

ANNUAL GOVERNANCE STATEMENT AND EXTERNAL AUDIT FINDINGS
2016/17 - PROGRESS AGAINST ACTION PLAN

Report of the: Head of Corporate Governance
Contact: Gillian McTaggart
Urgent Decision?(yes/no) No
If yes, reason urgent decision required:
Annexes/Appendices (attached): **Annexe 1** – Progress Report – 2016/17 Annual Governance Statement
Annexe 2 – Progress Report - External Audit Findings 2016/17
Other available papers (not attached):

REPORT SUMMARY

This report sets out progress on the actions contained in the Council's Annual Governance Statement and in the Annual Audit Findings issued by the External Auditor following audit of the Financial Statements.

RECOMMENDATION (S)

- (1) That the Committee receives a report on progress in implementing the Action Plan contained within the Annual Governance Statement and the actions agreed in Audit Findings within the External Auditor's Report.

1 Implications for the Council's Key Priorities, Service Plans and Sustainable Community Strategy

- 1.1 Corporate Governance affects all aspects of the Council's services because it relates to the framework in which decisions are made. It is defined as the system by which local authorities direct and control their functions and relate to their communities.
- 1.2 The Annual Governance Statement (AGS) is prepared by the Council each year and published within the Financial Statements. The AGS sets out the controls for good governance that the Council has in place and identifies high-level risks to those controls that have been identified in reviewing the Council's operations.

- 1.3 The Audit Findings for the Council is prepared by the External Auditor (Grant Thornton) following the audit of the accounts and includes recommendations for improvements in controls following the conclusion of the external audit.
- 1.4 This Committee monitors the delivery of action agreed in both Governance documents. This underpins the Council's Core Value of openness and honesty.

2 Annual Governance Statement

- 2.1 The Annual Governance Statement (AGS) identifies key risks to the Council's performance at the end of the financial year and the actions being taken to address those risks during the following year.
- 2.2 The Annual Governance Statement for 2016/17 identified five significant governance risks. The control issues identified in the AGS generally reflect the high risk to the delivery of public services during a period of recession and funding cuts. The risks also reflect more specific risks over resilience of smaller district councils and the fact the Council is no longer debt free. These risks are as follows:
 - 2.2.1 Ensure the workforce has adequate resilience and the appropriate skills to deal with future requirements and changes to the way the Council operate.
 - 2.2.2 A number of governance issues within planning and the possible designation by the Secretary of State to improve planning performance.
 - 2.2.3 Elements of the Constitution are out of date and need to be updated
 - 2.2.4 The Council has moved from being debt free to external borrowing of up to £80 million for property. This increases the Council's financial risk and there needs to be a robust approach in place when purchasing property and developing new service models.
 - 2.2.5 The robustness of IT governance, data recovery and disaster recovery arrangements need to be reviewed to ensure that all IT projects are properly managed and data can be recovered.

Progress made on the action plan is shown in Annexe 1 to this report. Officers believe that this addresses the control issues identified in the 2016/17 Annual Governance Statement.

3 Annual Findings from External Audit

- 3.1 This Committee also monitors the implementation of the External Auditor's recommendations contained within the Audit Findings report issued after the audit of the financial statements is completed.

- 3.2 The External Auditor presented the Audit Findings to the Strategy and Resources Committee on 26 September 2017.
- 3.3 An unqualified opinion was issued for 2016/17.
- 3.4 The External Auditor identified four residual risks, rated as medium, in their audit findings. These were as follows:
 - 3.4.1 The related party disclosure arrangements did not include the senior management team,
 - 3.4.2 5 year end creditor balances did not contain valid creditors as they related to grant income from previous years,
 - 3.4.3 The Academy system as reported previously was unable to provide a listing of NDR prepayments as at the 31st March,
 - 3.4.4 Increase resilience within the finance team to support the early closure of the accounts.
- 3.5 Progress made on the action plan is shown in **Annexe 2** to this report.

4 Financial and Manpower Implications

- 4.1 There are no implications for the purposes of this report.
- 4.2 **Chief Finance Officer's comments:** The External Auditor has given the Council an unqualified opinion on the Statement of Accounts for 2016/17. The Annual Governance Statement is the key part of the controls in place to ensure effective governance across the organisation.

5 Legal Implications (including implications for matters relating to equality)

- 5.1 There are no implications for the purposes of this report
- 5.2 **Monitoring Officer's comments:** It is important that good governance is an integral part of how all functions are delivered, rather than being considered an issue to be considered separately by others.

6 Sustainability Policy and Community Safety Implications

- 6.1 None for the purposes of this report

7 Partnerships

- 7.1 The Council continues to form part of the East Surrey Internal Audit Consortium.

8 Risk Assessment

- 8.1 The Annual Governance Statement forms part of the Council's corporate governance arrangements and failure to implement the actions would leave weaknesses in the Council's management controls.

9 Conclusion and Recommendations

- 9.1 Positive progress has been made in addressing the action required to improve the significant control issues identified in the 2016/17 financial statements.
- 9.2 The Committee is asked to note:
- a) The progress made on the implementation of actions agreed by the Council in the Annual Governance Statement.
 - b) The Action Plan and progress agreed with the External Auditor and contained in the 2016/17 Audit Findings.

WARD(S) AFFECTED: (All Wards);