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

**1. EXECUTIVE SUMMARY**

- 1.1 For the Finance, Audit & Risk Committee to review the draft Annual Governance Statement (AGS) including Action Plan for the year 2016/17.

**2. RECOMMENDATIONS**

- 2.1 That the Committee reviews and comments on the draft AGS/ Action Plan in order for it to be finalised for approval (in September 2017).

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 The Committee is the legal body with responsibility for approval of the AGS. Reporting the draft AGS and Action Plan at this stage provides an opportunity for the Committee to assess and comment on the draft, before it is finalised and brought back for approval in September 2017.

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 There are no alternative options to be considered.

**5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS**

- 5.1 The governance review and draft AGS format is based on a (new) 2016 CIPFA/ SOLACE Framework. For this reason there has been direct liaison with a CIPFA Governance Advisor on how to approach the new assessment and format of the AGS.
- 5.2 The Senior Lawyer also liaised with the Council's External Auditors (Ernst & Young) on the approach SMT should take towards the SMT self-assessment and scoring the Council's arrangements. The Shared Internal Audit Service ('SIAS'), Shared Anti-Fraud Service (SAFS) Manager and Ernst & Young were sent the SMT AGS self-assessment document. Account will be taken of any comments made by SIAS, Ernst & Young, SAFS and this Committee on the draft AGS before it is finalised for the September Committee approval process.

**6. FORWARD PLAN**

- 6.1 This report does not contain a recommendation on a key decision and has not been referred to in the Forward Plan.

## 7. BACKGROUND

- 7.1 The Local Audit and Accountability Act 2014 ('LAAA 2014') and the Accounts and Audit Regulations 2015/234 ('AAR 2015' made under the LAAA 2014) place a requirement on NHDC, as a relevant authority, to conduct an annual review of the effectiveness of the system of internal controls and prepare an AGS.
- 7.2 This must be considered by Members of this Committee and the AGS approved under Regulation 6(4)(a) AAR 2015 in advance of the relevant authority approving the Statement of Accounts (in accordance with Regulation 9(2)(b)). The review should be undertaken as against the relevant CIPFA/ SOLACE Framework, which for this year onwards is the *Delivering good governance in Local Government Framework 2016 Edition* and any CIPFA/ SOLACE guidance<sup>1</sup>.
- 7.3 The draft AGS has been prepared following an in-depth review/ input and scoring of arrangements by SMT against the Framework 2016 Principles (in accordance with the guidance<sup>2</sup>). Full SMT initially provided details of systems and examples that met the 2016 Principles and a sub-group of SMT (Chief Executive, Monitoring Officer, Chief Finance Officer/ s151 Officer and Deputy s151) scored the arrangements on the assurance level basis:
- Full: There is a sound system of control designed to achieve the system objectives and manage the risks to achieving those objectives. No weaknesses have been identified.
  - Substantial: Whilst there is a largely sound system of control, there are some minor weaknesses, which may put a limited number of the system objectives at risk.
  - Moderate: Whilst there is basically a sound system of control, there are some areas of weakness, which may put some of the system objectives at risk.
  - Limited: There are significant weaknesses in key control areas, which put the system objectives at risk.
  - No: Control is weak, leaving the system open to material error or abuse.
- 7.4 Overwhelmingly the conclusions against the 2016 Principles were Substantial. Actions were included to address any perceived weaknesses and these have been detailed in the draft AGS Action Plan (final page to Appendix A). The detailed (94 page) self-assessment document has not been appended. It has, however, following comments from SIAS and advice from CIPFA been loaded on the Council's Corporate Governance internet pages (linked at the bottom of this report).
- 7.5 In terms of format of the AGS, CIPFA indicate that the AGS should be a '*meaningful but brief communication*'; there is no requirement to repeat all the arrangements that have been comprehensively assessed. Nevertheless, the AGS should draw out a few key areas with reference to the 2016 Principles, identify any actions and include an overall conclusion on the arrangements. For this reason the formatting of the AGS is significantly different from previous years.
- 7.6 Members will note at this stage, that a key element of the review of effectiveness, detailed in the draft AGS, includes the Head of Internal Audit's Annual report/ Opinion on arrangements. This report will be presented to the June 2017 meeting and therefore any relevant details/ links will need to be incorporated into the AGS before being finalised. However, at the point of drafting the report, there is no indication that the overall conclusions detailed in the draft AGS will be adversely affected or changed by this.

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<sup>1</sup> CIPFA/SOLACE Delivering good governance in Local Government Guidance Notes for English Authorities 2016 Edition.

<sup>2</sup> As above (*ibid*)

7.7 Members are reminded that the AGS must be approved before the Statement of Accounts and it should accompany them. The Council will include the 2016/17 AGS as an Appendix to the Statement of Accounts as it has in previous years.

## **8. RELEVANT CONSIDERATIONS**

8.1 The SMT AGS self-assessment, external organisation and Committee's review of the draft AGS (in preparation for finalising the AGS) provides the Council with an opportunity to consider the robustness of its governance and internal control arrangements. It highlights areas where governance can be further reinforced.

8.2 The draft AGS for 2016/17 is attached as Appendix A for review and comment. The SMT AGS self-assessment can be viewed on the Corporate Governance page as detailed under background documents.

8.3 Updates on the AGS Action Plan will be reported to this Committee twice a year at the September and March meetings.

## **9. LEGAL IMPLICATIONS**

9.1 Under the LAAA 2014/ AAR 2015 Regulations the 2016/17 AGS must be approved by this Committee by 30 September 2017. This changes to 31 July for financial year 2017/18 onwards. Otherwise the legal implications are set out under section 7 above.

9.2 The Terms of Reference of this Committee under 10.1.5(h) are: *"To ensure that an annual review of the effectiveness of internal controls (accounting records, supporting records and financial) systems is undertaken and this review considered before approving the Annual Governance Statement."* This review of the draft AGS therefore falls within the Committee's remit.

## **10. FINANCIAL IMPLICATIONS**

10.1 The final AGS is to be approved and accompany the Statement of Accounts. By presenting the draft AGS to this Committee before the audit of the accounts is concluded, the Committee has time to raise any points that may need to be addressed. Other than this there are no financial implications arising from this report.

## **11. RISK IMPLICATIONS**

11.1 The process of assessing the Council's governance arrangement enables any areas of weakness to be identified and improvement actions put in place.

## **12. EQUALITIES IMPLICATIONS**

12.1 In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.

12.2 There are no direct equality implications of this report or the AGS. Where relevant the Council's arrangements have been assessed against the 2016 Framework Principles. In respect of those arrangements, the SMT AGS self-assessment identifies the procedures in place and any outcomes. Council reports include any equality implications and are assessed by the Policy Officer. Where appropriate an impact assessment will be undertaken and mitigation measures identified. The Policy Officer undertakes an Annual Cumulative Equality Impact Assessment of these and publishes them on the internet<sup>3</sup>.

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<sup>3</sup> <https://www.north-herts.gov.uk/home/council-performance-and-data/policies/equality-and-diversity>

**13. SOCIAL VALUE IMPLICATIONS**

13.1 The Social Value Act and “go local” policy do not apply to this report.

**14. HUMAN RESOURCE IMPLICATIONS**

14.1 There are no direct human resource implications relating to this matter.

**15. APPENDICES**

15.1 Appendix A –Draft AGS for 2016/17

**16. CONTACT OFFICERS**

16.1 Jeanette Thompson 01462 474370. Senior Lawyer and Deputy Monitoring Officer:  
[Jeanette.thompson@north-herts.gov.uk](mailto:Jeanette.thompson@north-herts.gov.uk)

**17. BACKGROUND PAPERS**

17.1 The SMT AGS self-assessment is on the Corporate Governance Page:  
<https://www.north-herts.gov.uk/home/council-performance-and-data/corporate-governance>. This contains links to relevant background documents, reports, Policies and Guidance. The draft AGS also contains links to relevant documents.