

Committee: Standards and General Purposes Committee

Date: 25 July 2019

Agenda item: Wards:

All

Subject: Annual Governance Statement 2018/19

Lead officer: Caroline Holland – Director of Corporate Services

Lead members: Peter McCabe- Chair of Standards and GP Committee

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Recommendation:

That Committee agrees the Annual Governance Statement.

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 Merton Council is required to prepare an Annual Governance Statement (AGS) for the year 2018/19. This statement is required in order to comply with Regulation 6(3) of the Accounts and Audit Regulations 2015. The CIPFA framework and guidance has been updated from April 2017, to move from 6 core principles to 7.

2. DETAILS

2.1 The purpose of the AGS is to report on the robustness of the Council's governance arrangements. Corporate governance is defined, for the purposes of this report, as:

“ The framework of accountability to users, stakeholders and the wider community, within which organisations take decisions, and lead and control their functions, to achieve objectives. The quality of corporate governance arrangements is a key determinant of the quality of services provided by organisations.”

2.2 The AGS is effectively a commentary on how well Merton Council manages itself. In recognition of this, a Corporate Governance Steering Group was established in order to oversee the preparation of the AGS. The membership of this group is:

Caroline Holland	Director of Corporate Services
Paul Evans	AD Corporate Governance
Margaret Culleton	Head of Internal Audit
Zoe Church	Head of Business Planning
Fiona Thomsen	Head of Legal Services
Julia Regan	Head of Democracy Services
Karin Lane	Head of Information Governance
Kim Brown	Head of Organisational Development & HR Strategy
John Dimmer	Head of Partnerships

2.3 The Framework consists of seven core principles:

Principle 1 Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.

Principle 2 Ensuring openness and comprehensive stakeholder engagement.

Principle 3 Determining outcomes in terms of sustainable economic, social, and environmental benefits.

Principle 4 Determining the interventions necessary to optimise the achievement of the intended outcomes.

Principle 5 Developing the entity's capacity, including the capability of its leadership and the individuals within it.

Principle 6 Managing risks and performance through robust internal control and strong public financial management,

Principle 7 Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

2.4 A new *Delivering Good Governance in Local Government: Framework*, (CIPFA/Solace, 2016) applies to annual governance statements prepared for the financial year 2016/17 onwards. The concept underpinning the Framework is that it is helping local government in taking responsibility for developing and shaping an informed approach to governance, aimed at achieving the highest standards in a measured and proportionate way. The Framework is intended to assist authorities individually in reviewing and accounting for their own unique approach. The overall aim is to ensure that:

- resources are directed in accordance with agreed policy and according to priorities
- there is sound and inclusive decision making
- there is clear accountability for the use of those resources in order to achieve desired outcomes for service users and communities.

3.1 New Areas to include in AGS

- 3.1.1 A review was carried out by the Committee on Standards in Public Life on Local Government Ethical Standards in January 2019, which recommended areas of best practice to improve ethical standards in local government. They state that these should be considered a benchmark of good ethical practice, which they expect all local authorities can and should implement. These will be reviewed by the council during 2019/20. One of the areas of best practice relates to including information relating to council owned companies in their AGS.

Best Practice 14: Councils should report on separate bodies they have set up or which they own as part of their annual governance statement, and give a full picture of their relationship with those bodies. Separate bodies created by local authorities should abide by the Nolan Principles of openness, and publish their board agendas and minutes and annual reports in an accessible place.

- 3.1.2 Information relating to the councils two companies have been included in the AGS report.

3.2 Actions from the governance working group

- 3.2.1 The working group has carried out a review of the council's arrangement against the new standard and we found that the arrangements can continue to be regarded as fit for purpose in accordance with the governance framework. We have identified a number of areas requiring updating or improving and these will be considered and action taken during 2019/20. The more significant areas identified are detailed below:-

Financial Pressure

This is an area of high risk to the council as decisions are made on reduced services. The current uncertainty on future funding makes it difficult to plan as the comprehensive spending review is due in Autumn 2019 and will determine how much funding the council will receive. It is anticipated that there will be a significant budget gap by 2022/23 of £6.078 million.

Asset Valuations

A significant error on the valuation calculation spreadsheet had a material impact on the 2017/18 financial accounts of the Authority. The valuation process used by Merton's in house professionally qualified valuers has been reviewed in detail and material misstatements corrected. An internal review will be undertaken to ensure that future valuation work is both accurate and timely.

Public Contract Regulations/Contract Standing Orders

This is currently identified as an area of high risk and further work identified to embed good practice. An on-line toolkit was launched in September 2018, training is being rolled out to promote the use of the portal and new documents and templates. Action: Operational Procurement Group reviews to be undertaken to ensure they are more effective. Commissioning Strategies to be refreshed and reviewed. Progress will be reviewed by the Corporate

Procurement board. An internal Audit follow up review is scheduled in 2019/20.

New financial system

This action was carried forward from 2018/19 and is in progress. Action: To complete the review of internal controls in light of new financial system.

Brexit

A working group of members and officers has been established to monitor the impact of Brexit. Action: The working group will monitor developments and potential impact on areas such as suppliers, recruitment and potential NRTPF. A report is due to cabinet later in the year.

3.3 Limited assurance report – Internal Audit

- 3.3.1 The Internal Audit work for 2018/19 provided three limited assurance reports. These will feed into the annual report of the Head of Internal Audit, which supports the AGS. (Separate paper to committee).

Declaration of Interest

The guidance was not readily available and officers were not routinely completing the forms, in particular those officers in a senior role, budget holders or those responsible for procurement. Action on this has commenced and a new declaration of interest form will be made available during 2019/20.

Corporate Procurement

Sample testing found that e-tendering portal Pro Contract was not always used as required by CSO's and the Procurement Toolkit. Audit sample testing identified contract not published on the Council's Contract Register.

There was a lack of information, clarity and transparency around the reporting of extensions including the number of extensions allowed under the contract.

Department OPG minutes found that Forward Plans were not up to date and not complete.

Contract monitoring of commissioned services (Adult services)

Non compliance with CSO- Sample testing found evidence of contracts not tendered, signed contracts or extensions letters (by both parties) not in place. Limited contract monitoring.

3.4 Corporate Working group

- 3.4.1 A recent review of corporate working undertaken by a project team in February 2019, this used the previous CPA Key Lines of Enquiry to measure the council against in relation to ambition, prioritisation, capacity and performance

management. This has resulted in a number of recommendations for CMT to consider during 2019/20.

- 3.4.2 One of the areas identified found that the council operates a number of governance boards with similar or overlapping responsibilities. It has recommended that CMT should review and streamline internal governance to assist with more timely decisions, by reviewing the purpose and responsibilities of each board.

3.5 Review of effectiveness

- 3.5.1 The council has a responsibility for conducting, at least annually, an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.
- 3.5.2 The review of effectiveness of the system of internal control is informed by the work of the internal auditors. Effectiveness of the system is also conveyed by Directors, Assistant Directors and Heads of Service within the authority that has responsibility for the development and maintenance of the internal control environment. The overall opinion is that the internal control environment is satisfactory.

4. ALTERNATIVE OPTIONS

- 4.1 There are no alternative options as the AGS is a statutory requirement, as stated at paragraph 1.1 above.

5. CONSULTATION UNDERTAKEN OR PROPOSED

- 5.1 No external consultation has taken place or is planned for this document.

6 TIMETABLE

- 6.1 This report has been prepared to meet the timetable for the approval of the Statement of Accounts.

7 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

- 7.1 There are no specific financial, resource or property implications apart from the need to implement the AGS Improvement Plan, which will be completed within existing resources

8 LEGAL AND STATUTORY IMPLICATIONS

- 8.1 The AGS is a statutory requirement, as stated at paragraph 1.1 above.

9 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

- 9.1 There are no specific human rights, equalities or community cohesion implications, except in so far as this report is wholly concerned with good governance.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1 There are no specific risk management or health and safety implications other than the assessment of the Council's risk management arrangements in the AGS

11. APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

11.1 Appendix I: Annual Governance Statement 2018/19.

12 BACKGROUND PAPERS – THE FOLLOWING DOCUMENTS HAVE BEEN RELIED ON IN DRAWING UP THIS REPORT BUT DO NOT FORM PART OF THE REPORT

12.1 Annual Governance Statement 2017/18

12.2 CIPFA / SOLACE Delivering Good Governance in Local Government – Framework 2016

12.3 CIPFA / SOLACE Delivering Good Governance in Local Government – Guidance Note for Local Authorities