
NORTH AYRSHIRE COUNCIL

28 May 2019

Audit and Scrutiny Committee

Title: Annual Governance Statement 2018-19

Purpose: To seek Committee approval of the Council's Annual Governance Statement for 2018-19 which will be included within the Annual Accounts.

Recommendation: That the Committee approves the Annual Governance Statement which is attached at Appendix 1 to this report.

1. Executive Summary

- 1.1 The Council's Annual Governance Statement outlines the governance framework which is in place and changes which have been made to strengthen the framework during 2018-19.
- 1.2 Approval of the Statement by the Audit and Scrutiny Committee will ensure that the Council complies with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.

2. Background

- 2.1 North Ayrshire 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 to achieve Best Value.
- 2.2 The Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 2.3 The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'.
- 2.4 The Local Authority Accounts (Scotland) Regulations 2014 require that local authorities prepare an Annual Governance Statement, in accordance with proper practices in relation to internal control, and that this Statement should be approved by the Audit Committee or equivalent.

- 2.5 Following approval of the Annual Governance Statement by the Audit and Scrutiny Committee, it requires to be signed by the Leader of the Council and the Chief Executive prior to its inclusion within the Council's draft annual accounts.
- 2.6 The Annual Governance Statement, which is attached in full at Appendix 1 to this report, explains how the Council complies with the Code of Corporate Governance. It identifies the main components of the Corporate Governance Framework which are in place, including the system of internal control, and details the changes which have taken place to the framework during 2018-19.
- 2.7 The Statement also identifies actions which the Council intends to implement during 2019-2020 to further strengthen the governance framework and concludes with an assurance statement by the Leader of the Council and the Chief Executive.

3. Proposals

- 3.1 It is proposed that the Committee approves the Annual Governance Statement for 2018-19 which is attached in full at Appendix 1 to this report.

4. Implications/Socio-economic Duty

Financial:	None.
Human Resources:	None.
Legal:	None.
Equality/Socio-economic Duty:	None.
Children and Young People:	None.
Environmental & Sustainability:	None.
Key Priorities:	Good governance arrangements help to underpin the delivery of the Council's key priorities.
Community Benefits:	None.

5. Consultation

- 5.1 Consultation has taken place with the Chief Executive during the preparation of the Annual Governance Statement.

Insert Director's name

Insert Director's title

For further information please contact **Paul Doak, Senior Manager (Internal Audit, Risk and Fraud)** on **01294-324561**.

Background Papers

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Annual Governance Statement

Scope of Responsibility

North Ayrshire 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 to achieve Best Value.

The Council is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework 'Delivering Good Governance in Local Government' (2016). A copy of the local code is available on the Council's website, or a copy can be obtained from the Chief Executive's Service, North Ayrshire Council, Cunninghame House, Irvine KA12 8EE.

This statement explains how North Ayrshire Council complies with the Code of Corporate Governance and meets the requirements of the 'Code of Practice for Local Authority Accounting in the UK: A Statement of Recommended Practice', in relation to the Statement on the System of Internal Financial Control.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values by which the authority is directed and controlled. 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, cost-effective services and the achievement of key outcomes.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. 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 objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively.

The Governance Framework

The main features of the governance framework that was in place during 2018-19 are below:

- The Cabinet was the key decision-making Committee, comprising the Leader of the Council, the Depute Leader and four members of the Administration, each with a specific portfolio of duties. An Education Cabinet comprised the same members and also included church and teaching profession representatives. The Audit and Scrutiny Committee, which is chaired by the Leader of the Main Opposition, was in place to consider all matters in relation to Internal and External Audit, Risk Management, Scrutiny and Performance, as well as receiving reports on the findings of external scrutiny bodies;
- Strategic decision-making is governed by the Council's key constitutional documents including standing orders, scheme of administration, scheme of delegation to officers and financial regulations and associated codes of financial practice. These were refreshed and approved by the Council in June 2018;
- The Council has six Locality Partnerships, covering Irvine, Kilwinning, the Three Towns, Arran, the North Coast and the Garnock Valley. Chaired by a local Elected Member, the Partnerships provide the opportunity for Elected Members, Community Planning Partners and local community representatives to consider the priorities for each area.
- The Council, together with NHS Ayrshire and Arran, established an integrated Health and Social Care Partnership (HSCP), which has been in place since April 2015. The HSCP has established a governance framework and an integrated senior management structure to support delivery of its key objectives. This was strengthened through the appointment of a Chief Finance and Transformation Officer during 2018-19.
- The Council's mission and vision are outlined in the Council Plan 2015-2020 which aligns with the vision of the North Ayrshire Community Planning Partnership and the Local Outcome Improvement Plan 2017-

2022 (LOIP) and is underpinned by a range of performance indicators. The Council Plan was reviewed during 2018-19 with a draft version being approved by Council in March 2019 for public consultation;

- A 'People Strategy' entitled 'Our People Connect' is in place to support the delivery of the Council Plan and its strategic priorities by focussing on developing the right culture and helping the Council transform to be a leaner, more efficient and higher performing organisation where people can develop and thrive.
- The Performance Management Strategy focuses very firmly on embedding a performance management culture throughout the Council. A Performance Management Forum (PMF) is in place to help embed a high-performance culture throughout the Council. Regular reporting to Elected Members takes place and a wide range of performance information is available on the 'North Ayrshire Performs' website;
- The Chief Executive chairs a series of six-monthly Performance Management Review meetings with each Directorate, designed to focus on improvement, reflection and learning.
- The Council has adopted a 'Code of Conduct' for all of its employees. Elected Members adhere to the national 'Code of Conduct for Councillors' and a register of interests is in place;
- The approach to risk management is set out in the Risk Management Strategy. The Council's strategic risk register is refreshed annually and for 2018-19 was approved by Cabinet in March 2018;
- The Council has in place a development programme for all Elected Members. Leadership and Development programmes are also established for chief officers and senior managers across the Council. This was enhanced through a new programme known as 'Blue Wave of Change' which was introduced for senior leaders during 2018-19.
- A Performance and Personal Development (PPD) scheme and a range of training opportunities are provided for all employees, the aim of which is to focus employees on their performance and development that contributes towards achieving Service objectives;
- In order to ensure its asset management arrangements are robust, the Council has established the Corporate Asset Strategy. This is underpinned by 6 themed asset management plans, in line with categories recommended by CIPFA: property, housing, ICT, open spaces, road and fleet. The Asset Strategy was refreshed during 2017-18 to reflect the new requirement to publish a Capital Investment Strategy and Technology and Digital Strategies are in place to support the ICT asset management plan and the transformation agenda;
- A Capital Programme and Assets Group (CPAG), consisting of senior officers from across Council services and chaired by the Executive Director (Finance and Corporate Support), is in place. This group monitors the delivery of the Council's capital programme, helping to ensure that projects are delivered on time and within budget. The work of this group is supported by Service Project Boards.
- The Council has a long-term financial outlook, which covers the period to 2027/28. This sets out the scale of the potential financial challenge and the approach to pro-actively address it, ensuring financial sustainability of the Council;
- The Council delivered its Transformation 2 (T2) programme, which was signed off in February 2019. A new programme is being developed which will help develop a corporate and co-ordinated approach to transformational change across the organisation. This is overseen by a Transformation Think Tank, chaired by the Executive Director (Finance and Corporate Support), and governance arrangements are in place through the Chief Officer Leadership Team and reporting to Cabinet.
- The Council has Internal Audit and Corporate Fraud teams to carry out independent and objective reviews of governance and internal control arrangements and investigate allegations of fraud and error both within and against the authority.
- An Information Governance framework is in place, supported by a central team of staff within Finance and Corporate Support. The Council has a robust Corporate Health, Safety and Wellbeing Policy to help ensure it complies with health and safety legislation.
- An annual report is prepared for Cabinet by the Council's statutory Chief Social Worker.
- The Council has a two-stage Complaints Procedure, which provides a transparent and standardised process for customers who wish to complain and enables the Council to manage complaints more effectively and to identify any service improvements which may be required.

The governance framework has been in place at North Ayrshire Council throughout the year ended 31st March 2019.

The System of Internal Financial Control

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by Chief Officers within the Council. In particular, the system includes:

- Financial regulations and codes of financial practice;
- Comprehensive budgeting systems;
- Regular reviews of periodic and annual financial reports that indicate financial performance against the forecasts;
- Setting targets to measure financial and other performance;
- Clearly defined capital expenditure guidelines;
- Formal project management disciplines.

The Council's financial management arrangements conform to the governance requirements of the CIPFA statement: 'The Role of the Chief Financial Officer in Local Government (2014)'.

With regard to the entities incorporated into the Group Accounts, the Council is not aware of any weaknesses within their internal control systems and has placed reliance on the individual Statements of Internal Financial Control where appropriate.

Review of Effectiveness of the Governance Framework

North Ayrshire 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 the effectiveness of the framework is informed by the work of the Executive Leadership Team who have responsibility for development and maintenance of the governance environment, the annual report by the Senior Manager (Internal Audit, Risk and Fraud) and reports from the Council's external auditors Deloitte LLP, Audit Scotland and other review agencies.

The Executive Director (Finance and Corporate Support) has overall responsibility for Internal Audit in North Ayrshire Council. The Senior Manager (Internal Audit, Risk and Fraud) is responsible for the management of the section and reports directly to the Executive Director on all audit matters, with the right of access to the Chief Executive and Chair of the Audit and Scrutiny Committee. The Internal Audit section is fully resourced to deliver its 5-year audit plan and complies with the Public Sector Internal Audit Standards (PSIAS) in carrying out its audit work. Regular reports were made to the Council's Audit and Scrutiny Committee throughout 2018-19.

As detailed in the 'Internal Audit Charter' that has been adopted by the Council, the Internal Audit function has independent responsibility for examining, evaluating and reporting on the adequacy of internal control. The Senior Manager (Internal Audit, Risk and Fraud) prepares an annual report to the Audit and Scrutiny Committee, including an assurance statement containing a view on the adequacy and effectiveness of the governance, risk management and internal control frameworks.

Significant Governance Developments during 2018-19

Regular meetings are now in place with Services to develop workforce plans to analyse the current workforce and identify future requirements. Services have been provided with workforce profiles to support succession planning. To support service transformation, a 'Span of Control' methodology has also been introduced alongside a review of the pay and grading structure.

A 'Policy Advisory Panel' was established in September 2018 to assist in the preparation of policy proposals for consideration and approval by Cabinet. This meets once in each committee cycle.

The Council developed its approach to community consultation and engagement through the introduction of a 'Participatory Budgeting' approach in Streetscene – this saw extensive consultation with local residents on the identification of their priorities for the use of grounds maintenance budgets.

In view of the financial challenge faced by the Health and Social Care Partnership, and following significant overspending during 2016/17 and 2017/18, governance arrangements were strengthened through the appointment of a Chief Financial and Transformation Officer within the HSCP and the introduction of regular financial reporting to the Council's Audit and Scrutiny Committee.

An 'Ayrshire Growth Deal' was approved by the UK and Scottish Governments – this will see significant funding provided over the next 10 years to support the delivery of major infrastructure projects which will help grow the Ayrshire economy. The three Ayrshire Councils agreed to the establishment of an Ayrshire Regional Economic Joint Committee and a sub-committee, the Ayrshire Regional Economic Partnership, to support sound governance.

The Internal Audit Annual Report 2018-19, received by the Audit and Scrutiny Committee on 28th May 2019, highlights a number of findings by the Council's Internal Audit section which indicate some weaknesses in the internal control environment. None of these are considered material enough to have a significant impact on the overall control environment and it is the opinion of the Senior Manager (Internal Audit, Risk and Fraud) that the Council's systems of internal control continue to provide reasonable assurance against loss.

Further Actions for 2019-2020

The Council has identified the following actions for 2019-2020 that will assist with the further strengthening of corporate governance arrangements:

- Consulting on and approving a new Council Plan which will outline our key priorities for the period 2019 to 2024.
- Introducing a new Council organisational structure, aligned to the Council Plan, which will help ensure we are well placed to deliver the best possible outcomes for our local communities.
- Developing a new Medium-Term Financial Planning Framework to support the pipeline of transformation projects.
- Supporting the Health and Social Care Partnership to develop a Medium-Term Financial Planning Framework to deliver services within the available financial resources.

Assurance

Subject to the above, and on the basis of the assurances provided, we consider the governance and internal control environment operating during 2018-19 to provide reasonable and objective assurance that any significant risks impacting on the achievement of our actions will be identified and actions taken to avoid or mitigate their impact. Systems are in place to continually review and improve the governance and internal control environment and action plans are in place to address identified areas for improvement.

Craig Hatton
Chief Executive
June 2019

Councillor Joe Cullinane
Leader of the Council
June 2019