

FALKIRK COUNCIL

Subject: ANNUAL GOVERNANCE STATEMENT 2014/15
Meeting: AUDIT COMMITTEE
Date: 22 June 2015
Author: CHIEF EXECUTIVE

1. INTRODUCTION

- 1.1 The purpose of this paper is to advise Members of arrangements for reporting on the Council's governance framework for the year ended 31 March 2015 and to seek approval of a draft Annual Governance Statement for inclusion in the Council's 2014/15 Annual Accounts.

2. GOVERNANCE ARRANGEMENTS AND GUIDANCE

- 2.1 In 2007 the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) jointly issued guidance entitled 'Delivering Good Governance in Local Government'. This defined the six principles that should underpin the governance of each local government body, namely:

- focussing on the purpose of the Authority and outcomes for the community, and creating and implementing a vision for the local area;
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
- promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- developing the capacity and capability of Officers and Members to be effective; and
- engaging with local people and other stakeholders to ensure robust public accountability.

- 2.2 The guidance recommends that Authorities prepare an Annual Governance Statement based on a review of their own arrangements.

- 2.3 Building on this, the Local Authority Accounting (Scotland) Regulations 2014 place various new requirements on Authorities. Two in particular are worth highlighting:

- The Local Authority must conduct a review, at least once in each financial year, of the effectiveness of its system of internal control; and
 - An Annual Governance Statement must be prepared for inclusion in the Annual Accounts.
- 2.4 Falkirk Council already complies with both of these requirements.
- 2.5 In relation to the requirement for an annual review of the effectiveness of the Council's system of internal control, the following should be taken into account:
- Internal Audit Annual Assurance Report 2014/15;
 - External Audit Key Financial Systems Controls Report 2014/15; and
 - the Statement of Assurance Process that informs the Annual Governance Statement.
- 2.6 Taken together, these constitute a robust and risk based annual review, the outputs from which are included on the Agenda of this meeting.
- 2.7 As Members are aware, Falkirk Council has included an Annual Governance Statement in its Annual Accounts since 2008/09. The Council has chosen to do this to demonstrate the openness, transparency, and proportionality of governance arrangements, and means that no additional work is required to comply with the new Statutory requirement.
- 2.8 On that basis then I attach, at **Appendix 1**, a draft Annual Governance Statement for the year to 31 March 2015, based on the CIPFA / SOLACE guidance referenced above.
- 2.9 Following consideration by Committee, the Statement requires to be signed by the Leader of the Council and Chief Executive, and will be published with the Council's 2014/15 Annual Accounts.

3. RECOMMENDATIONS

3.1 Members are invited to:

- 3.1.1 note this report on the Council's governance arrangements;**
- 3.1.2 note the requirements for an annual review of the effectiveness of the Council's system of internal control, and inclusion of an Annual Governance Statement in Annual Accounts;**
- 3.1.3 note the Council's compliance with these requirements;**
- 3.1.4 review and approve the draft Annual Governance Statement; and**

3.1.5 note that the Annual Governance Statement will form part of the Council's 2014/15 Annual Accounts.

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Chief Executive

Date: 11 June 2015

Falkirk Council

Annual Governance Statement – 2014/2015

Introduction

1. Falkirk Council has a duty under the Local Government in Scotland Act 2003 to secure best value and ensure continuous improvement in the Services it delivers. Public money must be used economically, efficiently, and effectively, and with due regard to the achievement of sustainability. To help ensure these responsibilities are met the Council must establish and apply robust governance arrangements.
2. Responsibility for ensuring good governance rests with all Council employees and elected Members, and Falkirk Council remains absolutely committed to the principles set out in the CIPFA / SOLACE guidance *'Delivering Good Governance in Local Government'*. This guidance defines governance as doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest, and accountable manner.
3. The Local Authority Accounting (Scotland) Regulations 2014 require that all Councils conduct a review, at least once in each financial year, of the effectiveness of the system of internal control¹ and that an Annual Governance Statement is included in the Annual Accounts. Falkirk Council has complied with both of these requirements voluntarily for some years now, underlining our commitment to openness and transparency.
4. Preparation of this Statement also meets the requirements of the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Falkirk Council's Governance Framework

5. The aim of this Statement is to summarise the key elements of Falkirk Council's governance framework, set out within the context of each of the CIPFA / SOLACE Principles:
 - focussing on the purpose of the Authority and outcomes for the community, and creating and implementing a vision for the local area;
 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
 - promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
 - taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
 - developing the capacity and capability of Officers and Members to be effective; and
 - engaging with local people and other stakeholders to ensure robust public accountability.
6. These principles dovetail with the vision, ambition, goals, outcomes, and priorities set out in the Council's Corporate Plan 2012-17 ('One Council One Plan'), as well as the wider Falkirk Area Strategic Community Plan and Single Outcome Agreement. They must, however, also be considered against the backcloth of continuing financial constraint and the significant change across the public sector as a whole, as well as the Falkirk and Forth Valley area, over the course of 2014/15.

¹ **NOTE:** any review of governance can provide only reasonable (not absolute) assurance that policies, aims, and objectives are being applied and implemented as intended.

7. That said, it is testament to the effective working relationships across Officers and elected Members that, in February 2015, Council agreed a balanced budget for 2015/16 and (provisionally) for 2016/17. This provides the Authority with financial stability, and a solid platform on which to further develop longer term financial plans based on that agreed short / medium term position.

8. As always, the process of reaching an agreed budgetary position was challenging, but the more streamlined and inclusive approach adopted (which included earlier engagement with Members and Service management teams, and an improved capital bid process) helped ensure that a full and comprehensive report was presented to Members for consideration and agreement in February 2015.

9. Related to that, work has been undertaken over the course of the year to review the format of reports presented to Members to ensure that these are as clear, concise, relevant, and timely as possible. As the majority of Council meetings are held in public, with papers available on the Council's website, improvements to the corporate reporting format will also help external readers of those reports understand why and how decisions were reached.

10. The website itself has undergone significant change, with improved on-line payment and enquiry functionality for customers, resulting in a better customer experience and savings to the Council via a move away from more costly face to face and telephone transactions.

11. All significant decisions and changes do, however, have to take account of all relevant risks as well as opportunities. The Council's approach to risk management has continued to develop and mature, with corporate and Service risks considered as part of the cyclical business of the Corporate Risk Management Group. This Group reports to the Corporate Management Team, and the Chair of the Group presents reports on risk management arrangements and developments to the Council's Audit Committee. All of the Council's risk management activity is supported by a recently revised, updated, and approved Strategy and Framework, as well as a rationalised hierarchy of operational working groups.

12. The Audit Committee itself continues to be a key element of the Council's governance structures. It is chaired by an external lay member and meets four times per year to consider the adequacy of the Council's arrangements for risk management, governance, and control. As well as updates on risk management, the Committee considers reports from both Internal and External Audit, with membership from both administration and opposition.

13. The Audit Committee fits into the revised Committee and scrutiny structure agreed by Council on 31 March 2015. All political Groups are now fully engaged in the Council's decision making structures, including two new scrutiny committees chaired by members of the opposition. A review of scrutiny arrangements, protocols, and guidance will be undertaken during the coming year. The aim of this review will be to ensure the new arrangements provide meaningful assistance, support constructive challenge, and add value for Members and others engaged in the scrutiny process.

14. To further enhance the effectiveness of the decision making and scrutiny functions, all elected Members now have a Personal Development Plan and access to Improvement Service masterclasses and Continuing Professional Development programme. This follows a Training Needs Assessment process which allowed Members to identify their own training and development needs. Similarly, the Council's Achievement and Personal Development Scheme allows Officers to identify and work towards aims and objectives, and to demonstrate behaviours, consistent with wider organisational goals.

15. To help provide a framework of control, the Council has a Code of Conduct for Members and Officers, and all Members are expected to apply the Standards Commission Scotland's Councillors' Code of Conduct. Contract Standing Orders and Financial Regulations regulate financial and transactional activity, and the latter will be subject to a full review and refresh during 2015/16 to take account of evolving systems and emerging risks.

16. To supplement this, work will continue on ensuring that fraud prevention and detection processes and procedures remain robust, and consideration will be given to how existing whistle-blowing and confidential reporting systems can be enhanced.

17. As part of this, the Council will require to be alive to the risks of cyber crime, and the potential impact on the security, availability, and integrity of our data. Information management is one of the key risk categories embedded within our Corporate Risk Register, reflecting the value of information as an asset to organised crime groups and others. While we have robust arrangements and controls in place to access, secure, and manage our data and information (including Public Services Network re-accreditation in January 2015), the way in which we go about applying that control is being reviewed as part of the wider business transformation agenda. This encompasses our shift towards more modern and flexible ways of working, as well as the mechanisms in place to share information (both internally and with external partners).

18. Work being undertaken via the business transformation workstream (as part of the Council's budget strategy), will drive changes to the way services are delivered, with the aim of improving process efficiency. For the most part these will be internally driven changes aimed at improving the customer's experience of transacting with Falkirk Council.

19. There are, however, some significant external drivers for change, none more challenging than the integration of health and adult social care services. One by-product of that has been the formation of a new Childrens' Service, with responsibility for education and young persons' social work services.

20. While this represents a major change to the Council's organisational structure (with further restructuring of Services being considered by Members), it has been necessary to undertake this alongside the planning process for the shift in responsibility for adult social care services (as well as delegated primary and community health care and specific hospital services) to a Transitional Integration Joint Board. On the basis of the Public Bodies (Joint Working)(Scotland) Act 2014, Falkirk Council and NHS Forth Valley have established a Health and Social Care Partnership adopting a Body Corporate model of integration.

21. A Transitional (shadow) Joint Board has operated from April 2015, with arrangements in place to appoint a Chief Officer and Chief Finance Officer over the summer months, ahead of the partnership becoming fully operational on 01 April 2016. Full membership of the Joint Board should be achieved by August 2015.

22. The shadow year from April 2015 allows the Transitional Board and each of the partners to undertake the required planning and due diligence, including the preparation of an Integration Scheme setting out the services to be delivered by the Partnership as well as financial and operational arrangements. An Integration Scheme has been submitted to the Scottish Government, and work has commenced on the drafting of a Strategic Plan to support this, in line with the required timescale.

23. The Internal Audit teams of Falkirk Council and NHS Forth Valley will have a role in assisting the Transitional Board seek assurance on the adequacy of transition and due diligence arrangements. Reports will be submitted to respective partner Audit Committees, at the appropriate time, on the assurance processes established by Falkirk Council and NHS Forth Valley.

24. Internal Audit have been fully engaged in the process to date, most recently with the presentation of a report on Assurance and Internal Audit to the Transitional Board on 05 June 2015. The timing of future work and reports will largely be driven by the formal appointment of a shadow Chief Officer and Chief Finance Officer. As stated above, processes to make those appointments are ongoing.

Monitoring and Review of Governance Arrangements

25. Falkirk Council's governance arrangements are formally monitored via:
- the Committee framework, including the Audit Committee;
 - Corporate and Departmental Management Teams;
 - Corporate Risk Management Group and other Corporate Working Groups;
 - Internal and External Audit work; and
 - the work of Falkirk Council's Local Area Network.

26. This monitoring is done within the context of the Delivering Good Governance guidance, the Council's Corporate Plan, Strategic Community Plan, agreed Single Outcome Agreement, and the fundamental statutory requirement to demonstrate and achieve best value.

System of Internal Financial Control

27. This section relates to the systems of internal financial control of Falkirk Council and of the consolidated entries in the Council's group accounts for the year to 31 March 2015. The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control that provides reasonable (not absolute) assurance that: assets are safeguarded; transactions are authorised and properly recorded; and material errors or irregularities are either prevented or detected.

28. The system of internal financial control is based on a framework of risk management; Contract Standing Orders, Financial Regulations, and associated guidance; delegation and accountability; budgeting systems; clear financial targets; and robust management information.

29. The Council's Internal Audit Section provides assurance on arrangements for risk management, governance, and control, and undertakes an annual, risk based, programme of work approved by the Chief Executive, Chief Finance Officer, and Audit Committee.

30. The Internal Audit Manager has established a Quality Assurance and Improvement Programme for the Section, including annual self assessment and periodic external assessment of compliance with the Public Sector Internal Audit Standards. The initial self assessment confirmed broad compliance with the Standards, and an independent External Quality Assessment is scheduled for 2015/16. In addition, the Council's appointed External Auditors, Audit Scotland, have undertaken an assessment of the adequacy of the Internal Audit function, concluding that they are able to place reliance on Internal Audit work and that documentation standards and reporting procedures are sound.

31. All Internal Audit reports are issued to the relevant managers, and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Significant matters arising, and recommendations which remain outstanding beyond their agreed implementation date, are brought to the attention of Audit Committee.

32. The Audit Committee operates in accordance with relevant CIPFA guidance. The Committee is chaired by an external lay member, and has a remit to provide:

- independent assurance on the adequacy of the risk management framework and associated control environment;
- independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects risk exposure and weakens the control environment; and
- assurance that any issues arising from the process of drawing up, auditing, and certifying the Annual Accounts are properly dealt with.

33. The Committee considers the Internal Audit Manager's Annual Assurance Report, which provides an independent opinion on the adequacy and effectiveness of the Council's arrangements for risk management, governance, and control. In his 2014/15 Report the Internal Audit Manager concluded that he was able to provide substantial assurance on the Council's overall framework of control for the year to 31 March 2015.

34. The Local Authority Accounting (Scotland) Regulations 2014 require that a review is undertaken, at least once in each financial year, of the effectiveness of the system of internal control. In practice, the Chief Finance Officer considers the work of managers, Internal Audit, and External Audit. Based on his considerations, the Chief Finance Officer has concluded that substantial assurance can be placed on the adequacy and effectiveness of the Council's internal control systems for the year to 31 March 2015.

35. In relation to other entities that fall within the Council's group boundary, the Chief Finance Officer's review is informed by the:

- Annual Governance Statement included within the Annual Accounts of Central Scotland Valuation Joint Board;
- Statements of Assurance from the Chief Executives of Falkirk Community Trust and Falkirk Community Stadium Limited; and
- work of these bodies' respective External Auditors (and, where relevant, Internal Auditors) and other interim reports.

36. Based on consideration of the above, the Chief Finance Officer has concluded that, on the whole, substantial assurance can be placed on the internal financial control systems of other bodies falling within the Council's group boundary.

37. In undertaking his duties, and in forming the above opinions, the Chief Finance Officer worked in conformance with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.

Governance Arrangements – Areas for Improvement

38. Falkirk Council is committed to ensuring robust and proportionate governance. That said, the ever changing environment within which the Council operates means that there will always be scope for improvement. Areas that will be addressed over the coming year include:

- a review of scrutiny arrangements, protocols, and guidance will be undertaken;
- the Council's Financial Regulations will be subject to a full review and refresh during 2015/16;
- existing whistle-blowing and confidential reporting systems will be reviewed and enhanced;
- we will further develop our approaches to information security and management as part of the business transformation workstream; and
- work will continue to develop arrangements for the joint delivery of adult health and social care services.

Conclusion

39. This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for 2014/15 and the period to date. It highlights areas for improvement, and is consistent with the Council's established improvement agenda.

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Councillor Craig Martin
Leader of Falkirk Council
22 June 2015

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Mary Pitcaithly
Chief Executive of Falkirk Council
22 June 2015