

The background of the page features a large, light blue watermark of the University of the Pacific crest. The crest is a shield with a crown on top. The shield is divided into four quadrants: top-left shows a cross, top-right shows a stag's head, bottom-left shows a three-masted sailing ship, and bottom-right shows an eagle with wings spread. A banner at the bottom of the shield contains the motto 'ANE FOR A'.

AGENDA ITEM

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**ANNUAL GOVERNANCE STATEMENT
2015/16**

FALKIRK COUNCIL

Subject: ANNUAL GOVERNANCE STATEMENT 2015/16
Meeting: AUDIT COMMITTEE
Date: 20 June 2016
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 2016, and to seek approval of a draft Annual Governance Statement for inclusion in the Council's 2015/16 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.

2.2 In 2016 a revised 'Delivering Good Governance in Local Government: A Framework' was published. This continues to recognise the requirements set out in the Local Authority Accounts (Scotland) Regulations 2014 that:

- an Authority conducts a review at least once in a year of the effectiveness of its system of internal control; and
- that an Annual Governance Statement is included as part of the published Annual Accounts.

2.3 The revised Framework sets out the principles that should underpin the governance of each Local Authority. These are:

- behaving with integrity, demonstrating strong commitment to ethical values, and respecting rules of law;
- ensuring openness and comprehensive stakeholder engagement;
- defining outcomes in terms of sustainable economic, social, and environmental benefits;
- determining the interventions necessary to optimise the achievement of intended outcomes;
- developing the entity's capacity, including the capability of its leadership and the individuals within it;

- managing risks and performance through robust internal control and strong public financial management; and
- implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

2.4 Falkirk Council has included an Annual Governance Statement in its Annual Accounts for a number of years. As with previous years, in considering 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 2015/16;
- External Audit findings reported during 2015/16; and
- the Statement of Assurance Process that informs the Annual Governance Statement.

2.5 Taken together, these constitute a robust and risk based annual review.

2.6 On that basis, then, I attach, at **Appendix 1**, a draft Annual Governance Statement for the year to 31 March 2016, based on the revised 'Delivering Good Governance' guidance.

2.7 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 2015/16 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 review and approve the draft Annual Governance Statement; and

3.1.4 note that the Annual Governance Statement will form part of the Council's 2015/16 Annual Accounts.

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Chief Executive

Date: 09 June 2016

Ref: AAD200616 – Annual Governance Statement

Falkirk Council**Annual Governance Statement – 2015/2016****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 is absolutely committed to the principles set out in the CIPFA guidance '*Delivering Good Governance in Local Government: A Framework*'. This guidance was revised and updated in 2016, and positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures.

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 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 2015/16.

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 Principles set out in the Delivering Good Governance Framework, namely:

- behaving with integrity, demonstrating strong commitment to ethical values, and respecting rules of law;
- ensuring openness and comprehensive stakeholder engagement;
- defining outcomes in terms of sustainable economic, social, and environmental benefits;
- determining the interventions necessary to optimise the achievement of intended outcomes;
- developing the entity's capacity, including the capability of its leadership and the individuals within it;
- managing risks and performance through robust internal control and strong public financial management; and

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.

- implementing good practices in transparency, reporting, and audit, to deliver effective accountability.

6. These principles are consistent 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.

7. Fundamental to the delivery of successful outcomes is the availability of sufficient resource. It is testament to the effective working relationships across Officers and elected Members that, in February 2016, the Council agreed balanced revenue and capital budgets for 2016/17, including sums to be transferred to the Falkirk Health and Social Care Integration Joint Board. The budget process was open and inclusive, involving Officers and Members from an early stage.

8. Work on developing longer term financial strategies will be progressed during 2016/17, though this will, to a large extent, be dependent on the clarity of future financial settlements.

9. The Council's Business Transformation (BT) agenda forms part of the wider budget framework. This agenda comprises a suite of key, cross cutting, multi year, projects, as well as short life Improvement Groups driving through change within individual Services. As projects progress, incremental improvements are made to the way the Council delivers services to clients and customers while, at the same time, making financial savings and streamlining operational processes.

10. A Business Transformation Board, comprising senior Officers as well as the Leaders of the Council and Opposition, oversees the BT agenda, with periodic reporting to the Council's Executive. Progress with projects such as mobile and flexible working are already beginning to bring financial and business benefit, and the pace of change will continue to increase over the course of 2016/17.

11. Over the coming year, Officers will also work to further integrate the Council's Business Transformation, performance, and budget processes, to ensure these remain complementary and support the Council's overarching improvement programme in a joined up way.

12. Related to that, in March 2016 Council agreed a revised Workforce Strategy. This provides future direction on the development and shape of the Council's workforce, and a clear commitment to ensuring that it is modern, flexible, engaged, and empowered.

13. The Council continues to be a 'risk aware' organisation, and all significant decisions and changes are made taking cognisance of relevant risks as well as opportunities. The Council's approach to risk management has continued to further develop and mature, with an updated and revised Risk Management Policy and Framework agreed by elected Members. Effective engagement between the Risk Management team and Service Management teams has resulted in an updated Corporate Risk Register, and various Service and project risk workshops have been held with Officers.

14. All key risks are considered and reviewed on a cyclical basis by the Corporate Risk Management Group (CRMG), which also acts as the forum for the addition of new and emerging risks to the Corporate Risk Register. CRMG reports to the Corporate Management Team, with periodic updates provided to the Audit Committee.

15. During 2015/16 West Lothian Council's Audit and Risk Manager undertook an independent review of Falkirk Council's risk management arrangements. It was reassuring to note that the auditor highlighted the good progress made, and practices in place, at Falkirk.

16. 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.

17. The Audit Committee fits into the Council's wider Committee and scrutiny structure. All political Groups are fully engaged in the Council's decision making structures, including the two scrutiny committees chaired by members of the opposition.

18. 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. Both have been subject to review during 2015/16, and will be presented to elected Members during the current year.

19. The Council has a well established framework of internal control, as evidenced by the work of both External and Internal Audit.

20. That said, the threat of fraud or corruption remains, particularly with the emergence of cyber crime as a risk across both public and private sectors. To help mitigate the risk of fraud and corruption, a Corporate Fraud team was established during 2015/16. This team has developed a workplan encompassing preventative, pro-active, and reactive workstreams, and is working with the Council's Communications team to help promulgate an effective 'counter fraud' message.

21. A key element of this is the roll out of a fraud mailbox and reporting number, and this is a key early deliverable for the team.

22. Allied to that, work continues on both securing, and maximising the value derived from, the Council's information asset. The Council was, once again, accredited to use and access the Public Services Network during 2015/16, and staff across the organisation have undertaken on-line training on data protection. In addition, various information sharing protocols have been established with partners such as Police Scotland and NHS Forth Valley.

23. 2015/16 was a critical year for both Falkirk Council and NHS Forth Valley, with the establishment of the new Falkirk Health and Social Care Integration Joint Board (IJB). The IJB was formally established in October 2015, with functions delegated to it from the Council and the HB on 01 April 2016. The IJB is responsible for the planning, resourcing and the operational oversight of a wide range of health and social care services.

24. Falkirk Council participated fully and constructively in the planning and preparation for the new IJB. The Council acted as an open and willing partner throughout the transitional phase, and undertook appropriate due diligence on sums transferred. This helped ensure that proper and robust governance and financial arrangements were established by the IJB, and that the Council, and the IJB, met all required deadlines and timescales.

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 Service 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.

27. In addition, during 2015 the Council underwent a review of Best Value and Community Planning. This was undertaken by Audit Scotland on behalf of the Accounts Commission, and focussed on governance and performance management arrangements. The findings arising from the review were considered by elected Members and captured within a detailed Improvement Plan. Progress with implementing actions to address the concerns raised by Audit Scotland is reported to Members on an ongoing basis, and Audit Scotland will undertake a follow up review during 2016/17.

System of Internal Financial Control

28. 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 2016. 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.

29. 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.

30. 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.

31. 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. Self assessments have confirmed broad compliance with the Standards, and an independent External Quality Assessment is scheduled for 2016/17. 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.

32. 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.

33. The Audit Committee operates in accordance with relevant guidance, 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.

34. 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 2015/16 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 2016.

35. 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 2016.

36. 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).

37. 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.

38. 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

39. 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:

- work on developing longer term financial strategies will be progressed during 2016/17;
- progress will continue to be made with projects falling within the remit of the Council's Business Transformation agenda;
- work will be undertaken to further integrate the Council's Business Transformation, performance, and budget processes;
- revised and updated Contract Standing Orders and Financial Regulations will be presented to elected Members;
- the corporate fraud mailbox and reporting line will be rolled out across the Council; and
- actions arising from Audit Scotland's review of Best Value and Community Planning, and subsequent follow up work, will be considered and addressed.

Conclusion

40. This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for 2015/16 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
20 June 2016

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Mary Pitcaithly
Chief Executive of Falkirk Council
20 June 2016