



CORPORATE GOVERNANCE COMMITTEE – 26 MAY 2023

**JOINT REPORT OF THE DIRECTOR OF CORPORATE
RESOURCES AND THE CHIEF EXECUTIVE**

**PROVISIONAL DRAFT ANNUAL GOVERNANCE STATEMENT
– 2022/23**

Purpose of the Report

1. The purpose of this report is to:
 - (a) Outline the background and approach taken to produce the County Council's 2022/23 provisional draft Annual Governance Statement (AGS)
 - (b) Present the provisional draft AGS for comment by the Committee prior to sign off by the Chief Executive and Leader of the Council.
 - (c) Outline the background and approach taken to self- assess against an Internal Audit Service questionnaire on the Council's 'Risk of Governance Failings'

Background

2. Regulations 6 (1) (a) and (b) of the Accounts and Audit Regulations 2015 (the Regulations) require each English local authority to conduct a review, at least once a year, of the effectiveness of its system of internal control and approve an annual governance statement (AGS), prepared in accordance with proper practices in relation to internal control.
3. 'Delivering Good Governance in Local Government: Framework' by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives and Senior Managers (SOLACE) (2016) sets the standard for local authority governance in the UK. The preparation and publication of an AGS in accordance with the Framework fulfils the statutory requirement.
4. The AGS is an important requirement which enhances public reporting of governance matters. In essence, it is an accountability statement from each local government body to stakeholders on how well it has delivered on governance over the course of the previous year.

5. The AGS encompasses the governance systems applied in both the Authority itself, and any significant group entities e.g. ESPO, East Midlands Shared Services (EMSS) during the financial year being reported. Commercial and collaborative arrangements that the Council is involved in are also reported to provide a fuller picture including assurances.
6. To ensure that the AGS reasonably reflects the Committee's knowledge and experience of the Council's governance and control framework and that the conclusions and future challenges are appropriate, the CIPFA/SOLACE Framework requires high level input from the Committee into the AGS. A provisional draft AGS for 2022/23 (attached as Appendix A to this report) has been produced for initial consideration and any comments made by the Committee will be duly considered and incorporated as appropriate. It is anticipated that further amendments will be made prior to the publication of the draft AGS and therefore intended that a formal draft will be circulated to members of the Committee before it is published. The final AGS will accompany the published audited accounts in the usual way.
7. The provisional draft AGS statement has already been considered by a Senior Officer Group comprising of:
 - Director of Law and Governance (the Council's Statutory Monitoring Officer)
 - Director of Corporate Resources (the Council's Statutory Chief Financial Officer)
 - Head of Democratic Services
 - Assistant Chief Executive
 - Assistant Director – Finance, Strategic Property and Commissioning
 - Head of Internal Audit and Assurance Service

Approach

8. The review of the effectiveness of the County Council's system of internal control and overall corporate governance arrangements requires the sources of assurance, which the Council relies on, to be brought together and reviewed, from both a departmental and corporate view.
9. The Public Sector Internal Audit Standards (PSIAS) allows the Head of Internal Audit and Assurance Service to assist management in drafting the AGS. The process followed as explained below, has not changed significantly from the previous year.
10. The revised CIPFA/SOLACE Framework (the Framework) requires local authorities to review arrangements against their Local Code of Corporate Governance. The Council's Local Code was revised in April 2022 and is scheduled to be next reviewed in April 2024 or as required in the event of changes in legislation.

11. To ensure the provisional draft AGS represents an accurate picture of the governance arrangements for the whole Council, each Director was required to complete a 'self-assessment' designed to provide details of the measures in place (systems, process, documents etc.) within their departments during the financial year 2022/23, to ensure conformance (or otherwise) to the Framework. The self-assessment also allowed for the recognition and recording of areas where developments are required.
12. The departmental self-assessments required a corresponding score to be given reflecting the department's positions regarding practice, standards and quality. This is a gauge of effectiveness. The application of a more quantitative approach to assessing compliance against the principles contained in the Framework allows the Committee and public at large to obtain necessary assurance that the Council operates within an adequate internal control environment, thus complying with the seven core principles and best practice.
13. A number of Corporate Assurance Statements were also completed to gain an overall organisational perspective of processes in place as described by the seven core principles. These statements also allowed for the recognition and recording of areas where developments were required.
14. The completed statements were analysed along with various other sources of evidence to determine whether there were any significant governance issues that should be reported in the provisional draft AGS. Other sources include:
 - a. Reports provided by internal and external audit and other assurance sources and the implications of these reports for the overall governance of the Council.
 - b. The Head of Internal Audit Service's annual opinion on the overall adequacy and effectiveness of the Authority's control environment (its framework of governance, risk management and internal control arrangements).
 - c. Evaluation of any negative media articles.
15. The provisional draft AGS assesses governance arrangements in place during 2022/23.

Provisional outcome of the 2022/23 review of the Governance Framework

16. The County Council has defined 'Significant Governance Issues' as those that:
 - a. Seriously prejudice or prevent achievement of a principal objective of the authority;
 - b. Have resulted in the need to seek additional funding to allow it to be resolved, or has resulted in the significant diversion of resources from another aspect of the business;
 - c. Have led to a material impact on the accounts;

- d. The Corporate Governance Committee advises should be considered as a significant issue for reporting in the AGS;
- e. The Head of Internal Audit Service reports on as significant in the annual opinion on the internal control environment.
- f. Have attracted significant public interest or have seriously damaged the reputation of the organisation.
- g. Have resulted in formal action being undertaken by the Chief Financial Officer and/or the Monitoring Officer;
- h. The issue has resulted in a legal breach or prompts intervention from a regulator.

17. The final AGS for the previous financial year (2021/22) was considered by this Committee at its meeting on 16 March 2023. It contained details of four significant governance issues that arose after the balance sheet date 31 March 2022 and the date on which the financial statements were signed by the responsible financial officer and reported (see paragraph 20 for further explanation). The issues reported were: -

- SEN Budget Deficit
- Firs Farm – environmental damage and rectification
- Early Years Budget Deficit
- Local Government & Social Care Ombudsman (LGSCO) report – Social Care Assessments

Section 7 of Appendix A provides details of the progress made during 2022/23 to address the issues.

18. During the review of the 2022/23 provisional draft AGS; the Senior Officer Group determined that there were two significant governance issues that require reporting (refer to section 8 of the Appendix for more details). They relate to: -

- School Admissions – failure of portal
- SEND OfSTED revisit

19. Follow up on progressing the implementation of 2021/22 developments will be undertaken before the formal draft is amended, circulated to members of this Committee, and published. Any developments that were not carried forward to 2022/23 or reported through the Corporate Risk Register process will continue to be monitored.

20. Similarly, the Senior Officer Group determined that those areas listed in the Future Challenges - Section 9 (Appendix A) will be subject to scrutiny through existing reporting channels

21. The Code of Practice on Local Authority Accounting in the UK 2022/23 (the Code) states that the AGS should relate to the governance system as it applied to the financial year for the accounts that it accompanies. However, significant events or developments relating to the governance system that occur between the Balance Sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer should also be reported. Therefore, in the event of the above occurring,

the AGS presented as in the Appendix would change at the time of its final publication.

22. Approval and ownership of the draft AGS has been reflected at corporate level and the statement will be signed on behalf of the Council by the Chief Executive and Leader of the Council and published on the County Council's website.

Self-assessment against an Internal Audit Service questionnaire on the Council's 'Risk of Governance Failings'

23. In recent years, a number of Public Interest Reports have been published identifying key governance failings within Councils. Key themes have included inadequate understanding of requirements and responsibilities, inappropriate cultural behaviours and practices, and the absence of satisfactory processes for ensuring scrutiny and oversight.
24. In each of the past two years, Grant Thornton (GT) UK LLP has published reports identifying lessons to learn from Public Interest Reports and other interventions. The Council's Internal Audit Service has shared these reports with the Chief Executive, Director of Corporate Resources and Director of Law and Governance and in December 2022, a Governance Questionnaire (identifying governance-related questions based on the key issues identified by these reports) was prepared and issued by Internal Audit Service for self-assessment within the Council.
25. The completed Governance Questionnaire was received by Internal Audit Service in February 2023 and a review of the document confirmed that all sections had been completed to provide a self-assessment of compliance with the questions that had been included. A sample of responses was selected, and evidence was obtained to confirm the assurances that had been provided; also, where it was noted that action to improve governance was required, it was confirmed that the associated question had been referenced to remediation in a supporting Action Plan which is included as Appendix B, and is included within the AGS Annex, 'Areas for further development in 2023-24', Principle G.

Recommendations

26. The Committee is requested to:
- a. Consider the provisional draft AGS 2022/23 (Appendix A) and indicate whether it is consistent with the Committee's own perspective on internal control within the Authority.
 - b. Note that there are two significant governance issues reported in the provisional draft AGS 2022/23.
 - c. Note that the provisional draft AGS 2022/23, will be subject to amendments and that a final draft AGS 2022/23 will be circulated to members of this Committee before it is published with the draft Statement of Accounts before the end of June.

- d. Note that the provisional draft AGS 2022/23 which may be subject to such changes as are required by the Code of Practice on Local Authority Accounting, has been prepared in accordance with best practice.

Resource Implications

27. None.

Equality and Human Rights Implications

28. None.

Background Papers

CIPFA/SOLACE: Delivering Good Governance in Local Government: Framework (2016)

Report of the Director of Corporate Resources – ‘External Audit of the 2021/22 Statement of Accounts, Annual Governance Statement and Pension Fund Accounts’ - Corporate Governance Committee 16 March 2023

<https://politics.leics.gov.uk/documents/s165418/CGC031221%20-%20SOA%20v2.pdf>

Circulation Under the Local Issues Alert procedure

None

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List of Appendices

Appendix A - Provisional Draft Annual Governance Statement 2022-23

Appendix B - Risk of Governance Failings - Action Plan

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