

**DRAFT ANNUAL GOVERNANCE STATEMENT 2018 - 19**

*To:* **Audit & Accounts Committee**

*Date:* **11<sup>th</sup> June 2019**

*From:* **Duncan Wilkinson, Chief Internal Auditor**

*Electoral division(s):* **All**

*Forward Plan ref:* **N/A**

*Key decision:*

**N/A**

*Purpose:* **This report presents the Annual Governance Statement (AGS) for 2018 - 19 for consideration by the Audit and Accounts Committee, prior to sign off by the Chief Executive and the Chairman of the General Purposes Committee.**

*Recommendation:* **The Audit and Accounts Committee is requested to consider if the AGS at Appendix A is consistent with the Committee's own perspective on internal control within the Council and the definition of significant governance and control issues given in paragraph 3.2.**

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## **1.0 PURPOSE**

- 1.1 The Council is required to include an Annual Governance Statement (AGS) as part of the Annual Statement of Accounts. The AGS summarises the extent to which the Council is complying with its Code of Corporate Governance and details, as appropriate, any significant actions needed to improve the governance arrangements in the year ahead. The final statement will be signed by the Chief Executive and the Chairman of the General Purposes Committee.
- 1.2 The AGS is an important statutory requirement which enhances public reporting of governance matters. It should therefore be honest and open, favouring disclosure. Similarly its disclosures should not be mis-used which can create a 'blame culture' that in itself undermines governance.
- 1.3 The draft AGS is presented to the Audit and Accounts Committee in order to ensure that it reasonably reflects the Committee's knowledge and experience of the Council's governance and control.

## **2.0 BACKGROUND**

- 2.1 The draft AGS (at Appendix A) has been compiled by staff in Internal Audit and Risk Management based upon the following sources of evidence:
  - A review of the extent to which the Council has complied with each element of its Code of Corporate Governance;
  - A review of the Council's Code of Corporate Governance itself, based on the CIPFA/Solace *Delivering Good Governance in Local Government* Framework.
  - Self-assurance statements prepared by directors;
  - The Chief Internal Auditor's opinion on the Council's internal control environment, which will be formally reported to the Audit Committee on 28<sup>th</sup> May 2019.

## **3.0 The Annual Governance Statement (AGS)**

- 3.1 The Statement is prepared in accordance with guidance from the Chartered Institute of Public Finance (CIPFA) and the Society of Local Authority Chief Executives (Solace). The key elements identified in the Statement are:
  - The Council's responsibilities for ensuring a sound system of governance;
  - An assessment of the effectiveness of key elements of the governance framework, and the role of those responsible for the development and maintenance of the governance environment;
  - An opinion on the level of assurance that the governance arrangements can provide and whether these continue to be regarded as fit for purpose;
  - The identification of any significant governance issues, and an agreed action plan showing actions taken, or proposed, to deal with significant governance issues;
  - Reference to how issues raised in the previous year's Statement have been resolved;
  - A conclusion demonstrating a commitment to monitoring implementation through the next annual review.

3.2 'Significant Governance Issues' are those that:

- Seriously prejudice or prevent achievement of a principal objective of the authority;
- Have resulted in the need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
- Have led to a material impact on the accounts;
- The Audit Committee advises should be considered significant for this purpose;
- The Chief Internal Auditor reports on as significant in the annual opinion on the internal control environment;
- Have attracted significant public interest or have seriously damaged the reputation of the organisation;
- Have resulted in formal action being undertaken by the Chief Financial Officer and / or the Monitoring Officer.

**4.0 RECOMMENDATION**

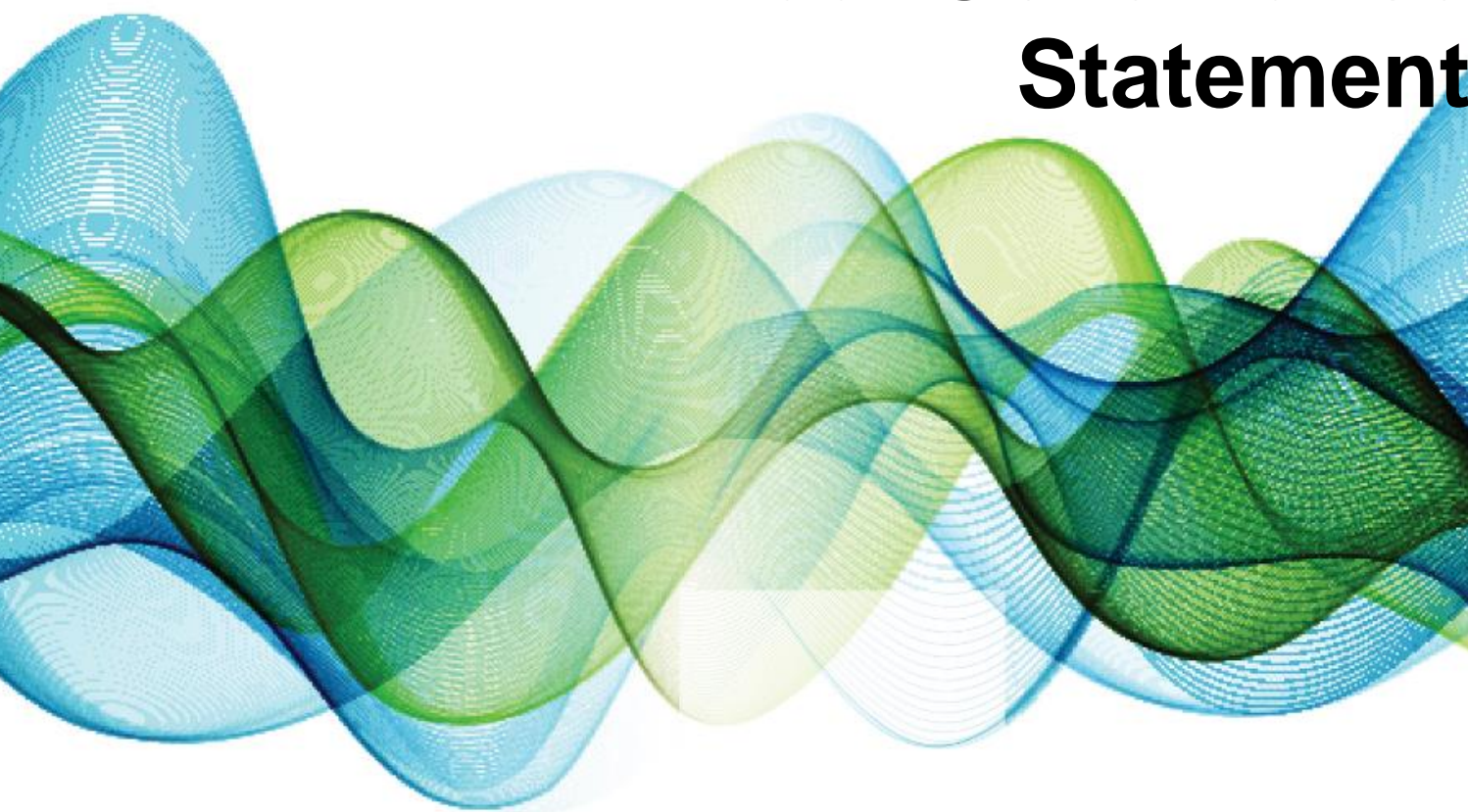
- 4.1 The Audit and Accounts Committee is requested to consider whether the draft AGS at Appendix A is consistent with the Committee's own perspective on internal control within the organisation and the definition of significant governance and control issues noted in paragraph 3.2 above.

Source Documents	Location
Director Assurance Statement Returns Cambridgeshire County Council Code of Corporate Governance	OCT1108 Shire Hall Castle Hill Cambridge CB3 0AP

## ANNUAL GOVERNANCE STATEMENT

### Appendix A

# Cambridgeshire County Council Annual Governance Statement



Date issued  
31 July 2019

Prepared by  
XXX

# ANNUAL GOVERNANCE STATEMENT

## SCOPE OF RESPONSIBILITY

Cambridgeshire County 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 Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, including arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (Solace) Framework *Delivering Good Governance in Local Government*.

This statement explains how the Council has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which require all relevant bodies to prepare an annual governance statement.

## THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The Governance Framework comprises the systems and processes, culture and values by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. It enables the Council 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 ongoing 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 the Council for the year ended 31 March 2019 and up to the date of approval of the Annual Report and Statement of Accounts.

# ANNUAL GOVERNANCE STATEMENT

## THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance arrangements are:

- Members exercising strategic leadership by developing and keeping under review the Council's vision and priorities. These set out and communicate the Council's vision of its purpose and intended outcomes for citizens and service users;
- An established business planning process which ensures that services are delivered in accordance with the Council's objectives and represents the best use of resources;
- The measurement of performance in achieving objectives through the mechanisms of the Council's performance management system;
- Embedded Codes of Conduct which define the standards of behaviour for members and employees;
- A written Constitution which specifies the roles and responsibilities of elected members and officers, with clear delegation arrangements and protocols for effective communication. The Constitution setting out Schemes of Delegation to members and officers; Financial Procedure Rules; and other supporting procedures for how decisions are taken and the processes and controls required to manage risk. Having arrangements in place to ensure these are reviewed regularly;
- An Audit and Accounts Committee which is responsible for independent assurance on the adequacy of the risk management framework and the associated control environment; the independent scrutiny of the Council's financial performance, to the extent that it affects the Council's exposure to risk and weakens the control environment; and for overseeing the financial reporting process;
- Statutory officers to support and monitor the Council's governance arrangements, ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful;
- Embedded arrangements for whistleblowing and for receiving and investigating complaints from the public, supporting the measurement of the quality of services for users;
- A Consultation Strategy to ensure the Council consults with and engages the diverse communities of Cambridgeshire, allowing them to have a say in the planning and reviewing of the services provided for them.
- A committee-based system of governance, which provides the Council with the high standards of Governance expected of a local authority. Under the committee system of governance, decisions are made by cross-party committees, meaning that a separate scrutiny function is no longer necessary.

# ANNUAL GOVERNANCE STATEMENT

## REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its Corporate Governance Framework, including the system of internal control.

The review of effectiveness is informed by:

- Assurances from executive managers within the Council who have responsibility for the development and maintenance of the governance environment.
- The Chief Internal Auditor's and Risk Management's annual reports.
- Comments made by external auditors and other review agencies and inspectorates.

The Governance Framework and its constituent elements have been developed by executive managers and consulted upon with all members, the Audit and Accounts Committee and the Senior Management Team, as appropriate.

The arrangements for reviewing the Governance Framework comprise:

- A review of the Governance Framework and Internal Control Environment in accordance with CIPFA guidance, carried out by Internal Audit annually. Within this, consideration has been given to ensuring the Authority's financial management arrangements conform with the governance requirements of the CIPFA statement on the role of the Chief Financial Officer in Local Government and the role of the Chief Internal Auditor in Public Service Organisations.
- An annual review of the Council's Code of Corporate Governance undertaken by Internal Audit.
- The annual report and opinion on the internal control environment prepared by the Chief Internal Auditor. This report draws upon the outcome of audit reviews undertaken throughout 2018/19 and is informed by the comments of external auditors and inspectors. The report is designed to provide assurance on the effectiveness of internal controls.
- The completion of Self-Assurance Statements by Directors.
- The consideration of relevant outputs from member and officer-led reviews undertaken during the year, and the comments made by the external auditors and other review agencies and inspectorates.

The key aspects of the review of effectiveness are:

### (1) Council Planning

There is a clear vision of the outcomes which the Council wants to achieve for local people as set out in the Business Plan.

The Council operates a planning process which integrates all aspects of strategic, operational and financial planning which has the full involvement of executive councillors and all senior



# ANNUAL GOVERNANCE STATEMENT

managers of the Council. This ensures financial plans realistically support the delivery of the Council's priority outcomes and strategy obligations in the short and medium terms.

The budget preparation process was subject to robust challenge by councillors and involved extensive consultation with the people and businesses of Cambridgeshire.

## **(2) Performance Management**

The Council presents a corporate Integrated Resources and Performance Report to councillors on a monthly basis. This is available to the public on the Council's internet site, giving them an insight into the Council's overall performance.

## **(3) Executive Decision Making and Scrutiny**

Executive decisions are made by one of the Council's five cross-party service committees. A process is in place to allow for executive decisions to be reviewed following request by at least 8 members of the General Purposes Committee, which must be made within 3 days of a decision being published.

## **(4) The Audit and Accounts Committee**

The Audit and Accounts Committee provides independent, effective assurance on the adequacy of the Council's governance environment. All major political parties are represented on the Audit Committee.

The Audit and Accounts Committee met regularly during 2018/19, considering reports, including the annual Internal Audit Report, from the Chief Internal Auditor, the Council's Senior Finance Officers and the External Auditor. Additionally, the Committee invited officers of the Council to attend the Committee on a number of occasions to assist the Committee in its work. The Chair of the Audit and Accounts Committee presents an annual report to Council detailing the work of the Audit and Accounts Committee in the preceding year.

## **(5) Statutory Officers**

The statutory functions undertaken by the Head of Paid Service, Monitoring Officer, S151 Officer, Director of Public Health and the Executive Director of People and Communities were effectively fulfilled during 2018-19 and up to the date of this report.

## **(6) Management**

The Council's Executive and Corporate Directors have provided assurance through Self-Assurance Statements that:

- They fully understand their roles and responsibilities;
- They are aware of the principal statutory obligations and key priorities of the Council which impact on their services;
- They have made an assessment of the significant risks to the successful discharge of the Council's key priorities;
- They acknowledge the need to develop, maintain and operate effective control systems to manage risks;
- Service Directors and/or relevant senior staff have provided assurance on the key elements of risk and control in their areas of responsibility;



## ANNUAL GOVERNANCE STATEMENT

- Throughout the financial year they consider that risks and internal controls have been sufficiently addressed to provide reasonable assurance of effective financial and operational control, compliance with the Code of Corporate Governance and other laws and regulations.

No exceptions to the above were identified by Directors in their assurance statements.

### (7) Internal Audit

The Council takes assurance about the effectiveness of the governance environment from the work of Internal Audit, which provides independent and objective assurance across the whole range of the Council's activities. It is the duty of the Chief Internal Auditor to give an opinion, at least annually, on the adequacy and effectiveness of internal control within the Council. This opinion has been used to inform the Annual Governance Statement.

The Chief Internal Auditor provided his annual report to the Audit Committee on 11<sup>th</sup> June 2019. The report outlined the key findings of the audit work undertaken during 2018/19, including areas of significant weakness in the internal control environment.

An assurance scoring mechanism, based on three opinions, is used to reflect the effectiveness of the Council's internal control environment. The opinions are:

- Control Environment Assurance
- Compliance Assurance
- Organisational Impact

From the audit reviews undertaken during 2018/19, no areas were identified where it was considered that, if the risks highlighted materialised, it would have a major impact on the organisation as a whole. In each instance where it has been identified that the control environment was not strong enough, or was not complied with sufficiently to prevent risks to the organisation, Internal Audit has issued recommendations to further improve the system of control and compliance. Where these recommendations are considered to have significant impact on the system of internal control, the implementation of actions is followed-up by Internal Audit and is reported to Audit and Accounts Committee on a quarterly basis.

It is the opinion of the Chief Internal Auditor that:

*“On the basis of the audit work undertaken during the 2018/19 financial year, an opinion of **satisfactory** assurance is awarded. The internal control environment (including the key financial systems, risk and governance) has been subject to significant changes during the year with the introduction of ERP Gold and there have been areas and periods where compliance with these new procedures and systems has required improvement. Although there are currently no outstanding significant issues arising from the work undertaken by Internal Audit, there are important recommendations contained in the key financial systems audits that will be followed up in 2019/20.*

*It should be noted that no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.*

# ANNUAL GOVERNANCE STATEMENT

*Although the level of assurance has decreased from 2016/17 there has been significant change to key systems within the year and management has responded positively to recommendations made by Internal Audit to strengthen identified areas of concern.*

The detail to support this assessment was provided in the Annual Internal Audit Report which was presented to the Audit and Accounts Committee on 11th June 2018.

## **(8) Review of Internal Audit**

The Public Sector Internal Audit Standards were introduced from April 2013. The Internal Audit service has operated in compliance with Public Sector Internal Audit Standards throughout the year. The Cambridgeshire office of LGSS Internal Audit underwent an external review of compliance with Public Sector Internal Audit Standards in December 2016/17, and a number of recommendations were agreed to further improve the work of the service, including the introduction of a new Terms of Reference format, and the inclusion of some specific areas within the Annual Report. A follow-up visit in May 2017 confirmed the implementation of these actions and confirmed compliance with the latest set of standards issued in April 2017. The self-assessment undertaken during March 2019 confirmed continued compliance.

## **(9) External Audit**

On 14 December 2017, the PSAA board approved the appointment of Ernst & Young LLP to audit the accounts of Cambridgeshire County Council for a period of five years, covering the financial years from 1 April 2018 to 31 March 2023.

## **(10) Risk Management**

The Council managed its risks during 2018/19 in accordance with the approved Risk Management Policy and the Risk Management Procedures. The Strategic Management Team and Directorate Management Teams formally considered risk on a quarterly basis. Quarterly risk management reports were submitted to both the General Purposes Committee and the Audit and Accounts Committee.

The Internal Audit Plan for 2019/20 presented to the Audit and Accounts Committee in March 2019 is substantially based upon the key risks faced by the Council as identified in the Corporate and Directorate risk registers, such that Internal Audit will provide assurance on the effectiveness of the internal control framework during 2019/20.

A full review of the Council's corporate risk register and risk management took place in 2017/18, alongside the review of corporate KPIs, aligning risk reporting more closely to the Council's financial reporting processes. In addition, a 'Risk Management Health Check' was conducted by the Council's insurer's Zurich. The final report was received in April 2018, and this has informed further improvements in risk management processes during 2018/19.

## **SIGNIFICANT GOVERNANCE ISSUES**

The review of the effectiveness of the Governance Framework has provided a satisfactory level of assurance on the effectiveness of the Council's governance arrangements. Arrangements in

## ANNUAL GOVERNANCE STATEMENT

place comply with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

The Annual Governance Statement process allows the Council to identify any significant governance issues that have been identified, and the associated actions it is proposing to undertake to enhance its corporate governance arrangements. However, there are no such actions requiring specific mention in the 2018/19 Annual Governance Statement.

Cambridgeshire does continue to face very significant future challenges associated with an increase in demand and inflation and a significant reduction in Central Government funding. The Council's 5 year Business Plan is reflective of these pressures, and is subject to annual review, to ensure the extreme financial pressures facing the Council in the latter stages of the Plan can be met, whilst continuing to provide effective services to the people of Cambridgeshire.

It is recognised that in order to address this increased financial pressure on the organisation, the Council needs to transform and develop more effective working across all services. To achieve this, Cambridgeshire County Council has developed a Transformation Fund, for which the General Purposes Committee has stewardship. This enables the authority to fund the costs of transforming services through the ongoing Transformation Programme.

In order to address financial pressures across the public sector, partnership working between the County Council and other public sector organisations is increasingly important. On 16<sup>th</sup> March 2017, the Secretary of State for Communities and Local Government announced the Cambridgeshire and Peterborough Combined Authority devolution deal. The integrity of Cambridgeshire County Council is protected under this deal and the Council will continue to deliver the vast majority of services for residents as it does currently, with the Leader of the Council acting as a member of the Combined Authority.

In future years, there is the potential that devolution in the region could evolve further and this may impact further upon the authority's governance arrangements. Cambridgeshire County Council already works closely with other public sector bodies in the region, and shares a Chief Executive and several Directors with Peterborough City Council. Governance arrangements for sharing staff and services across partners continue to evolve into 2019/20, and the Council is planning to bring forward further integrated and shared service opportunities with Peterborough, in order to drive down costs, increase resilience and improve outcomes for residents.

During 2018-19 the Audit & Accounts Committee received, and considered, a comprehensive report into the arrangements for Community Transport following an external and independent investigation. The allegations that prompted the investigation were focussed on Fact, Hact and Esact community transport providers (FH&E) but also reviewed the Council's procurement and grant funding arrangements in this area.

The report was considered at a full day's A&A meeting held in open public session. The investigation found issues in respect of FH&E and also the Council's processes. The A&A Committee, having accepted the report and its recommendations, monitored their implementation. At the year end the majority had been fully implemented including all improvements to Council processes.

## ANNUAL GOVERNANCE STATEMENT

Therefore whilst this issue highlighted governance weaknesses in this service area, these were addressed fully during the year. No action is reported within the AGS as this remains business as usual for A&A through 19-20.

The 19/20 AGS Action Plan is still being discussed and work is still ongoing in key areas. Any agreed actions will be included in the final version of the AGS submitted at the same time as the signing of the Council's Accounts.

### CONCLUSION

Based on the work that has been completed, assurance can be taken that the governance arrangements at Cambridgeshire County Council are fit for purpose.

Cambridgeshire County Council is committed to ensuring the implementation of all actions that are planned to strengthen the organisation's governance arrangements. Implementation of these actions will be monitored through the next annual review.

# ANNUAL GOVERNANCE STATEMENT

## CHAIRMAN OF GENERAL PURPOSES COMMITTEE AND CHIEF EXECUTIVE STATEMENT

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit and Accounts Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework.

Councillor Steve Count  
Chairman of the General Purposes Committee

Gillian Beasley  
Chief Executive

Councillor Michael Shellens  
Chairman of the Audit and Accounts  
Committee

June 2019