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# NORTH AYRSHIRE COUNCIL

31 May 2022

## Audit and Scrutiny Committee

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**Title:** Annual Governance Statement 2021-22

**Purpose:** To seek approval of the Council's Annual Governance Statement for 2021-22 which will be included within the draft Annual Accounts.

**Recommendation:** That the Committee approves the draft Annual Governance Statement which is attached at Appendix 1.

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### 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 2021-22.
- 1.2 Approval of the Statement 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, 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 2021-22.
- 2.7 The Statement also identifies improvement actions which are planned to the governance framework during 2022-23. It 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 draft Annual Governance Statement which is attached at Appendix 1.

### **4. Implications/Socio-economic Duty**

#### **Financial**

- 4.1 None.

#### **Human Resources**

- 4.2 None.

#### **Legal**

- 4.3 Approval of the Annual Governance Statement will ensure that the Council complies with the requirements of the Local Authority Accounts (Scotland) Regulations 2014.

#### **Equality/Socio-economic**

- 4.4 None.

#### **Climate Change and Carbon**

- 4.5 None.

#### **Key Priorities**

- 4.6 Good governance arrangements help to underpin the delivery of the Council's key priorities.

#### **Community Wealth Building**

- 4.7 None.

## **5. Consultation**

- 5.1 No consultation has been required during the preparation of the Annual Governance Statement.

Mark Boyd  
Head of Service (Finance)

For further information please contact **Laura Miller, Senior Manager (Audit, Fraud, Safety and Insurance)**, on **01294 324524**.

### **Background Papers**

None.

# 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 Council's Framework is built around the seven core principles and 21 sub-principles that set out the key building blocks of good governance:

Core Principle	Sub Principles
A. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law	<ul style="list-style-type: none"> <li>Behaving with integrity</li> <li>Demonstrating strong commitment to ethical values</li> <li>Respecting the rule of law</li> </ul>
B. Ensuring openness and comprehensive stakeholder engagement	<ul style="list-style-type: none"> <li>Openness</li> <li>Engaging comprehensively with institutional stakeholders</li> <li>Engaging with individual citizens and service users effectively</li> </ul>
C. Defining outcomes in terms of sustainable economic, social, and environmental benefits	<ul style="list-style-type: none"> <li>Defining outcomes</li> <li>Sustainable economic, social and environmental benefits</li> </ul>
D. Determining the interventions necessary to optimise the achievement of the intended outcomes	<ul style="list-style-type: none"> <li>Determining interventions</li> <li>Planning interventions</li> <li>Optimising achievement of intended outcomes</li> </ul>
E. Developing the entity's capacity, including the capability of its leadership and the individuals within it	<ul style="list-style-type: none"> <li>Developing the entity's capacity</li> <li>Developing the capability of the entity's leadership and other individuals</li> </ul>

<b>Core Principle</b>	<b>Sub Principles</b>
F. Managing risks and performance through robust internal control and strong public financial management	<ul style="list-style-type: none"> <li>• Managing risk</li> <li>• Managing performance</li> <li>• Robust internal control</li> <li>• Managing data</li> <li>• Strong public financial management</li> </ul>
G. Implementing good practices in transparency, reporting and audit to deliver effective accountability	<ul style="list-style-type: none"> <li>• Implementing good practice in transparency</li> <li>• Implementing good practices in reporting</li> <li>• Assurance and effective accountability</li> </ul>

The Code of Corporate Governance Statement 2021/22 was approved by the Audit and Scrutiny Committee on 19 January 2022. It aligns to the framework and demonstrates how the Council is ensuring good governance and transparent accountability.

The key features of the governance framework that was in place during 2021/22 are below:

- The Cabinet was the key decision-making Committee, comprising the Leader of the Council, the Depute Leader and members of the Administration, each with a specific portfolio of duties. An Education Cabinet comprised the same members and included church and teaching profession representatives. The Audit and Scrutiny Committee, which is chaired by an opposition member, 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. A 'Policy Advisory Panel' consisting of all elected members assisted in the preparation of policy proposals for consideration and approval by Cabinet.
- 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.
- 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.
- The Council's mission, vision and key priorities are outlined in the Council Plan 2019-2024 which is underpinned by a delivery plan and a range of performance indicators. Regular interim reports are provided on progress towards meeting the Council Plan priorities.
- 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 2021-24 focuses firmly on embedding a performance management culture throughout the Council. Regular reporting to Elected Members takes place and a wide range of performance information is available on the North Ayrshire Performance Dashboard.
- The Council has adopted a 'Code of Conduct' for all 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: "Risk Focus". The Council's strategic risk register is refreshed annually and for 2021/22 was approved by Cabinet in February 2021. A mid-year update was provided to the Audit and Scrutiny Committee in November 2021.
- Each Head of Service has a Workforce Plan in place for their portfolio of services which considers challenges and issues, the transformation agenda and to support career development and succession planning.
- The Council has in place a development programme for all Elected Members. Leadership and Development programmes are also established for strategic leaders and first line and middle

managers across the Council, through the Leadership Academy approach. A full Member's induction programme took place during May 2022 for all recently elected Members.

- The 'Our Time to Talk' approach is in place to ensure that managers and employees take time to discuss how each employee is getting on at work; this focusses on the employee's contribution to the team, their wellbeing and any development needs that contribute towards meeting the team's objectives or the employee's career aspirations.
- The ICT Asset Management Approach 2021-2024 supersedes the previous 2018-2021 plan. The approach is linked to the ICT Technology Strategy and depicts the impact on hardware, software and application assets. The Council's approach to asset management planning is based on CIPFA guidance which covers six core classes of assets: property, open space, housing, roads, fleet, and ICT.
- A Capital Programme and Assets Group (CPAG), consisting of senior officers from across Council services and chaired by the Head of Finance, 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 2021/22 to 2030/31. 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 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 which complies with the General Data Protection Regulation (GDPR), supported by a central team of staff within Democratic Services. A corporate training module is in place to support ongoing training, development and awareness.
- 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 Work Officer.
- 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 2022.

### **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 on 'The Role of the Chief Financial Officer in Local Government (2016)'.

Regarding 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 (Audit, Fraud, Safety and Insurance) and reports from the Council's external auditors Deloitte LLP, Audit Scotland and other review agencies.

The Section 95 Officer has overall responsibility for Internal Audit in North Ayrshire Council. The Senior Manager (Audit, Fraud, Safety and Insurance) is responsible for the management of the section and reports directly to the Section 95 Officer 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 strategic audit plan and complies with the Public Sector Internal Audit Standards (PSIAS) in conducting its audit work. Regular reports were made to the Council's Audit and Scrutiny Committee throughout 2021/22.

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 (Audit, Fraud, Safety and Insurance) prepares an annual report, including an assurance statement containing a view on the adequacy and effectiveness of the governance, risk management and internal control frameworks. This was reported to the Audit and Scrutiny Committee on 31 May 2022.

The Internal Audit Annual Report 2021/22 highlights a number of findings by the Council's Internal Audit section which indicate some weaknesses in the internal control environment. Action plans are put in place to address control weaknesses on conclusion of each audit and implementation of audit actions is tracked on a quarterly basis by the Council's Audit and Scrutiny Committee. 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 (Audit, Fraud, Safety and Insurance) that the Council's systems of internal control continue to provide reasonable assurance against loss.

The Council's internal audit arrangements conform to the governance requirements of the CIPFA statement on 'The Role of the Head of Internal Audit (2019)'.

## **Significant Governance Developments during 2021/22**

A Best Value Audit Review was conducted by Audit Scotland and Deloitte LLP in January and February 2020. The report was presented to the Accounts Commission in June 2020 and to the meeting of North Ayrshire Council in September 2020. The report was extremely positive and provided significant assurance that the Council complies with its statutory duty to secure Best Value. In March 2022, progress against the best value audit recommendations was reported to the meetings of both North Ayrshire Council and the Audit and Scrutiny Committee. The reports identify that the four recommended actions are now complete.

A management restructure was carried out in the Place Directorate in December 2021 to better align the Council's structure to support the delivery of key transformational change in the areas of Land and Property and sustainability and climate change, as set out in the Council's ambitious Environmental Sustainability and Climate Change Strategy 2021-2023.

Children's Services Planning includes the Children's Rights Report and the Child Poverty Action Plan, all of which have been redeveloped for the three years 2020-23.

A Long-term Financial Outlook (covering the period 2021/22 to 2030/31) was approved by the Council in December 2020. This is underpinned by a Medium-term Financial Outlook which is updated annually. The most recent medium-term financial outlook, covering 2022/23-2024/25, was approved by the Council in February 2022. These documents note the scale of the financial challenge which the Council faces and underpin the development of a balanced budget. The Revenue Estimates 2022/23-2024/25 and Capital Investment Programme 2022/23-2030/31 were approved by Council in March 2022.

To ensure ongoing compliance with Sections 193 and 194 of the Local Government (Scotland) Act 1973, the Council appointed the incoming Head of Democratic Services as its Proper Officer following the retirement of the previous postholder. The Head of Democratic Services was also appointed as the Council's Monitoring Officer in terms of Section 5 of the Local Government and Housing Act 1989. These appointments were effective from 19 July 2021.

In terms of Section 3 of the Social Work (Scotland) Act 1968, and following the retirement of the previous postholder, a new Chief Social Work Officer was appointed for the Council effective from 22 December 2021.

The Audit and Scrutiny Committee carried out a self-evaluation in August 2021, using best practice frameworks and a toolkit prepared by officers to facilitate the process. The actions arising from the first self-evaluation in August 2019 were found to have been implemented. A small number of improvement actions were identified during the 2021 process, which will now be conducted on an annual basis.

The Growth and Investment Team was established within North Ayrshire Council in 2019 as part of an organisational restructure to maximise the potential of major programmes of investments in North Ayrshire, including capital projects funded through the Ayrshire Growth Deal. A Growth and Investment Governance Framework was approved by the Audit and Scrutiny Committee in June 2021. The framework sets out the arrangements to support internal programme and project management procedures, and to provide robust and effective programme and project delivery mechanisms. As part of the annual monitoring of progress in delivering the Ayrshire Growth Deal, the process will also consider any issues arising which may give rise to a need to update the governance arrangements.

Extensive work took place with locality planning partnerships in 2021/22 to refresh locality partnership priorities. This led to the five mainland locality partnerships agreeing their ongoing priorities. Work on the refresh of the Arran locality priorities is ongoing as this will consider the development of the Island Plan approved by Cabinet in February 2022.

A Community Learning and Development Plan for 2021-2024 was approved by Cabinet in September 2021. The plan sets out the governance arrangements to ensure the voices, needs and aspirations of communities informs the operational delivery and targeting of resources. The plan fits within the landscape of Community and Locality Planning and in acknowledgement of these interdependencies the governance arrangements include reporting to Community Planning and Locality Partnerships.

Under the Equalities Act 2010 and the Specific Duties (Scotland) Regulations 2012, the Council has a duty to produce Equality Outcomes at least every four years. As part of the Council's four-year review of outcomes, Cabinet approved the Equality Outcomes for 2021-2025.

In November 2021, Cabinet approved the Council's response to "A National Care Service for Scotland – Consultation". The consultation followed on from a Scottish Government commissioned Independent Review of Adult Social Care (IRASC) which proposed the creation of a national care service (NCS) for Scotland. The Council's consultation response was provided to the Scottish Government on 2 November 2021 following engagement with Elected Members.

### **Covid-19 Governance Arrangements**

Council Committees continued to meet virtually throughout 2021/22. To ensure full public transparency remained in place during this period, meetings were either broadcast live or recorded and uploaded to allow the public to view proceedings while Covid-19 restrictions prevented physical meetings with public attendance.

Throughout the pandemic the Emergency Management Team (EMT), chaired by the Chief Executive, and attended by Executive Directors and Heads of Service, continued to meet. The Leader of the Council attended these meetings as an observer. The frequency of meetings reflected the needs of Council services and partner organisations at various stages and pressure points during the pandemic.

### **Planned Actions for 2022/23**

The Council has a number of planned actions for 2022/23 which will help to further strengthen the governance framework:

- Progress the workstreams in the new Sustainable Change Programme for 2022/23 and monitor and govern progress through the Transformation Board, chaired by the Chief Executive.
- Developing and implementing processes and software which will enable 'hybrid' Committee meetings to be held utilising both physical and remote attendance.
- With the local Council elections on 5 May 2022, formation of the new Council and elected members. This will include a review of Council committee structures and elected member representation.



- Formation of a Vacancy Scrutiny Panel including the Executive Directors of Place and Communities and the Head of Finance and Head of People and ICT. The main purpose is to strengthen current workforce planning arrangements.

### **Assurance**

Subject to the above, and based on the assurances provided, we consider the governance and internal control environment operating during 2021/22 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  
May 2022

Councillor Marie Burns  
Leader of the Council  
May 2022