

Audit Committee – 25 February 2022

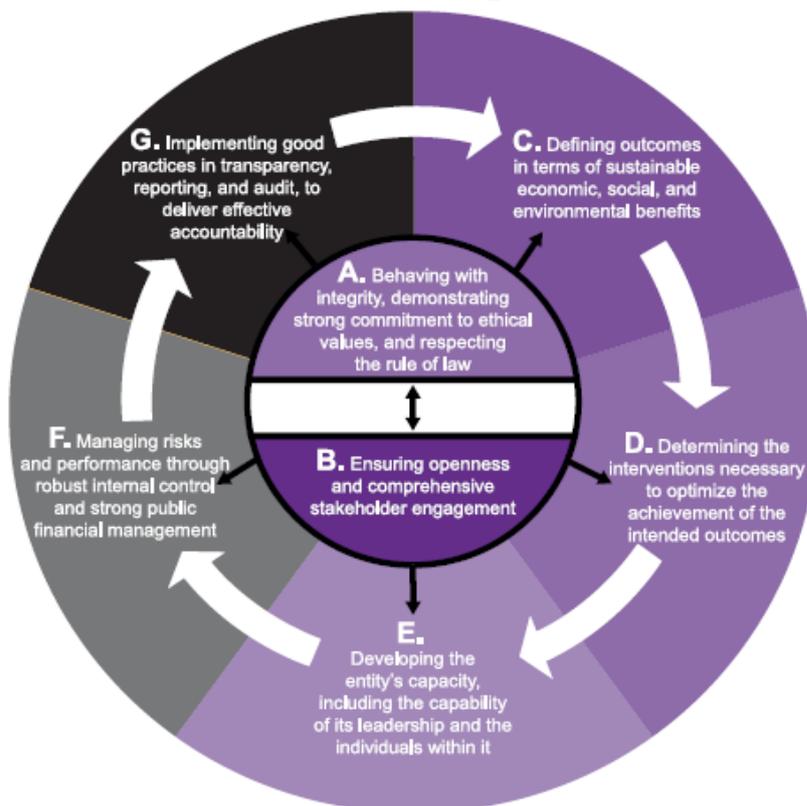
Title of paper:	Annual Governance Statement – Process For Producing 2021/22 Statement	
Director(s)/ Corporate Director(s):	Clive Heaphy Corporate Director of Strategy and Resources	Wards affected: All
Report author(s) and contact details:	Shail Shah shail.shah@nottinghamcity.gov.uk	
Other colleagues who have provided input:		
Does this report contain any information that is exempt from publication? No		
Recommendation(s):		
1.	To note the process and timetable for compiling and completing the 2021/22 Annual Governance Statement, as detailed in the report and Appendix 1.	

1. Reasons for recommendations

- 1.1 This report supports main purposes of the Audit Committee as set out in its terms of reference which include to:
- c. Provide independent review of the Council's governance, risk management and control frameworks.
 - d. Oversee the financial reporting and annual governance processes.
 - g. Oversee proposed and actual changes to the council's policies and procedures pertaining to governance.
- 1.2 The associated functions are to:
- a. Review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.
 - b. review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control
 - s. approve the Council's Statement of Accounts and associated governance and accounting policy documents.
- 1.3 This report sets out the process for compiling the 2021/22 Annual Governance Statement (AGS).
- 1.4 The National Audit Office's 2019 report on Local Authority Governance notes three key challenges:
- Risk profiles have increased in many local authorities as they have reduced spending and sought to generate new income in response to funding and demand pressures.
 - Local checks and balances need to be effective in a more complex and less well-resourced context for local decision-making.
 - Effective governance arrangements are an important aspect of ensuring financial control at a time of financial pressure.

- 1.5 Important changes to the governance of the Council have been established during 2020-21, and 2021-22 as a result of the Public Interest Report received in August 2020 and the Non-Statutory Review Report received in December 2020.
- 1.6 These include the establishment of the Governance Improvement Board and external challenge from the Improvement and Assurance Board chaired by Sir Tony Redmond. The Together for Nottingham Plan addresses the significant issues identified in our previous Annual Governance Statement and sets out a structure, priorities, accountabilities and milestones for improvement incorporating and developing the recommendations made in the Public Interest and Non-Statutory Review reports.
- 1.7 The Audit Committee has received updates on progress of the Together for Nottingham Plan during the year including at this meeting. Any further report of significant weaknesses identified by Grant Thornton as the Council's external auditors will be considered for incorporation into the Together for Nottingham Plan.
- 1.8 As part of ongoing work to confirm that the Council's financial governance and practices were fully compliant, an issue was identified in respect of transactions connected to the Housing Revenue Account. In December 2021 the Council's Section 151 Officer and Monitoring Officer issued legal notices to the Council advising that the Council had identified transactions involving funds from the Council's Housing Revenue Account being incorrectly credited to the General Fund for all council services, which was unlawful.
- 1.9 This is a new significant issue and the Council has already committed to remedying the issue and taking steps to ensure such a situation cannot be repeated. Once these steps have been determined there will be consideration as to whether they are incorporated into the Together for Nottingham Plan.
- 1.10 The Annual Governance Statement for 2021/22 should include the overall conclusion of an assessment of the organisation's compliance with the principles of the Financial Management Code. This is a self-assessment completed by the Finance Division comparing the Council's financial management arrangements to the principles set out by CIPFA.
- 1.11 The Council's local corporate governance code was updated in February 2017. The diagram below, taken from the International Framework, illustrates the various principles of good governance incorporated in the local code.

Achieving the Intended Outcomes While Acting in the Public Interest at all Times



2. Process for the Production of the AGS 2021/22

- 2.1 It is intended that the production of the AGS 2021/22 will follow the process of previous years as closely as possible, and the timetable is given at Appendix 1. The process will be managed by the Corporate Governance Steering Group (CGSG) as endorsed by the Executive Board on 20 May 2008 and which consists of senior colleagues representing Council services. It will incorporate assurances provided through the Together for Nottingham Plan. In addition, a set of assurances will be obtained from the Leader of the Council, key colleagues including Corporate Directors, individuals with statutory roles, significant group companies and significant partnerships.
- 2.2 The assurances will come from a self-assessment based on customised questionnaires targeted at the appropriate assurance givers, together with other information provided in support of the AGS. The questionnaires will be based on the Council's Code of Corporate Governance and on the relevant best practice developed produced by CIPFA/SOLACE.
- 2.3 Completed questionnaires will be supplemented by other governance related information extracted from Council policies and strategies, internal and external assurance providers, Council, Board and committee minutes.
- 2.4 The final AGS will be an account of the Council's governance arrangements in a format addressing the principles embodied in the Local Code of Corporate Governance. It will reflect the failings identified and note actions put in place to address them. This will be discussed by members of Corporate Leadership Team and will be presented to the Audit Committee for approval, and the document, when approved, will be published with the City Council's Statement of Accounts.

3. Background

- 3.1 The Council's governance arrangements aim to ensure that objectives and responsibilities are set out and met in a timely, open, inclusive, and honest manner. The governance framework comprises the systems, processes, cultures and values by which it is directed and controlled, and through which it engages with and leads the community to which it is accountable. Every council and large organisation operates within a similar framework, which brings together an underlying set of legislative requirements, good practice principles and management processes.
- 3.2 The publication of an AGS is required by the Accounts and Audit Regulations 2015. The Council is required to conduct a review, at least annually, of the effectiveness of its internal control and prepare a statement in accordance with proper practices. The 2007 CIPFA/SOLACE (updated 2016 - effective for 2017/18 statement) publication "Delivering Good Governance in Local Government Framework" provided the principles by which good governance should be measured. This was adopted as the Council's Local Code of Corporate Governance at the Executive Board meeting of 20 May 2008.
- 3.3 In 2016 CIPFA/SOLACE produced an updated guidance note covering the delivery of good governance in local government and how an authority's arrangements can be reflected in the AGS. The City Council has incorporated this guidance in both the evaluation of its governance arrangements and in the production of its AGS.
- 3.4 Included in the Audit Committee's terms of reference is the core objectives that it should "review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control."
- 3.5 In order to produce the AGS, an annual timetable is required to ensure key tasks are undertaken in time to deliver it alongside the Council's Statement of Accounts. The timetable (Appendix 1) will be used to monitor the progress of the AGS.
- 3.6 The Committee has delegated authority for the formal approval of the AGS. The AGS is signed by the Leader of the Council and Chief Executive and published alongside the Statement of Accounts. Whilst a draft AGS for 2019/20 and 2020/21 has been published and considered by the Committee, final versions will accompany the final Statements of Accounts for 2019/20 and 2020/21 which await completion of the statutory audit.
- 3.7 The AGS reflects the governance framework operating within the Council and includes group entity activities where significant. The issues identified and the consequent plans for their mitigation are used to direct corporate resources, including those of Internal Audit.
- 3.8 In ascertaining the significance of the control issues, CIPFA defines a series of factors to be considered, as follows:
 - The issue has seriously prejudiced or prevented achievement of a principal objective.
 - The issue has resulted in a 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.
 - The issue has led to a material impact on the accounts.
 - The Audit Committee, or equivalent, has advised that it should be considered significant for this purpose.

- The Head of Internal Audit has reported on it as significant, for this purpose, in the annual opinion on the internal control environment.
- The issue, or its impact, has attracted significant public interest or has seriously damaged the reputation of the organisation.
- The issue has resulted in formal action being taken by the Chief Financial Officer and/or the Monitoring Officer.
- The 2018/19 AGS also reported on issues of note which do not merit categorising as significant but require attention and monitoring to maintain and improve the system of internal control. As with significant issues these may have been brought forward from previous statements if the issues have not been finally resolved.

4. Background papers other than published works or those disclosing exempt or confidential information

4.1 None

5. Published documents referred to in compiling this report

- 5.1 Accounts & Audit Regulations 2015
- 5.2 CIPFA/SOLACE - Delivering Good Governance in Local Government Framework, 2016
- 5.3 CIPFA Bulletin 06 - Application of the Good Governance Framework 2021/22
- 5.4 CIPFA - Clarification on compliance with Financial Management Code to reflect COVID pressures
- 5.5 Executive Board 20 May 2008 - Local Code of Corporate Governance
- 5.6 Executive Board 21 Dec 2021 – Refresh of the Nottingham City Council Recovery and Improvement Plan
- 5.7 Nottingham City Council - Draft Statement of Accounts 2019/20, Draft Statement of Accounts 2020/21
- 5.8 Interim Annual Governance Statement 2019/20, Interim Annual Governance Statement 2020/21
- 5.9 NAO – Local Authority Governance (15th January 2019)
- 5.10 Report to all Councillors of Nottingham City Council under s.114 of the Local Government Finance Act 1988 (15th December 2021)