



Committee report

Committee	AUDIT COMMITTEE
Date	25 JUNE 2015
Title	DRAFT ANNUAL GOVERNANCE STATEMENT 2014/15
Report of	BUSINESS IMPROVEMENT MANAGER

EXECUTIVE SUMMARY

1. This report provides the Audit Committee to consider the council's draft annual governance statement for 2014/15 and subject to its opinion, to recommend it to Full Council for approval.
2. The council is required by the Accounts and Audit Regulations (England) 2011 to undertake an annual review of its governance arrangements and to publish the results of that review in the form of an annual governance statement.

BACKGROUND

3. The council follows guidance issued by the Chartered Institute of Public Finance (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) as to what the Annual Governance Statement should address. The council's leader and managing director are required to sign the statement before it is published. When making the statement, it is important that any weaknesses are identified and corrective actions are also developed to address those weaknesses.
4. The draft Annual Governance Statement for 2014-15 is set out at Appendix A

THE COMMITTEE'S ROLE IN RELATION TO THE ANNUAL GOVERNANCE STATEMENT

5. The Audit Committee plays an important part in the process of developing the council's annual governance statement, which stems from its role and core activities throughout the year, including:
 - its understanding of the robustness of the regime of internal control throughout the council because it receives reports from both internal and external auditors;

- its review of the strategic and other risks of the council and the annual report it receives on the council's risk management arrangements;
- receiving regular updates on issues which have been identified previously in reviews of governance;
- receiving reports on the extent of fraud and other irregularity and on the level of whistleblowing activity;
- receiving reports on procurement and treasury management activity;
- receiving (in June) an annual opinion report on the adequacy of control operating within the council from the council's head of internal audit
- reviewing the committee's core functions (which is specifically included within the scope of the annual governance statement)

The committee is well placed therefore to reach its own assessment of the quality of governance that operates within the council.

6. The committee has received three reports during the year which have a direct bearing on the quality and effectiveness of the council's governance arrangements:

- An executive summary of the Internal Audit review of the council's corporate governance (February 2015) which found that 'the council's governance framework is in line with good practice' and that the 'review did not identify any significant gaps in arrangements'. [Internal Audit report Corporate Governance- Executive Summary](#)
- A review of the Audit Committee's effectiveness (September 2014) which concluded that the Committee meets the core requirements as deemed by CIPFA [Review of Audit Committee Effectiveness](#)
- An internal audit review of the Council's risk management arrangements (September 2014) [Internal Audit Report - Risk management - Executive Summary](#)

In addition, on today's agenda, the committee will have received a report by the Head of Internal Audit- the opinion report- which provides an overview of the council's internal control arrangements.

ISSUES HIGHLIGHTED BY SENIOR MANAGEMENT'S REVIEW

7. As an outcome of producing the Annual Governance statement, weaknesses in the council's governance arrangements are likely to be highlighted. This year the following issues have been identified:

- The pace of change in the council in response to the continuing austerity agenda is impacting on the council's overall capacity to maintain strict internal control over its operations. Significant reductions in staff will lead

to a loss of 'corporate memory' which could lead to a breakdown in systems and consequently increase the risk of error and fraud.

- The risk presented by change itself and in particular, the significance of it, is having implications for the council's governance. Different and innovative solutions to reduce costs and maintain service delivery which are an inevitable consequence of change, will require different approaches to governance which may be untried or untested.
- A particular example of that will be partnership working, joint delivery and integration initiatives where governance arrangements will need to be bespoke, not just meeting the requirements of individual partners but also the agreed needs of the partnership itself. These need to be considered and deliberately established as while participating organisations observe their own governance requirements, the arrangements governing the partnership itself will not exist unless created.
- The political environment also presents implications for the council's governance arrangements. The unprecedented financial position of the council requires extremely challenging decisions on the part of the council's political leadership and effective purposeful scrutiny by the other members of the council.

STRATEGIC CONTEXT

8. Corporate governance has far reaching implications for the effectiveness of the council. Good governance means a positive culture, where people understand and live values, one which drives robust decision-making and in turn strong performance.

CONSULTATION

9. Only internal consultation has taken place in developing the draft statement with those members of the council's senior management who have responsibility for the issues, systems and processes set out in Appendix A. The council's Corporate Management Team (CMT) has reviewed the draft statement and has had an opportunity to confirm its accuracy. The outcome of that review is shown at paragraph 7 above.

FINANCIAL / BUDGET IMPLICATIONS

10. There are no direct financial implications of the council reviewing its governance arrangements and publishing the annual governance statement. However, action plans to address any weaknesses identified will inevitably involve extra cost and in some circumstances that could be significant.

LEGAL IMPLICATIONS

11. The council is required by the Accounts and Audit Regulations (England) 2011 to:

- carry out a review of its system of internal control;
- have the findings of the review considered by the members of the body or a committee;
- approve an annual governance statement on the results of the review; and
- ensure that the statement accompanies the council's statement of accounts (when published).

EQUALITY AND DIVERSITY

12. The council has a legal duty under the Equality Act 2010 to seek to eliminate discrimination, victimisation and harassment in relation to age, disability, gender re-assignment, pregnancy and maternity, race, religion, sex, sexual orientation and marriage and civil partnership. While the review of governance and the statement will cover equality and diversity, and how the council meets its legal obligations in that regard, there are no direct issues with the development of the statement itself.

OPTIONS

13. Option 1 - The committee is asked to consider the draft statement at Appendix A and to raise any concerns or weaknesses it perceives with the council's governance arrangements which it believes need to be highlighted in the statement in respect of 2014/15.

Option 2 – The committee is asked to endorse the statement and to recommend it to the Managing Director, Leader and Full Council

RISK MANAGEMENT

14. The key risk associated with the council's published governance statement is that it does not accurately reflect the governance arrangements and that significant weaknesses go unreported and, critically, unaddressed. Management review, the process of assurance declarations and oversight by members (especially from the Audit Committee) helps to counter this risk.
15. One of the council's former strategic risks – Effective decision making (governance) deals with the risk of ineffective governance. However, senior management now considers that this risk can be managed as 'business as usual' and it has been 'stepped down'. This is an indication that senior management consider that the risk of ineffective governance is under control.

RECOMMENDATION

16. Option 1 - The committee is asked to consider the draft statement at Appendix A and to raise any concerns or weaknesses it perceives with the council's governance arrangements which it believes need to be highlighted in the statement in respect of 2014/15.

17. Option 2 – The committee is asked to endorse the statement and to recommend it to the Managing Director, Leader and Full Council.

APPENDICES ATTACHED

18. [Appendix A](#) – Draft Annual Governance Statement 2014-15

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