

COMMITTEE	AUDIT AND GOVERNANCE COMMITTEE
DATE	28 JUNE 2018
TITLE	GWYNEDD COUNCIL'S ANNUAL GOVERNANCE STATEMENT FOR 2017/18
PURPOSE OF REPORT	TO PRESENT THE ANNUAL GOVERNANCE STATEMENT (INCORPORATING THE STATUTORY STATEMENT ON INTERNAL CONTROL) FOR 2017/18 TO THE AUDIT AND GOVERNANCE COMMITTEE FOR APPROVAL
AUTHOR	DEWI MORGAN, SENIOR MANAGER REVENUES AND RISK
ACTION	TO APPROVE THE STATEMENT SO THAT IT CAN BE SIGNED BY THE COUNCIL LEADER AND THE CHIEF EXECUTIVE

1. INTRODUCTION – WHAT DOES THE AUDIT AND GOVERNANCE COMMITTEE NEED TO DO?

1.1 In order fulfil its duties as "those charged with governance", it is necessary for the Audit and Governance Committee to:

- **Consider the Draft Annual Governance Statement that appears in the appendix.**
- **Challenge the Senior Manager Revenues and Risk on the risk scores that have been identified, and the narrative that explains the justification for the score.**
- **Consider the action plan contained in the draft Annual Governance Statement.**
- **Approve the Statement, and recommend that the Council Leader and Chief Executive sign it.**

2. BACKGROUND

2.1 There is a statutory requirement for an Annual Governance Statement as a result of:

- The Accounts and Audit (Wales) Regulations 2014, which state:

The relevant body must ensure that there is a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk, and adequate and effective financial management.

The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control. The findings of the review must be considered by the members of the body meeting as a whole or by a committee.

Following the review, the body or committee must approve a statement on internal control prepared in accordance with proper practices. The relevant body must ensure that the statement accompanies any statement of accounts which it is obliged to prepare.

- CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (the "SORP").
- CIPFA / SOLACE Framework *Delivering Good Governance in Local Government (2016)*.

3. SELF-ASSESSMENT OF THE EFFECTIVENESS OF THE GOVERNANCE ARRANGEMENTS

3.1 The Audit and Governance Committee has a key function in challenging the preparation procedures and the contents of the draft Annual Governance Statement. When signing the Governance Statement, the Chief Executive and Council Leader confirm:

"We have been advised on the implications of the result of **the review of the effectiveness of the governance framework** by the Audit and Governance Committee, and that the arrangements **continue to be regarded as fit for purpose in accordance with the governance framework**. The areas already addressed and those to be specifically addressed with new actions planned are outlined below".

3.2 The Annual Governance Statement summarises the results of the governance self-assessment, as updated by the Governance Arrangements Assessment Group, in a statement that tells the People of Gwynedd what our governance framework is, and how well it is working. The members of the Group are the Chief Executive, the Monitoring Officer, the Head of Corporate Support, two Corporate Support Senior Managers, the Senior Manager Revenues & Risk and the Risk & Insurance Manager.

3.3 The Audit and Governance Committee needs to satisfy itself that the narrative justifying the scores is a fair reflection of the Council as far as it is aware, based on the information that it has received over the year.

4. IDENTIFYING GOVERNANCE RISKS

4.1 The Annual Governance Statement is based on the new CIPFA/Solace Framework that was published in 2016.

4.2 The new Framework identifies 7 Core Principles for Good Governance:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

Local government organisations are accountable not only for how much they spend, but also for how they use the resources under their stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes they have achieved. In addition, they have an overarching responsibility to serve the public interest in adhering to the requirements of legislation and government policies. It is essential that, as a whole, they can demonstrate the appropriateness of all their actions across all activities and have mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

B. Ensuring openness and comprehensive stakeholder engagement

Local government is run for the public good, organisations therefore should ensure openness in their activities. Clear, trusted channels of communication and consultation should be used to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable. Decisions should further the organisation's purpose, contribute to intended benefits and outcomes, and remain within the limits of authority and resources. Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and in balancing competing demands when determining priorities for the finite resources available

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

Local government achieves its intended outcomes by providing a mixture of legal, regulatory, and practical interventions (courses of action). Determining the right mix of these courses of action is a critically important strategic choice that local government has to make to ensure intended outcomes are achieved. They need robust decision-making mechanisms to ensure that their defined outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations. Decisions made need to be reviewed frequently to ensure that achievement of outcomes is optimised.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and achieve intended outcomes within the specified periods. A local government organisation must ensure that it has both the capacity to fulfil its own mandate and to make certain that there are policies in place to guarantee that its management has the operational capacity for the organisation as a whole. Because both individuals and the environment in which an organisation operates will change over time, there will be a continuous need to develop its capacity as well as the skills and experience of individual staff members. Leadership in local government is strengthened by the participation of people with many different types of backgrounds, reflecting the structure and diversity of communities.

F. Managing risks and performance through robust internal control and strong public financial management

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.

It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and successful service delivery. Importantly, this culture does not happen automatically, it requires repeated public commitment from those in authority.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Accountability is about ensuring that those making decisions and delivering services are answerable for them. Effective accountability is concerned not only with reporting on actions completed, but also ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner. Both external and internal audit contribute to effective accountability.

Source: CIPFA / SOLACE Framework *Delivering Good Governance in Local Government*

- 4.3 The Principles are then divided further into several sub-principles.
- 4.4 In response to this new Framework, the Governance Arrangements Assessment Group has considered the Framework's Core Principles and Sub-principles and has created a Governance Risk Register, which will be part of the Council's Corporate Risk Register. The Governance Risk Register identifies risks in 22 areas of governance, noting the controls that the Council has in place to mitigate these risks.
- 4.5 Specific responsibility for these risks have been distributed across the Council as follows

Department	Number of risks
Environment	1
Corporate Support	9
Finance	4
Leadership Team and Legal	8
Total	22

- 4.6 The relevant department is responsible for assessing these risks continuously, with the Governance Arrangements Assessment Group keeping an overview of them.
- 4.7 As is usual in risk management arrangements, consideration is given to two factors when scoring the size of these risks:
- The **Impact** of the event if the risk were realised
 - The **Likelihood** of the risk being realised.

4.8 The Impact and Likelihood are given a score of 1 to 5, using the following scoring guidelines.

Impact

Score	Impact	Definition
5	Catastrophic	A catastrophic effect on any resident (e.g. loss of life) or a destructive effect on the life or well-being of many residents
4	Destructive	A destructive effect on the life or well-being of several residents (e.g. where the quality of life or the well-being of someone has been effected to the degree that they have an intense need for assistance to allow them to live their lives) or a very substantial effect on many residents
3	Very Substantial	A very substantial effect on the life or well-being of several residents (e.g. the effect means that their quality of life or well-being is substantially lower than would otherwise be expected for a Gwynedd resident) or a significant effect on a many residents
2	Significant	A significant effect on the life or well-being of several residents (e.g. an effect on life or well-being, but falling within the expected range of day-to-day life) or a visible effect on many residents
1	Visible	A visible effect on the life or well-being of some residents (e.g. the effect is visible but not significant to their well-being) or a marginal effect on many residents

- Several = 10s to 100s of residents
- Many = 1,000s to 10,000s of residents

Likelihood

Score	Likelihood	Definition
5	Happening now	The effect is to be seen now (i.e. it is happening)
4	Very likely	Very likely that it will be seen in the foreseeable future
3	Likely	A chance it may happen, but may not
2	Unlikely	The likelihood of it happening is low – but is still there
1	Very Unlikely	Very unlikely to happen

4.9 The Impact Score and Likelihood Scores are multiplied together to give a **Current Risk Score**, which are the risk scores based on the controls that are currently in place. The Risk Score is defined from very high to low as follows:

Score 20-25	Very High Risk
Score 12-16	High Risk
Score 6-10	Moderate Risk
Score 1-5	Low Risk

4.10 The Governance Statement notes the risk scores for the 22 risk areas. The assessment by departments and the Governance Arrangements Assessment Group concluded:

- Number of very high risks: 0
- Number of high risks:3
- Number of moderate risks: 10
- Number of low risks: 9

4.11 Where the current risk scores continue to be higher than the Council is willing to accept, further implementation steps have been identified and outlined in the Statement. However, it is emphasised that the majority of matters that have been highlighted in this systematic analysis have already been identified by the Council.

5. CHANGES SINCE THE 2016/17 STATEMENT

5.1 Each of the governance risks have been reviewed during the year. This is done by the responsible department as a first step, with the Governance Arrangements Assessment Group undertaking a quality assurance role.

5.2 The scores of three of the risks have changed during the year:

Risk	Previous score	Impact Score	Likelihood Score	Current Score	Comments
Inappropriate culture within the Council can hinder our ability to do the right things in the correct manner	16 <i>(High)</i>	Remain 4	Reduce from 4 to 3	12 (High)	Arrangements have developed significantly during 2017/18, with the <i>Ffordd Gwynedd at Work</i> course established as an integral part of the development of each manager. There is evidence that the culture is starting to filter through the whole Council, and the likelihood of seeing an inappropriate culture has diminished. Although there is still a chance that we will see this happening, it is not assessed as being very likely at the moment.
The Council's Information Technology assets not used to their full potential	6 <i>(Moderate)</i>	Increase from 2 to 3	Remain 3	9 (Moderate)	After further consideration, it was concluded that the impact score of 2 was too low. In accordance with the definitions set out above, failure to make proper use of IT can have a very substantial impact, rather than a significant one. The Governance Arrangements Assessment Group and the Finance Department have agreed the new rating.
Weaknesses in our performance management arrangements mean that we cannot take appropriate steps to achieve our purpose	6 <i>(Moderate)</i>	Remain 2	Reduce from 3 to 2	4 (Low)	There is evidence that the performance monitoring system has now embedded across all parts of the Council, and works effectively. It is currently unlikely that we will see weaknesses in the arrangements where it would not be possible to take appropriate action, suddenly.

6. RECOMMENDATION

6.1 The Audit and Governance Committee is requested to

- Consider the Draft Annual Governance Statement that appears in the appendix.
- Challenge the Senior Manager Revenues and Risk on the risk scores that have been identified, and the narrative that explains the justification for the score.
- Consider the action plan contained in the draft Annual Governance Statement.
- Approve the Statement, and recommend that the Council Leader and Chief Executive sign it.