

**NORTH LINCOLNSHIRE COUNCIL**

**AUDIT COMMITTEE**

**ANNUAL GOVERNANCE STATEMENT 2016/17**

**1. OBJECT AND KEY POINTS IN THIS REPORT**

- 1.1 To present the Annual Governance Statement (AGS) 2016/17 for members consideration and approval.
- 1.2 The key points in this report are as follows:
  - The AGS shows that the council has well-established governance arrangements and no significant governance issues have been identified.

**2. BACKGROUND INFORMATION**

- 2.1 The Accounts and Audit Regulations 2015 require the Authority to publish with its final accounts an Annual Governance Statement.
- 2.2 The Annual Governance Statement sets out the council's governance arrangements in place and considers their effectiveness. The council's governance arrangements are set out in its Code of Governance which were approved by the Audit Committee in September 2016. The Code is based upon guidance provided by the Chartered Institute for Public Finance and Accountancy (CIPFA) and the Society for Local Government Chief Executives (SOLACE) "Delivering Good Governance in Local Government – a framework" (April 2016).
- 2.3 Sources of assurance to support the statement are gathered throughout the council in the form of annual self- assessment prepared by Directors. These assessments provide an evaluation on how the Directorates comply with each of the seven principles contained in the Code of Governance. Assurance is also provided from regular reports on various issues to the Audit Committee. Independent reviews carried out by internal audit in key areas such as risk management, corporate governance and fundamental financial system work are important sources of assurance. External audit reviews and inspections contribute as sources of assurance.
- 2.4 The Annual Governance Statement 2016/17 is attached (appendix A) and shows that the council has well-established governance arrangements that are monitored and reviewed on a regular basis. Although no significant governance issues were identified, the AGS identifies areas that are being considered as Corporate Risks for 2017/18.

- 2.5 The Annual Governance Statement for 2016/17 represents the culmination of internal and external assurance sources. Therefore the Statement will need to be updated to reflect the outcome of the final accounts audit process prior to resubmission to the Committee alongside the audited accounts.
- 2.6 The Annual Governance Statement is approved by the Audit Committee and signed by the Leader of the Council and the Head of Paid Service.

### **3 OPTIONS FOR CONSIDERATION**

- 3.1 The Committee is asked to consider whether the Annual Governance Statement provides sufficient assurance on the council's governance arrangements in 2016/17. The Committee may make amendments or seek clarification as necessary.
- 3.2 The Committee approve the Annual Governance Statement.

### **4 ANALYSIS OF OPTIONS**

- 4.1 The Annual Governance Statement for 2016/17 is designed to deliver an overall opinion and provide the Audit Committee with the assurance required based upon the adequacy of governance arrangements throughout the council.
- 4.2 Members should seek clarification on its contents as necessary to ensure the AGS provides sufficient assurance to fulfil their role as set out in the Committee's terms of reference.

### **5 RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY.IT)**

- 5.1 Regular reviews of governance arrangements should safeguard the council's assets and ensure that value for money is achieved in the use of resources.

### **6 OUTCOMES OF INTEGRATED IMPACT ASSESSMENT (IF APPLICABLE)**

- 6.1 An Integrated Impact Assessment is not required.

### **7 OUTCOMES OF CONSULTATION AND CONFLICTS OF INTERESTS DECLARED**

- 7.1 The Annual Governance Statement draws on contributions from all Directors, internal audit, external audit and other inspection reports and therefore represents a corporate view.
- 7.2 There are no conflicts of interests to declare.

## 8. RECOMMENDATIONS

- 8.1 That the Audit Committee consider whether the Annual Governance Statement 2016/17 provides a sufficient level of assurance on the adequacy of the council's governance arrangements to allow the committee to fulfil its role.
- 8.2 It is recommended that the committee approve the Annual Governance Statement 2016/17 and that a further update is submitted in September 2017 alongside the audited accounts.

### **DIRECTOR: GOVERNANCE AND PARTNERSHIPS**

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#### **Background Papers:**

**CIPFA- Delivering Good Governance in Local Government Framework  
The Accounts and Audit Regulations 2015**



# **North Lincolnshire Council**

## **Annual Governance Statement**

**2016/17**

# **North Lincolnshire Council**

## **Annual Governance Statement – 2016/17**

### **1 Scope of Responsibility**

North Lincolnshire Council (the Council) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The 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.

In discharging this overall responsibility, the Authority is responsible for putting in place proper arrangements for the governance of its affairs, which include arrangements for the management of risk, whilst facilitating the effective exercise of its functions.

The Council has established governance arrangements which are consistent with the seven principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) Framework - Delivering Good Governance in Local Government – a framework (April 2016). The Audit Committee approved the Local Code of Corporate Governance in September 2016, which is publicised on the Council website. The Code provides the framework for the governance arrangements of the Council.

The Annual Governance Statement explains how the Council has complied with its Code of Governance and also meets the requirements of Accounts and Audit (England) Regulations 2015, regulation 10(1), which requires all relevant bodies to prepare an Annual Governance Statement.

The issues identified as a significant governance issue and the progress made by management throughout the future financial year 2017/18 to address these issues will be reported regularly to the Audit Committee with an assessment made in reducing the risk as part of their Governance role within the Council.

### **2 The Purpose of the Governance Framework**

The governance framework comprises the systems and processes, culture and values by which the authority is directed and controlled and those activities through which it accounts to, engages with and leads its communities. 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 services and value for money.

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 on-going process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at North Lincolnshire Council for the year ended 31 March 2017 and up to the date of approval of the Statement of Accounts.

### **3 The Governance Framework**

The Council's Code of Corporate Governance sets out how the council's strategies, policies, plans, procedures, processes, structures, attitudes and behaviours are in place to deliver good governance to all. The Code will be subject to annual review.

The Council's Constitution sets out how the council operates and how it makes decisions. The constitution says what the council must do to make decisions efficiently, transparently and accountably. The statutory Monitoring Officer undertakes a review of the Constitution annually to ensure the Council's arrangements remain compliant with legislative requirement and is fit for purpose in supporting the council's strategic objectives.

The Council Strategy, which was agreed by Full Council in February 2016, sets out the vision and priorities for North Lincolnshire. Service delivery, transformation, financial planning and performance management during 2016/17 have been based upon the strategic priorities.

The Annual Governance Statement provides a high level summary of how the council is meeting the principles of good governance as set out in the Code:

#### **A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.**

- The roles and responsibilities of elected members and officers and the processes to govern the conduct of the Council's business are defined in the Council's Constitution, schemes of delegation and financial regulations which are regularly reviewed and revised where appropriate.
- Codes of conduct are in place for elected members and officers to make sure that public business is conducted with fairness and integrity, which define the high ethical values and standards of behaviour expected.
- The Monitoring Officer is responsible for ensuring that the council operates within the law and that decisions are administered correctly. An annual report is presented to the Standards Committee on councillors' compliance with the ethical standards framework.
- The Council seeks feedback from the public through its complaints and representation procedures for both Council and Social Work (statutory) service areas, responds to the outcomes, as appropriate, and reports the results annually.

## **B. Ensuring openness and comprehensive stakeholder engagement**

- Council meetings are held in public unless there are good reasons for not doing so on the grounds of confidentiality. Unless confidential, decisions made by Council, the Executive (Cabinet/Cabinet Members) or other Committees are documented in the public domain.
- The Council has systems in place to ensure that relevant decisions taken by officers are published in accordance with legislative requirements.
- A standard decision making report format is used to ensure that the decision maker is presented with all of the information necessary to inform the decision, including outcomes of consultation and issues emerging from the Integrated Impact Assessment. Conflicts of interest are also identified in the report.
- The Council seeks community views on a wide range of issues and undertakes regular consultation and engagement with citizens and service users.

## **C. Defining outcomes in terms of sustainable economic, social, and environmental benefits**

- The Council's vision, strategic objectives and priorities underpinned by the Strategic Assessment are reflected in the Council's strategies and plans.
- The Integrated Impact Assessment used in the decision making process considers risks and impacts for individuals and communities; for the area and other legal or governance matters to ensure that fair access to service is not adversely affected.

## **D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

- Strategic planning and commissioning is undertaken using a plan, do, review, revise approach which is informed by the Strategic Assessment; outcomes for populations and place; legal and regulatory requirements; resource availability; council vision, priorities and policy frameworks; stakeholder feedback; quality frameworks and best practice.
- In determining how services and other courses of action should be planned and delivered the Council has well established engagement frameworks with internal and external stakeholders which is undertaken at a strategic, service and individual level.
- The Council fosters effective relationships, collaborative working and contractual arrangements with other public, private, and voluntary organisations in delivering services that meet the needs of the local residents as stated in the Council's vision, values and priorities within strategies and plans. For example, significant partner engagement in health and social care integration plans (BCF) and the Children's Strategy.

## **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

- During 2016/17 the Council has reviewed its senior management arrangements to ensure it is well positioned for the future. The new management structure consists of two Executive Directors, one of whom is the Head of Paid Service, and seven Directors (implemented from 1 November 2016 to 31 March 2017).
- The Head of Paid Service is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.
- The Council has appointed an Organisational Development partners to facilitate developing cultures and behaviours and support transformation over the next 3 years.
- A new performance management framework has been implemented during 2016/17 which places focus on how individuals are able to contribute to the council vision. It provides the opportunity for managers to consider wellbeing and capability with their teams on a regular basis.
- There is a member induction, training in development programme in place which includes specialist training such as safeguarding and for members with specific committee roles such as licensing and planning.

## **F. Managing risks and performance through robust internal control and strong public financial management**

- The Council has a risk management policy and approach including robust systems of identification, evaluation and control of risks which threaten the Council's ability to meet its objectives to deliver services to the public.
- The Chief Finance Officer (the Section 151 officer) is responsible for the proper administration of all aspects of the Council's financial affairs including ensuring appropriate advice is given to the Council on all financial matters.
- The Council's system of internal financial control is based on a framework of financial regulations, regular management information, administrative procedures (including segregation of duties), management supervision and a system of delegation and accountability.
- The Council has a proactive, holistic approach to tackling fraud, theft, corruption and crime, as an integral part of protecting public finances, safeguarding assets, and delivering services effectively and sustainably.
- A Medium Term Financial Strategy, and associated Risk Register, and plans for revenue (3-year) and capital (3-year) based on corporate priorities are developed, led by the Senior Leadership Team, and presented for approval by Council in February each year.
- Revenue and Capital Budget Monitoring reports are presented to the Cabinet on a regular basis for monitoring and control purposes including the annual outturn.

## **G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

- The Head of Audit & Assurance provides an independent and objective annual opinion on the effectiveness of internal control, risk management and governance. This is carried out by an in-house Internal Audit team in conformance with the Public Sector Internal Audit Standards.
- The Council responds to the findings and recommendations of Internal Audit, External Audit, Scrutiny and Inspection bodies. The Audit Committee is integral to overseeing independent and objective assurance and monitoring improvements in internal control and governance.
- The Council's Overview and Scrutiny arrangements are well established and provide challenge and review and promote service improvement.

### **4 Review of Effectiveness**

The 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 effectiveness is informed by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment; Head of Audit and Assurance Annual Report and comments made by the External Auditors and other review agencies and inspectorates. During 2016/17 the Strategic Risk Management Group was responsible for coordinating this review. Following the implementation of the new Council Management Structure from 1 April 2017, this is the responsibility of the Council Assurance Board.

The three lines of defence assurance model is central to the review of effectiveness as follows:

First Line – (delivery/operational area)

Each Director is required to complete an annual self-assessment as to how assurances are sought to confirm that the services and functions they are responsible for comply with each of the seven principles.

Second Line - (oversight of management activity and separate from those responsible for delivery)

A range of reports are produced annually or throughout the year from those responsible for the oversight of management activity which provide assurance on the operation of elements of the governance framework, including:

- Annual review of the Constitution
- Annual Report
- Standards Committee Annual Report
- Self-assessment against the "Role of Chief Financial Officer"
- Fraud Annual report
- Treasury management report

- Risk management annual review
- Data quality annual review
- Local Safeguarding Boards Annual Reports
- Director of Public Health Annual Report
- Adult Social Services annual 'Local Account'

Third line (independent oversight)

- Internal audit
- External audit
- Ombudsman
- Other external inspectorates and regulators

Other sources for the review of effectiveness include:

- Identification of significant control failures occurring in the year
- Comparison of the content of the Council's Code of Governance with notable practice identified by CIPFA/SOLACE

Although the 2015/16 Annual Governance Statement did not report any significant governance issues, it did identify potential issues for future years. Progress against these issues is reported on Appendix 1.

## **5 Significant Governance Issues**

A governance issue arises when something has gone or is going wrong which will affect the achievement of the Council's objectives. There is a need to respond and often recover from an issue and in financial terms, responding and recovering may add significant cost to the organisation or its processes. An issue may arise unexpectedly or may result from a poorly managed risk. Determining the significance of a governance issue will always contain an element of judgement.

An issue is likely to be significant if one or more of the following criteria applies:

- It has seriously prejudiced or prevented achievement of a principal objective.
- It has resulted in the need to seek additional funding to allow it to be resolved. It has required a significant diversion of resources.
- It has had a material impact on the accounts.
- It has been identified by the Audit and Governance Committee as significant.
- It has resulted in significant public interest or has seriously damaged reputation.
- It has resulted in formal actions being taken by the Section 151 Officer or Monitoring Officer.
- It has received significant adverse commentary in external or internal inspection reports that has not been able to be addressed in a timely manner.

The review of effectiveness of governance arrangement for 2016/17 has not identified matters that meet the above definition of 'significant'. However, the senior leadership team have identified the following to be considered as Corporate Risks for 2017/18 which may impact on the council's future governance arrangements:

- Asset Disposal Strategy
- Waste Disposal Arrangements
- Local financial position of NHS and quality of the local hospital trust.
- Delivery of transformation programme
- Social Care Funding and Integration
- Implementation of a Total Transport Strategy
- Delivery of Local Plan
- Delivery of Economic Growth Strategy
- Single Inspection Framework: Services for children in need of help & protection, children looked after and care leavers
- Partnership and Multi-Agency Working

During 2017/18 these issues will be incorporated into the update of the Strategic Risk Register and monitored through the Assurance Board.

## **6. Conclusion**

The Council has in place strong governance arrangements which we are confident protect its interests and provide necessary assurances to our citizens and stakeholders. However, like all organisations we cannot stand still and thus we propose to continue to take steps to address the above matters to enhance further our governance arrangements. Although no significant governance issues have been identified, we are satisfied that the emerging risks reflect the current position and that these will be reviewed and monitored to ensure they do not have an adverse impact on future governance arrangements.

## Appendix 1: Review of 2015/16 Governance Issues

Issue	Progress to reduce risk
<p>Maintain strong budget and workforce monitoring and efficiency reporting procedures in achieving the delivery of budget targets and investment in the key aims identified in the 2016/19 financial plan. In particular monitor the impact of the deliverability of funding assumptions made in the budget setting process.</p>	<p>Budget monitoring systems were in place and were developed during the year. Significant budget variances were identified and appropriately reported to Cabinet, with mitigating action taken in respect of the budget plan.</p>
<p>To monitor the implementation of corporate and service transformation plans to achieve budget targets by restructuring; refining service delivery or increasing income through exploring commercial opportunities to provide services to other public bodies or third parties. In particular to monitor the effectiveness of the shared service arrangements with North East Lincolnshire Council following implementation on 1<sup>st</sup> April 2016.</p>	<p>During the year, a transformation board was established, and this has been re-focused following the senior management review. Shared Services governance arrangements are in place to review effectiveness of service delivery and delivery of outcomes.</p>
<p>In implementing the devolution package for Greater Lincolnshire and ensure that it continues to best meet the needs of North Lincolnshire and the wider region, while delivering good governance.</p>	<p>Devolution did not progress</p>
<p>Continue to monitor the implementation of key changes in government policy and legislation such as Better Care Fund, Children and Families Act 2014 and the Care Act 2014.</p>	<p>Improvements in standards and outcomes continue to be delivered and the DCS and DASS have arrangements in place to ensure services are delivered in line with changing legislation and regulatory frameworks.</p>
<p>To monitor the implementation of the Education and Adoption Act 2016. As part of this Act there is a requirement to establish regional adoption services. North Lincolnshire are working with North Yorkshire, York, North East Lincolnshire, Hull and East Riding to consider how a regional approach will be adopted.</p>	<p>There is a governance arrangement in place for the collaboration of LAs to ensure appropriate planning informs a smooth transition to the required delivery model.</p>
<p>Ensure continued appropriate level of focus in addressing External and Internal audit recommendations particularly in times of increased risk (including risk of fraud) associated with significant and national change.</p>	<p>Matters are reported through the relevant reporting lines, including Audit Committee.</p>

To ensure that the proposed senior management structure meets legislative requirements and maintains the current good standards of corporate governance that the council achieves.

During the implementation of the management review, transitional arrangements were put in place to ensure statutory roles were fulfilled effectively. The senior management review has now been concluded and implemented.

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