

**DRAFT ANNUAL GOVERNANCE STATEMENT 2015/16**

**To:** Audit and Accounts Committee

**Date:** 7<sup>th</sup> June 2016

**From:** LGSS Head of Internal Audit

**Electoral Division(s):** All

**Forward Plan Ref:** N/A                      Key decision: **No**

**Purpose:** This report presents the Annual Governance Statement (AGS) for 2015/16 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 whether the AGS 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 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.
- 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 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;
  - The Council's Assurance Framework, which summarises the findings of reports provided by internal and external assurance sources and the implications of these reports for the overall governance of the Council;
  - Self-assurance statements prepared by directors;
  - The Head of Internal Audit's opinion on internal control on the Council's internal control environment, which will be formally reported to the Audit Committee in June 2016.

## **3.0 The Annual Governance Statement**

- 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 sound corporate governance
  - The purpose of the governance framework
  - Key aspects of the Council's framework
  - The results of the review of the effectiveness of the Council's governance arrangements during 2015/16 up to the point at which the Statement is formally signed by the Chief Executive and the Chairman of the General Purposes Committee
  - The identification of any significant governance issues

It is also normal practice for the Statement to identify significant actions the Council intends to take in enhancing its governance arrangements in the following year. However the AGS identifies that there are no significant governance issues requiring enhancement in 2016/17.

3.2 Guidance states that '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 Head of Internal Audit 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 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 Assurance Framework The Code of Corporate Governance	OCT1108 Shire Hall Castle Hill Cambridge CB3 0AP

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## 1. 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, and which include 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 requires all relevant bodies to prepare an annual governance statement.

## 2. 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 2016 and up to the date of approval of the Annual Report and Statement of Accounts.

## 3. THE GOVERNANCE FRAMEWORK

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

- Members exercising strategic leadership by developing the Council's vision and priorities and keeping these under review. 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;
- A written Constitution which specifies the roles and responsibilities of elected members and officers, with clear delegation arrangements and protocols for effective communication;
- Embedded Codes of Conduct which define the standards of behaviour for members and employees;
- The Constitution, Schemes of Delegation to members and officers, Financial Procedure Rules and other supporting procedures which set out how decisions are taken and the processes and controls required to manage risk; and 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 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 Listening and Involving 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.
- The Council's Committee system of corporate governance, introduced in May 2014. The Council meets CIPFA/Solace guidance recommending effective scrutiny of decisions made by Council; under the committee system of

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governance, decisions are made by cross-party committees, meaning that a separate scrutiny function is no longer necessary. The Committee system in place continues to evolve, and from May 2016, the Council has established a new Assets and Investments Committee.

## 4. 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 Head of Internal Audit and Risk Management's annual report; and also by 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 Corporate Leadership Team, as appropriate. The Governance Framework links closely to the Assurance Framework, which brings together the work of both internal review mechanisms and external review agencies, and is reviewed bi-annually by the Audit and Accounts Committee.

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 Head of Internal Audit in Public Service Organisations.
- The annual report and opinion on the Internal Control environment prepared by the Head of Internal Audit. This report draws upon the outcome of audit reviews undertaken throughout 2015/16 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:

### i. Council Planning

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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 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.

## **ii. Performance Management**

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

## **iii. Executive Decision-Making and Scrutiny**

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

## **iv. 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 2015/16, considering reports, including the annual Internal Audit Report, from the Head of Internal Audit, the Council's Senior Finance Officers and the External Auditor. The Committee invited officers of the Council to attend the Committee on a number of occasions to assist the Committee in its work. Additionally, in 2015/16 the Committee was requested by Full Council to undertake a review of the process by which proposals relating to the Cambridge Library Enterprise Centre emerged and were developed. This review was undertaken with Internal Audit and reported back to Full Council.

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.

## **v. Statutory Officers**

The statutory functions undertaken by the Head of Paid Service, Monitoring Officer, S151 Officer, and the Executive Director of Children, Families and Adult Services were effectively fulfilled during 2015-16 and up to the date of this report.

## **vi. Management**

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Executive 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 have provided assurance on the key elements of risk and control in their areas of responsibility.

## **vi. 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 Head of Internal Audit 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 Head of Internal Audit is due to provide his annual report to the Audit Committee on 7<sup>th</sup> June 2016. This report will outline the key findings of the audit work undertaken during 2015/16.

The Internal Audit assurance scoring mechanism was reviewed and updated during 2015/16 to reflect the effectiveness of the Council's internal control environment.

At the conclusion of each audit, internal audit assigns three opinions. The opinions are:

- Control Environment Assurance
- Compliance Assurance
- Organisational Impact

From the reviews undertaken during 2015/16, only one area was identified where it was considered that, if the risks highlighted materialised, it would have a major impact on the organisation as a whole. This related to the Internal Audit review of Home to School transport. An action plan to address the identified weaknesses in the control environment was agreed by the service, and a full update on the implementation of these actions to date is being brought to the Audit & Accounts Committee meeting in June 2016.



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It is the opinion of the Head of Internal Audit that, on the basis of the audit work undertaken during the 2015/16 financial year, the internal control environment (including the key financial systems, risk and governance) is well established and operating effectively in practice. In addition, there are no outstanding significant issues arising from the work undertaken by Internal Audit. However, no systems of control can provide absolute assurance against material misstatement or loss, nor can Internal Audit give that assurance.

The level of assurance therefore remains at a similar level from 2014/15. The detail to support this assessment will be provided in the Annual Internal Audit Report which will be presented to the Audit and Accounts Committee in June 2016.

## **vii. Review of Internal Audit**

The Public Sector Internal Audit Standard was introduced from April 2013. A self-assessment of Internal Audit's compliance with this new Standard was presented to the Audit and Accounts Committee in June 2015. The next review will be reported to the Audit and Accounts Committee in June 2016.

## **viii. External Audit**

PwC was the Council's appointed External Auditor for the 14/15 Accounts. As well as an examination of the Council's financial statements, the work of the Council's External Auditor included an assessment of the degree to which the Council delivers value for money in its use of its resources. In its Annual Audit letter it issued an unqualified conclusion on the ability of the Council to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

## **ix. Risk Management**

The Council managed its risks during 2015/16 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 2016/17 presented to the Audit and Accounts Committee in March 2016 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 2016/17.

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

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Cambridgeshire continues to face very significant future challenges associated with a significant reduction in Central Government funding. The Council's 5 year Business Plan is reflective of these pressures and will be 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

The Annual Governance Statement process allows the Council to identify any significant actions it is proposing to undertake to enhance its corporate governance arrangements. However there are no such actions requiring specific mention in the 2015/16 Annual Governance Statement.

Throughout the past year, there has been increased financial pressure on the organisation, and management have implemented a review of corporate capacity and a transformation programme, to create more effective working across services and to deliver savings and efficiencies.

There has also been an increased awareness of the importance of sound project management and procurement practice during the course of the year. These areas are under review as part of the corporate transformation programme, and an action plan has been put in place to address the key risks identified.

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## 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 2016