

BABERGH DISTRICT COUNCIL and MID SUFFOLK DISTRICT COUNCIL

TO: Joint Audit and Standards Committee	REPORT NUMBER: JAC/23/03
OFFICER: John Snell – Corporate Manager – Internal Audit	DATE OF MEETING: 31 July 2023

LOCAL CODE OF CORPORATE GOVERNANCE AND JOINT ANNUAL GOVERNANCE STATEMENT 2022/23

1. PURPOSE OF REPORT

- 1.1 All local authorities are required by the Accounts and Audit Regulations 2015 to maintain a Local Code of Corporate Governance and to produce, in line with proper practice and guidance, an Annual Governance Statement.
- 1.2 This report provides 1) a review of the Local Code of Corporate Governance, which sets out and describes the Councils' commitment to corporate governance, and identifies the arrangements that have been made, and will continue to be made to ensure its effective implementation and application in all aspects of the Councils' work and 2) the Councils' joint Annual Governance Statement 2022/23.
- 1.3 The Joint Audit and Standards Committee has responsibility for being satisfied that the Local Code of Corporate Governance and joint Annual Governance Statement (AGS), to accompany each Council's financial accounts 2022/23, accurately reflects the risk environment and any actions required to improve it.

2. OPTIONS CONSIDERED

- 2.1 The Committee could request further information on which to base its views. Failure to act will weaken corporate governance and could have an impact on service delivery and lead to adverse comments from the External Auditor and other inspectorates and impact on how the Councils demonstrate good governance to its residents.

3. RECOMMENDATIONS

- 3.1 That Councillors satisfy themselves that the Local Code of Corporate Governance and joint Annual Statement (AGS) 2022/23 (Appendix A and B respectively to this report) accurately reflects the governance environment and any actions to improve it.
- 3.2 That subject to 3.1 above, the AGS be endorsed subject to the Director – Law & Governance and Monitoring Officer being authorised to make any minor amendments and corrections prior to the Statement being finalised for publication.
- 3.3 Further that approval of any significant amendments identified by the Director – Law & Governance and Monitoring Officer be delegated to him in consultation with the Chairs of this Committee and the Leaders of each Council.

- 3.4 That it be noted that the finalised AGS will be signed by the Leader of each Council on behalf of the respective Council together with the Chief Executive on behalf of both Councils.

REASON FOR DECISION

The preparation and publication of the Local Code of Corporate Governance and the Annual Governance Statement will meet the statutory requirement of the Accounts and Audit Regulations 2015 which require an authority to, each financial year, conduct a review of the effectiveness of its system of internal control, and to prepare an annual governance statement. It is the responsibility of the Audit Committee to review the Council's Corporate Governance arrangements.

4. KEY INFORMATION

- 4.1 The preparation and publication of a Local Code of Corporate Governance and AGS is necessary to meet the statutory requirement set out in Regulation 6 of the Accounts and Audit Regulations 2015.
- 4.2 Governance is about how each Council ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. It comprises the systems, processes, cultures and values, by which the Council is directed and controlled and through which it is accountable to, engages with and, where appropriate, leads communities.
- 4.3 This committee is responsible for overseeing each Council's work around corporate governance.
- 4.4 The Authority approved and adopted a Code of Corporate Governance in February 2017 which is consistent with the principles of the CIPFA/SOLACE (Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives) Framework Delivering Good Governance in Local Government published in April 2016. The Code is reviewed annually and if needed updated appropriately including considering guidance such as the CIPFA statement on the Role of the Chief Financial Officer (2010), the CIPFA statement on the Role of the Head of Internal Audit (2010) and the CIPFA code of practice on Managing the Risk of Fraud and Corruption (2014). 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.
- 4.5 The Annual Governance Statement explains how the Councils have complied with the Local Code and also meets the requirements of Regulation 6 (Part 2) of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement.
- 4.6 The core governance principles under the Code are as follows:
- a) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
 - b) Ensuring openness and comprehensive stakeholder engagement;

- c) Defining outcomes in terms of sustainable economic, social and environmental benefits;
 - d) Determining the interventions necessary to optimise the achievement of the intended outcomes;
 - e) Developing the Council's capacity, including the capability of all of its officers and councillors for leadership;
 - f) Managing risks and performance through robust internal control and strong public financial management; and
 - g) Implementing good practices in transparency, reporting and audit to deliver effective accountability.
- 4.7 The seven core principles each have a number of supporting subprinciples, which in turn have a range of specific requirements that apply across the Councils' business.
- 4.8 The Code incorporates the 'three lines of defence' model which has been used as the primary means to demonstrate structure, roles, responsibilities and accountabilities for decision making, risk and control to achieve effective governance and assurance.
- 4.9 **First Line of Defence** – The Councils are responsible for ensuring that a risk and control environment is established as part of day-to-day operations. Operational managers are responsible for, and thus should be adequately skilled in, making risk assessments (including proactive review, update and modification). The first line of defence provides management assurance and informs the Joint Audit and Standards Committee by identifying risks and organisational improvement actions, implementing controls, and reporting on progress.
- 4.10 **Second Line of Defence** – The Councils' Oversight Functions (e.g., Finance; Human Resources (HR); Information Technology (IT); Assets and Investments; Information Governance; Procurement etc.) are responsible for designing policies, setting direction, introducing best practice, and providing assurance oversight for the Senior Leadership Team and Councillors.
- 4.11 **Third Line of Defence** – Independent assurance providers, including Internal Audit, External Audit and other inspectors, help the Councils by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. This entails independent challenge, the audit of key controls, formal reporting on assurance, and, where applicable, the audit of assurance providers' controls.
- 4.12 All three lines of defence have specific tasks in the internal governance framework. This Committee has a role to maintain oversight and to monitor the effectiveness of internal controls and risk management processes as well as internal audit activities.
- 4.13 The outcome of this review forms the basis of the AGS which is prepared on behalf of the Leader of each Council and the Chief Executive. The committee must be satisfied that the AGS is supported by reliable evidence and accurately represents the internal control environment.

- 4.14 This committee receives this statement for consideration and review prior to it accompanying each Council's 2022/23 Statement of Accounts which will be approved by this committee later in 2022. Any changes / comments this committee wishes to make to the AGS will be made before it is signed.
- 4.15 To reflect the 'three lines of defence' model, the AGS also includes assurance statements from various officers representing the oversight functions, as well as the annual audit opinion from the Corporate Manager – Internal Audit.
- 4.16 The AGS provides an assurance of the effectiveness of the Councils' system on internal control. There is an acknowledgement that the control environment in some areas requires strengthening. We are already addressing the key governance risks and challenges set out in this Annual Governance Statement and will continue to do so over the coming year to further strengthen our governance arrangements. We are satisfied that these steps will continue to address the need for any improvements that are required and that arrangements are in place to monitor the issues raised as part of each Council's annual review.

5. LINKS TO CORPORATE PLAN

- 5.1 Governance touches all aspects of the Councils' activities. To ensure the successful delivery of the Corporate Plan it is essential that the principles of good governance are applied consistently across the Councils.

6. FINANCIAL IMPLICATIONS

- 6.1 A sound system of internal controls forms a significant part of the framework and is essential to underpin the effective use of resources.

7. LEGAL IMPLICATIONS

- 7.1 Regulation 6 (Part 2) of the Accounts and Audit Regulations 2015 requires the Councils to conduct an annual review of its systems of internal control and following the review, the Councils must approve an annual governance statement, prepared in accordance with proper practices in relation to internal control.

8. RISK MANAGEMENT

- 8.1 A strong internal control environment contributes to the overall effective management of each Council and will help minimise the risks of each Council failing to achieve its ambitions and priorities, and service improvements.

Risk Description	Likelihood	Impact	Mitigation Measures
Failure to regularly monitor and improve the Council's arrangements could weaken corporate governance, have an impact on service delivery and lead to adverse comments	Highly Unlikely (1)	Bad (3)	Internal and External Audit help ensure a systemic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

from the External Auditor.			
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9. CONSULTATIONS

9.1 The AGS was prepared following input from key senior officers and those various officers representing the oversight functions, as well as the annual audit opinion from the Head of Internal Audit.

10. EQUALITY ANALYSIS

10.1 Equality and diversity implications have been considered within the AGS arrangements and an Equality Impact Assessment (EIA) is not required.

11. ENVIRONMENTAL IMPLICATIONS

11.1 There are no environmental implications associated with this report.

12. APPENDICES

Title	Location
(a) Local Code of Corporate Governance	Attached
(b) Joint Annual Governance Statement 2022/23	Attached

13. BACKGROUND DOCUMENTS

13.1 CIPFA/SOLACE framework – ‘Delivering good Governance in Local Government 2016’.