

HERTFORDSHIRE COUNTY COUNCIL

**AUDIT COMMITTEE
FRIDAY 7 JULY 2017 AT 10.30 AM**

<u>Agenda Item</u> <u>No:</u> 4
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ANNUAL GOVERNANCE STATEMENT 2016/17 and CODE OF CORPORATE GOVERNANCE 2017/18

Report of the Director of Resources

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1. Purpose of Report

- 1.1 To set out the basis for the recently completed review of the council's governance arrangements, including its system of internal control, and to present the draft Annual Governance Statement (AGS) 2016/17 for the Committee's consideration and approval.
- 1.2 The AGS is a tool to ensure the appropriate profile of governance arrangements in an organisation, and demonstrates the council's commitment to good governance. To have the intended effect the AGS must be open, honest and balanced. The document should reflect contributions from across the organisation. The draft AGS is provided in Appendix A.
- 1.3 The AGS reviews and reflects upon the council's governance arrangements at a specific point in time. This is distinct from the council's Code of Corporate Governance which sets out the standing arrangements that the Council puts in place to ensure good governance. The Code of Corporate Governance is made available on the internet. An update of the Code has been carried out and Appendix B sets out the updated version.

2. Background

- 2.1 The County Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control. The Council has charged the Audit Committee with keeping the effectiveness of the council's system of internal control under review, and reporting any recommendations for improvement to the executive.
- 2.2 This year's review of effectiveness has been informed by:

- Assurance statements from the council's joint leadership team comprising Strategic Management Board and Assistant Directors;
- A review of compliance against the council's Code of Corporate Governance;
- The Head of Audit annual opinion, authored by the Head of Assurance Services elsewhere on this agenda;
- Comments made by the external auditors, and other review agencies and inspectorates.

2.3 Internal audit has led this year's review of the effectiveness. The results of the review have been scrutinised and approved by the Performance and Resources Officer Group (PROG), comprising senior management from every directorate.

2.4 From this a draft Annual Governance Statement has been prepared and reviewed by PROG and the Strategic Management Board. The Statement has been produced in compliance with guidance from the Chartered Institute of Public Finance and Accountancy and the Society of Local Authority Chief Executives.

3 Structure of the Annual Governance Statement

3.1 Sections 1 and 2 of the AGS provide context on governance and on the purpose of the council's governance frameworks. Section 3 of the AGS describes the council's governance arrangements, and section 4 sets out how these arrangements have been reviewed.

3.2 Section 5 of the AGS reports on opportunities to further improve and develop governance and internal control.

3.3 Section 6 of the AGS reports on 'significant governance issues'. The Auditing Practices Board Bulletin 2004/2 gives guidance on potential indicators of such issues:

- a) It seriously prejudices or prevents achievement of a principal objective of the authority;
- b) It has resulted in the need to seek additional funding to allow it to be resolved, or has resulted in significant diversion of resources from another aspect of the business;
- c) It has led to a material impact on the accounts;
- d) The audit committee, or equivalent, advises it should be considered significant for this purpose;
- e) The Head of Internal Audit reports on it as significant, for this purpose, in the annual opinion on the internal control environment;
- f) The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation;

- g) The issue has resulted in formal action being undertaken by the Chief Financial Officer and / or the Monitoring Officer.

4. Recommendations

- a) That the Committee approves the draft Annual Governance Statement for 2016/17 prior to final sign off by the Leader of the Council and the Chief Executive.
- b) That the Committee approves the updated Code of Corporate Governance.