



CORPORATE GOVERNANCE COMMITTEE
12 MAY 2014

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

ANNUAL GOVERNANCE STATEMENT 2013/14

Purpose of the Report

1. The purpose of this report is to:
 - (i) Outline the background and approach taken to produce the County Council's 2013/14 Annual Governance Statement (AGS);
 - (ii) Present the draft AGS for comment by the Committee prior to sign off by the Chief Executive and Leader of the Council.

Background

2. The Framework 'Delivering Good Governance in Local Government', published by CIPFA in association with SOLACE in 2007, sets the standard for local authority governance in the UK and the requirement to produce an Annual Governance Statement (AGS). The AGS is an important means of ensuring public reporting of governance matters.
3. A review of the Council's 2012/13 AGS was conducted by Grant Thornton and presented to the Committee at its meeting in September 2013. In summary, Leicestershire's AGS was among the best for:
 - (i) concluding on the level of assurance that the current system is actually delivering;
 - (ii) reporting progress on prior year significant governance issues;
 - (iii) describing current governance issues;
 - (iv) the process for reviewing the effectiveness of the governance framework.
4. Taking into account the Grant Thornton review and its recommendations for improvement, the 2013/14 AGS has:
 - (i) Better described the purpose and components of the governance framework;
 - (ii) Included an action plan for identified significant governance issues;
 - (iii) Included additional information on future challenges for the County Council.

5. To ensure that the AGS reasonably reflects the Committee's knowledge and experience of the Council's governance and control framework and that suggested areas for improvement are appropriate, CIPFA guidance requires consideration by the Committee into the AGS. The draft 2013/14 AGS is attached as Appendix 1 and any comments by the Committee will be duly considered and incorporated as appropriate.
6. The draft Statement has already been considered by the Director of Corporate Resources, the Monitoring Officer and the Head of Internal Audit Service. The 'areas of improvement' element of the Statement has also been circulated to owners of the relevant actions.

Approach

7. There is a statutory requirement in England, for a local authority to conduct, at least once in each financial year, a review of the effectiveness of its system of internal control and overall corporate governance arrangements. This review requires the sources of assurance, which the County Council relies on, to be brought together and reviewed, from both a departmental and corporate view.
8. To ensure the AGS presents an accurate picture of the governance arrangements for the whole Council, each Director was required to complete a 'self-assessment' based on the six principles of good governance described in the revised CIPFA / SOLACE framework. This assessment is designed to provide details of the measures in place (systems, process, documents etc.) within their departments during the financial year 2013/14, to ensure compliance (or otherwise) with the Council's Code of Corporate Governance. The assessment also allowed for the recognition and recording of areas where improvements or developments are required.
9. The departmental self-assessment contained a set of compliance statements under each core principle, which required a corresponding score based on criteria described within the draft AGS. The application of a more quantitative approach to assessing compliance against the Code 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 six core principles and best practice.
10. A Corporate Assurance Statement was also completed to capture evidence to gain an overall organisational perspective of processes in place, as described by the six core principles. This statement also allowed for the recognition and recording of areas where improvements or developments are required and was signed by the Director of Corporate Resources and the Monitoring Officer.

11. The completed statements were analysed along with various other sources of evidence to determine whether there are any significant governance issues that should be reported in the AGS. Some of these sources include:
 - Reports provided by internal and external audit and other assurance sources and the implications of these reports for the overall governance of the Council;
 - The Head of Internal Audit Service's annual opinion on the overall adequacy and effectiveness of the Authority's internal control environment;
 - Analysis of negative media articles.
12. In order to assist the Head of Internal Audit Service's annual opinion on the adequacy and effectiveness of the Authority's governance arrangements, sample checking of the returns and supporting evidence was undertaken by Internal Audit.

Outcome of the 2013/14 review of the Governance Framework

13. Guidance states that the 'Significant Governance Issues' are 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 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 significant for this purpose;
 - 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.
14. The 2013/14 review of the Governance Framework identified one significant governance issue that has been included within the Annual Governance Statement - Fraud committed at Leicestershire Highways Operations.
15. The Committee can gain more in depth information on the background and subsequent action taken through the Quarterly Internal Audit Service Progress Report appearing later on the agenda for this meeting (and the Internal Audit Annual Members Report 2013/14 to be presented to the Committee in September 2014).
16. For the AGS to have its intended benefit, it is important that it is open and honest about areas for improvement, thus giving a balanced view of

the organisation. The assurance gathering process identified areas of improvement and implementing actions to address these will ensure that identified gaps within the Council's current control environment will be filled, further enhancing overall governance arrangements. To this effect, the draft AGS describes identified areas for improvements during the review period 2013/14 to carry forward for monitoring within 2014/15.

17. The Code of Practice in Local Authority Accounting 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 Appendix 1 would change. Details would, of course, be reported to members of the Committee for information.
18. The Head of Internal Audit Service has issued a provisional opinion for Leicestershire. Should any changes be required, these will be reflected in the finalised and approved Annual Governance Statement in September.
19. Approval and ownership of the Governance Statement 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.

Recommendations

20. The Committee is requested to:
 - a) Review the draft AGS (Appendix 1);
 - b) Consider whether it is consistent with the Committee's own perspective on internal control within the Authority;
 - c) Consider the governance issue and confirm whether the proposed actions and improvement areas detailed in section 6 of the AGS are acceptable;
 - d) Approve the County Council's 2013/14 Annual Governance Statement, noting that this may be subject to such changes as are required by the Code of Practice in Local Authority Accounting and detailed in paragraph 17 of this report.

Resource Implications

None.

Equal Opportunities Implications

None.

Background Papers

Report of the Director of Corporate Resources – ‘Risk Management Update’ – Corporate Governance Committee, 2 September 2013

Delivering Good Governance in Local Government: Framework – issued by CIPFA / SOLACE, 2007 and 2012;

The 2013/14 Corporate and Departmental Assurance Statements;

Circulation Under the Local Issues Alert procedure

None

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List of Appendices

Appendix 1 – Draft Annual Governance Statement 2013/14

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