

South Lakeland District Council
Audit Committee
Thursday, 22 April 2021
Review of Local Code of Governance and
Governance Update

Portfolio: Finance and Resources; Customer and Commercial Services and People
Report from: Section 151 Officer
Report Author: Helen Smith – Finance Lead Specialist (Section 151 Officer)
Wards: All wards
Forward Plan: Not applicable

1.0 Expected Outcome

1.1 This report is presented to show the results of the review of the Council's Local Code of Governance and to update on the progress in implementing the Annual Governance Statement (AGS) action plan.

2.0 Recommendation

2.1 It is recommended that Audit Committee:-

- (1) considers the proposed revisions to the Local Code of Governance at Appendix 1 and recommends the approval of the amended Code to full Council; and**
- (2) Notes the progress in implementing the AGS Action Plan presented at Appendix 5.**

3.0 Background and Proposals

- 3.1 Local authorities should have in place an effective system of internal control (SIC). For South Lakeland District Council the key features of the SIC are described within the Local Code of Governance.
- 3.2 Under the Accounts and Audit Regulations 2015, the Council is required to review the effectiveness of the SIC annually and to report this through an Annual Governance Statement (AGS). This is done alongside the statement of accounts and must be prepared in accordance with proper practices.
- 3.3 CIPFA published a revised version of their governance framework for local authorities, 'Delivering Good Governance in Local Government: Framework (2016)'. This constitutes proper practice and is to be applied for financial years from April 2016 onwards. This slightly re-arranged the previous framework moving from 6 principles to 7 in line with CIPFA's broader 'International Framework: Good Governance in the Public Sector (2014)'.

Local Code Review

- 3.4 The Local Code was approved in December 2018 and Annual Governance Statement were prepared under the new framework and included recommendations from the Council's internal auditor's review of the Local Code in 2017/18. The Code was reviewed in December 2019 and no substantive amendments were made (other than formatting amendments)
- 3.5 Internal Audit have carried out a review of the Local Code: although the internal audit report has not yet been finalised the results of the testing has been used to inform this review.
- 3.6 There have been several reviews of financial governance and general governance including the publication of CIPFA Bulletin 06: Application of the Good Governance Framework 2020/21, the introduction of the CIPFA Financial Management Code, the CIPFA review of financial reporting in the pandemic and the Grant Thornton publication of Lessons from recent Public Interest Reports 2021. These have identified new areas of good practice and highlighted the need to review any changes to arrangements as a result of Covid-19 as set out below
- 3.7 CIPFA introduced a Financial Management Code (FM Code) in 2019 with the intention it would be introduced from 2020/21. The FM Code is intended to improve the financial resilience of organisations by embedding enhanced standards of financial management. With the impact of Covid-19 and the additional pressures 2020/21 has become a shadow year with full implementation from April 2021. There are clear links between the FM Code and the Governance Framework, particularly around focus on achieving sustainable outcomes. It is expected that the AGS for 2020/21 will include the overall conclusion of an assessment of the organisation's compliance with the principles of the FM Code. A summary of the requirements and an assessment of the Council's position is included at Appendix 3 to this report. Where there are outstanding matters or areas of improvement, these should be included in the AGS action plan.
- 3.8 Local authorities have had to adapt their governance arrangements during 2020/21 as a result of the impact of Covid-19. These changes included new ways of working and emergency arrangements, changes to 'business as usual' activities, including reduced frequency and scale, or temporary cessation, of activities and longer-term changes to priorities, programmes, strategies and plans. This committee received a detailed update of changes to governance arrangements as a result of Covid-19 in September 2020. A review of the impact of these changes will be included when the AGS is prepared.
- 3.9 It is proposed the Local Code is updated to include emphasis on the inclusion of ethics in consideration of the organisation's values and to add a new requirement, C14, to ensure the Council fully complies with the requirements of the CIPFA FM Code. These amendments are shown as tracked changes in Appendix 1. Appendix 2 shows the internal control environment which supports the Local Code.
- 3.10 Appendix 4 shows the CIPFA principles, sub-principles, example behaviours and actions that demonstrate good governance in practice and examples from the CIPFA guidance with the Local Code reference for each. This has been revised, in line with an internal audit recommendation that the mapping of the Guidance behaviours and actions that demonstrate good governance in practice be mapped only to sub-principles in the Local Code that pertain to the same principle to which the behaviour and action relate.

AGS Action Plan Update

3.11 An action plan to address areas for improvement in the Council's governance arrangements was presented as part of the preparation of the 2019/20 AGS. This was presented to Audit Committee in September 2020. Appendix 5 gives an update on progress against the various actions.

4.0 Consultation

4.1 Officers have reviewed the existing Local Code of Governance and the CIPFA Delivering Good Governance in Local Government Framework (2016).

5.0 Alternative Options

5.1 Audit Committee can alter the detail of the Local Code of Governance, however this should ensure any amendments comply with best practice and the legislative framework.

6.0 Links to Council Priorities

6.1 The system of internal control as described in the Local Code underpins the achievement of all Council priorities.

7.0 Implications

Financial, Resources and Procurement

7.1 This report has no direct financial implications. The Financial Procedures Rules and other elements the System of Internal Control ensure the use of the Council's financial resources represent value for money.

Human Resources

7.2 This report has no direct human resource implications. Human Resources policies and the Council's organisational development are consistent with the principles within the Local Code of Governance.

Legal

7.3 Governance is a key part of the Monitoring officer and Legal Services role and we are currently reviewing the Lawyers in Local Government Governance Toolkit. Reports will be brought to the Audit Committee and the work carried out will be discussed at the newly established Governance and Accountability Officer working Group. This group seeks to ensure that Governance is embedded across the organisation. The Local Code of Governance gives a framework to ensure the Council acts lawfully at all times.

Health, Social, Economic and Environmental

7.4 Have you completed a Health, Social, Economic and Environmental Impact Assessment? No

7.5 If you have not completed an Impact Assessment, please explain your reasons: The Local Code of Governance has no direct HSEE implications.

7.6 Summary of health, social, economic and environmental impacts: N/A

Equality and Diversity

7.7 Have you completed an Equality Impact Analysis? No

7.8 If you have not completed an Impact Assessment, please explain your reasons: The Local Code of Governance has no direct Equality and Diversity Implications.

7.9 Summary of equality and diversity impacts: N/A

Risk

Risk	Consequence	Controls required
Weaknesses identified in the Annual Governance Statement action plan are not addressed adequately	Non-compliance with Local Code of Governance with possible loss of public confidence about the way the Council conducts its business.	Regular monitoring schedule so that Members and senior officers can monitor progress in addressing the weaknesses identified.
Local Code prepared that is not in line with proper practice	Potential gaps in system of internal control	Regular review of Local Code; annual review of effectiveness based on CIPFA framework.

Contact Officers

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Appendices Attached to this Report

Appendix No.	Name of Appendix
1	Local Code of Governance 2021
2	Internal Control Environment 2021
3	Assessment of CIPFA FM Code implementation 2020/21
4	Annual Governance Statement and Local Code review 2020/21
5	AGS Action Plan update

Background Documents Available

Name of Background document	Where it is available
International Framework: Good Governance in the Public Sector IFAC/CIPFA	https://tinyurl.com/w7k7znb

Tracking Information

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Signed off by	Date sent	Date Signed off
Legal Services	N/A	N/A
Section 151 Officer	N/A	N/A
Monitoring Officer	13/04/2021	13/04/2021
CMT	N/A	N/A

Circulated to	Date sent
Lead Specialist	Report author
Human Resources Lead Specialist	N/A
Communications Team	N/A
Leader	N/A
Committee Chairman	N/A
Portfolio Holder	N/A

Circulated to	Date sent
Ward Councillor(s)	N/A
Committee	22/04/2021
Executive (Cabinet)	N/A
Council	N/A