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<b>REPORT TO:</b>	<b>AUDIT SUB-COMMITTEE</b>	<b>AGENDA ITEM:8</b>
<b>DATE OF MEETING:</b>	<b>19 JUNE 2024</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>EXECUTIVE DIRECTOR – RESOURCES AND TRANSFORMATION</b>	<b>OPEN</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>CHARLOTTE JACKSON</b> <a href="mailto:charlotte.jackson@south-derbyshire.gov.uk">charlotte.jackson@south-derbyshire.gov.uk</a>	<b>DOC:</b>
<b>SUBJECT:</b>	<b>DRAFT ANNUAL GOVERNANCE STATEMENT 2023-24</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: AS 04</b>

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## **1.0 Recommendations**

- 1.1 That the Committee note the Draft Annual Governance Statement for 2023/24 as set out at Appendix 1.

## **2.0 Purpose of Report**

- 2.1 To share with the Committee the Council's Annual Governance Statement (AGS) for 2023/24, following its publication on 31 May 2024 in accordance with the Accounts and Audit Regulations 2003 (as amended).
- 2.2 This version is currently in draft and may be subject to updates following the review by External Audit. The final version, post audit, will be presented to Audit Sub-Committee and Finance and Management Committee for approval.

## **3.0 Detail**

### **Background**

- 3.1 An Annual Governance Statement is a requisite part of the annual review of corporate governance and is published alongside the statement of accounts but considered in its own right.
- 3.2 The Chartered Institute of Public Finance & Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) issue joint annual guidance on corporate governance, which encourages Local Authorities in going beyond consideration of the internal control environment to look at wider arrangements for supporting sound corporate governance.
- 3.3 The CIPFA/SOLACE guidance outlines seven core principles for good governance, with a number of supporting principles. These seven principles are:

- 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
  - E. Developing the entity's capacity, including the capability of its leadership and the individuals within it achievement of the intended outcomes
  - F. Managing risks and performance through robust internal control and strong public financial management
  - G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability
- 1.4 The Council's duty in respect of the Annual Governance Statement is to undertake an annual review of its governance arrangements, which includes the effectiveness of its system of internal control and produce a statement regarding its overall level of governance.

3.4 The AGS is shared with the Committee to note, following publication on the Council's website on 31 May 2024, alongside the draft accounts. The AGS will be shared with the Finance and Management Committee on the same basis. Once the audit is complete, the Committee will be asked to approve the final AGS.

### **Review of effectiveness and development of the statement**

3.5 The Council has adopted a revised approach to reviewing its governance arrangements for the 2023/24. The approach now constitutes a self-assessment of the Council's governance arrangements against the CIPFA/SOLACE framework and the requirements of local authorities within this.

3.6 Alongside evidencing areas where governance arrangements are satisfactory, the self-assessment identifies areas requiring improvement or significant improvement and puts in place actions to address these.

3.7 A new format has also been developed for the AGS. It sets out the governance framework of the Council and explains how the Council has complied with the CIPFA/SOLACE framework and met the requirements of the Accounts and Audit Regulations 2015.

3.8 The AGS concludes that that appropriate governance arrangements are in place, or where it has identified that arrangements require improvement, it is taking the necessary actions to remediate. It also concludes that the Council remains committed to maintaining and continuously improving governance arrangements. The statement is signed by the Leader of the Council and the Chief Executive.

### **Corporate governance issues identified during 2023/24**

3.9 Three areas of the Council's corporate governance arrangements in respect of complying with relevant laws and regulations and internal policies and procedures were identified as not meeting an acceptable level during 2023/24 and requiring significant improvement.

3.10 These are detailed within the Annual Governance Statement, on pages 7 to 9. A brief summary is also set out below.

### **Budget setting approval processes**

- 3.11 In March 2024 the external auditor for the 2022/23 and 2023/24 year, EY LLP Ltd, identified a risk of significant weakness for 2021/22 and 2022/23 as part of the interim Value for Money report, presented to the Audit Sub-Committee on 6 March 2024. This significant weakness relates to a previous internal audit significant risk finding where they concluded in 2021/22 that "The annual General Fund, Housing Revenue Account and Capital budgets were not formally received and approved by Full Council, as required by the Council's Constitution and to meet the requirements of the Local Government Act 2000".
- 3.12 The initial findings were accepted by management as part of the external auditors interim report to the Audit Sub-Committee on 6 March 2024. The weakness had been addressed in full for the 2023/24 year (affecting the 2024/25 budget). The final report from the external auditor is expected to be presented to the Audit Sub-Committee in the coming months.

#### Agency staffing spend outside of contract

- 3.13 A material level of agency spend with recruitment agencies, since 2019, was identified as being potentially non-compliant. The source of the non-compliance was because the agency businesses in question were not party to the currently mandated framework arrangements utilised by the Council for temporary staffing.
- 3.14 Actions taken following the identification of this issue have been led by the Section 151 Officer and have included engaging the Internal Auditor to undertake further investigation, engagement with the Council's outgoing and current External Auditors EY LLP and Mazars LLP and communications with Heads of Service to ensure the correct processes are understood going forward.
- 3.15 Further work is also scheduled for the Internal Auditor to undertake additional spend analysis across all categories of spend to identify any further areas that have or are operating outside of contracts.
- 3.16 The non-compliance with the Public Contract Regulations is reported via the Annual Governance Statement and details of a range of improvement actions are set out.

#### Self-referral to the Social Housing Regulator for non-compliance with the Housing Consumer Standards

- 3.17 Members will be aware that in April 2024 the Council resolved to advise the Regulator for Social Housing of the outcome of the Council's self-assessment against the Housing Consumer Standards.
- 3.18 Council also resolved to request a 12-month extension from the regulator to meet the standards and to form a Housing Services Working Group to develop a Performance Improvement Plan. At the time of writing this statement, dialogue with the Social Housing Regulator has commenced.

#### **Next steps**

- 3.19 The AGS was published on the Council's website on 31 May 2024 alongside the unaudited accounts for 2023/24.
- 3.20 The AGS will be subject to external audit and will be presented to the Audit Sub-Committee and Finance and Management Committee for final approval following conclusion of the 2023/24 audit and upon receipt of the auditor's final report for this

year. At the time of writing this report, the timetable for this remains uncertain, due to the outstanding audit backlog for audit of accounts for 2021/22 and 2022/23.

#### **4.0 Financial Implications**

4.1 There are no financial implications arising directly from this report.

#### **5.0 Corporate Implications**

5.1 Corporate governance affects the whole authority and as part of the process, all members of senior management have been consulted and made aware of its contents. Generally, senior managers are briefed at corporate meetings in respect of governance generally, together with the AGS.

5.2 Maintaining good governance underpins delivery of the priorities contained in the Corporate Plan.

#### **6.0 Community Implications**

6.1 The AGS is designed to act as a public assurance statement that the Council has a sound system of corporate governance, designed to help deliver services in a proper, inclusive, open and accountable manner.