

CIPFA



GOOD GOVERNANCE IN LOCAL GOVERNMENT: A FRAMEWORK

CONSULTATION DRAFT

(June 2006)

AT THE HEART OF
PUBLIC SERVICES 

CIPFA is one of the leading professional accountancy bodies in the UK and the only one which specialises in the public sector. It is responsible for the education and training of professional accountants and for their regulation through the setting and monitoring of professional standards. Uniquely among the professional accountancy bodies in the UK, CIPFA has responsibility for setting accounting standards for a significant part of the economy, namely local government. CIPFA's members work, often at the most senior levels, in public service bodies, in the national audit agencies and major accountancy firms. They are respected throughout for their high technical and ethical standards, and professional integrity. CIPFA also provides a range of high quality advisory, information, and training and consultancy services to public service organisations. Its weekly magazine, *Public Finance*, is read widely by elected representatives and officials in all tiers and corners of government. As such, CIPFA can justifiably lay claim to be the leading independent commentator on managing and accounting for public money.

SOLACE (the Society of local authority Chief Executives and Senior Managers) is the representative body for senior strategic managers working in local government. The Society promotes effective local government and provides professional development for its members

CONSULTATION QUESTIONS

We welcome comments on the content of this document. In particular we would welcome views on the following:

- 1 would this framework *Good Governance in Local Government* assist you in updating your own local code of governance?
- 2 would this Framework assist you in managing your arrangements for :
 - partnerships?
 - community engagement?
- 3 how might the Framework document be improved?
- 4 are there any other aspects of governance that are not in the Framework which you believe should be addressed?
- 5 are there any other issues that you wish to raise?

GUIDANCE NOTES

Corporate Governance in Local Government – A Keystone for Community Governance: A Framework was published with accompanying guidance notes in 2001. It is our intention later this year to develop separate guidance notes for English, Scottish, Welsh and Northern Irish local authorities to accompany this revised Framework. The guidance notes will illustrate:

- how the Framework fits in with other local government initiatives and guidance
- examples of good practice
- examples of the types of systems, processes and documentary evidence that might be cited by an authority to demonstrate compliance with best practice (such as the constitution, standing orders and job descriptions)
- the principles underlying who should be nominated by the authority to take responsibility for the review on its behalf and the scope given
- signposts to other useful tools and sources of guidance available to local authorities for self assessment purposes
- questions for internal use to help authorities in their approach.

We would be very pleased to be made aware of specific examples of good practice that might be included in the guidance notes.

Comments on this consultation draft should be sent by Monday, 11 September to:

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ENDORSEMENTS

[Endorsements by Audit Commission, LGA, the Standards Board for England and others to be added.]

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FOREWORD

Governance arrangements in the public services are keenly observed and sometimes criticised. Significant governance failings attract immense attention – as they should – and one significant failing can taint a whole sector. Local authorities are big business employing over 2 million people and accounting for 25% of public spending. They are vitally important to all tax payers and citizens. Local authorities have a key role in leading their communities as well as ensuring the delivery of high quality services to them. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk.

Effective local government relies on public confidence in elected councillors and appointed officers. Good governance strengthens credibility and confidence in our public services. The function of governance is to ensure that authorities, other local government organisations or connected partnerships fulfil their purpose and achieve their intended outcomes for citizens and service users and operate in an effective, efficient, economic and ethical manner. This concept should guide all governance activity. Good governance leads to good management, good performance, good stewardship of public money, good public engagement and, ultimately, good outcomes for citizens and service users. All authorities should aim to meet the standards of the best and governance arrangements should not only be sound but be seen to be sound.

This Framework updates *Corporate Governance in Local Government: A keystone for Community Governance* published in 2001. Since its publication local government has been subject to continued reform to improve local accountability and engagement and a revised Framework is therefore timely. The Framework is intended to be followed as best practice for developing and maintaining a locally adopted code of governance and making adopted practice open and explicit.

PREFACE

Governance comprises systems and processes for the direction and control of local authorities through which they account to, engage with and lead their communities.

Each local authority operates through a governance framework. It is an interrelated system that brings together an underlying set of legislative requirements, governance principles and management processes. Traditionally, local government has conformed in whole or in part and in many different ways with the principles of good governance and has had a sound base on which to build. There has been a strong regulatory framework in existence and robust arrangements for monitoring and review.

In 2001 CIPFA in conjunction with SOLACE and with support from key organisations in local government responded to the need to draw together the principles identified by Cadbury, Nolan and, in England, the former Department of the Environment, Transport and the Regions (DETR) into a single framework of good governance for use in local government and published *Corporate Governance in Local Government: A Keystone for Community Governance*. The Framework recommended that local authorities review their existing governance arrangements against a number of key principles and report annually on their effectiveness in practice. Through the development of this Framework authorities were encouraged to meet the standards of the best.

Since the Framework was published, local government has been subject to continued reform intended to improve local accountability and engagement (See Appendix A for further information on the local authority context). In England and Wales new political structures and the new ethical framework mean that local authorities and their performance are under greater scrutiny than ever before. Of course local government is also accountable in a number of other ways. All local authority members are democratically accountable – uniquely - to their local area and this makes them a key influence in building sustainable communities. Authorities are subject to external review through the external audit of their financial statements and through the Comprehensive Performance Assessments (CPA) in England. They are required to publish their financial statements and are encouraged to prepare an annual report. Many are subject to national standards and targets such as educational attainment. Their budgets are effectively subject to significant influence and overview by Government with powers to intervene. Both members and officers are subject to codes of conduct. Additionally, where maladministration may have occurred, an aggrieved person may appeal either through their local councillor or directly to the ombudsman.

As the role of local authorities continues to evolve, they will need to make some difficult choices over the next few years. Delivering extensive change and meeting rising expectations about the quality and responsiveness of services is demanding. Doing so when council finances are subject to close scrutiny will be particularly challenging for those responsible for managing the process. Time is also needed for thinking through long term issues including future priorities and objectives and whether councils' structures allow them to predict and respond in a timely fashion. Councils must ensure that they exhibit 'fitness for purpose' in organisational and structural terms so they can deliver on those choices.

The main principle underpinning the development of the original Framework was that local government was shaping its own approach to good governance. This principle has remained key to the revised Framework. The revised Framework builds on recent governance work in both the public and private sectors and in particular *The Good Governance Standard for Public Services* drawn up by the Independent Commission on Good Governance in Public Services established by CIPFA and the Office for Public Management (OPM) in partnership with the Joseph Rowntree Foundation. The six core principles from the Good Governance Standard have been adapted for the local

government context. The Framework also comprises best practice objectives that should provide the basis for each local authority to develop and maintain a local code of governance reflecting its type, size, functions and nature.

Good governance is important to all involved in local government. However, it is a key responsibility of the leader of the council and of the chief executive. This document will be of particular importance to them, to other members of the leadership team and to those responsible for monitoring and assurance.

1 INTRODUCTION

Governance comprises the systems and processes for the direction and control of local authorities through which they account to, engage with and lead their communities.

Purpose of Framework

- 1.1 Each local authority operates through a governance framework which brings together an underlying set of legislative requirements, governance principles and management processes. This Framework document is intended to be followed as best practice for developing and maintaining a local code of governance and making adopted practice open and explicit.
- 1.2 The Framework defines the principles that should underpin the governance of each local authority but it is not a prescription for a single model of governance. Whatever form of executive arrangements are in place, authorities are urged to test their structures against the principles contained in the Framework by:
- reviewing their existing governance arrangements against this Framework
 - developing and maintaining an up-to-date local code of governance, including arrangements for ensuring its ongoing application and effectiveness
 - preparing a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period.
- 1.3 In order to review their current arrangements authorities will need to:
- consider the extent to which the authority complies with the principles and requirements of good governance set out in the Framework
 - identify systems, processes and documentation that provide evidence of compliance
 - identify the individuals and committees responsible for monitoring and reviewing the systems, processes and documentation identified
 - identify the issues that have not been addressed adequately in the authority and consider how they should be addressed
 - identify the individuals who would be responsible for undertaking the actions required and plan accordingly.
- 1.4 This document reflects the dimensions of a local authority's business – these underpin the way the governance principles are developed throughout the Framework. The dimensions describe the role of a local authority and are considered to be as follows:
- 1 to provide leadership for and with the community and engage in effective partnerships
 - 2 to ensure the delivery of high quality local services whether directly or in partnership or by commissioning
 - 3 to perform a stewardship role which protects the interests of local people and makes the best use of resources
 - 4 to develop local democracy and citizenship.

DIMENSION 1: To provide leadership for and with the community and to engage in effective partnerships

Local authorities are able to provide leadership to their communities through their ability to act in an advocacy role and to promote the economic, social and environmental well-being of their area. Partnerships are a key component of the pattern of public service provision and local authorities have a key role to play in the Government's agenda for partnership working.

DIMENSION 2: To ensure the delivery of high quality local services whether directly or in partnership or by commissioning

Local authorities are responsible for ensuring the delivery of high quality services to their communities. Some local authorities provide most of their services on an in-house basis. Others provide some services in-house and employ private sector contractors to provide others. They also enter into contracts with voluntary bodies and enter into shared or agency arrangements with other local authorities.

DIMENSION 3: To perform a stewardship role which protects the interests of local people and makes best use of resources

Each local authority is accountable to tax payers for its stewardship and use of resources. It should provide excellent value for money and make the best use of resources available to it as well as protecting the interests of local people.

DIMENSION 4: To develop local democracy and citizenship

Local authority members are democratically accountable to their local area. Authorities have a key role to play in working with others to build a strong sense of community and in encouraging individual citizens to play a full and constructive part in the lives and development of their communities.

2 FRAMEWORK FOR THE DEVELOPMENT OF A LOCAL CODE

Defining the principles of good governance

- 2.1 Authorities must be able to demonstrate that they are complying with the principles of good governance. The following six core principles are taken from the Good Governance Standard developed by the Independent Commission on Good Governance in Public Services with support from OPM and CIPFA and have been adapted for local government purposes.

Good governance means:

- (i) Focussing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area
- (ii) Members and officers working together to achieve a common purpose with clearly defined functions and roles
- (iii) Promoting the values of the authority and demonstrating the values of good governance through behaviour
- (iv) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- (v) Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers - also have the capability and capacity to deliver effectively
- (vi) Engaging with local people and other stakeholders to ensure robust local public accountability.

Supporting principles

- 2.2 The six core principles have supporting principles which reflect the dimensions of a local authority's business:

- **Focussing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area**
 - exercising leadership by clearly communicating the authority's purpose and vision and its intended outcomes for citizens and service users
 - ensuring that users receive a high quality of service whether directly, or in partnership or by commissioning
 - ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money.
- **Members and officers working together to achieve a common purpose with clearly defined functions and roles**
 - ensuring effective leadership throughout the authority by being clear about executive and non executive functions and of the roles and responsibilities of the scrutiny function
 - ensuring that a constructive working relationship exists between elected members and officers and that the responsibilities of members and officers are carried out to a high standard
 - ensuring relationships between the authority and the public are clear so that each know what to expect of the other.

- **Promoting the values of the authority and demonstrating the values of good governance through behaviour**
 - ensuring council members and officers exercise leadership by behaving in ways that uphold high standards of conduct and exemplify effective governance
 - ensuring that organisational values are put into practice and are effective.

- **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk**
 - exercising leadership by being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny
 - having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs
 - making sure that an effective risk management system is in place
 - recognising the limits of lawful action and observing both the specific requirements of legislation and the general responsibilities placed on local authorities by public law, but also accepting responsibility to use their legal powers to the full benefit of the citizens and communities in their area.

- **Developing the capacity and capability of members to be effective and ensuring that officers – including the statutory officers – also have the capability and capacity to deliver effectively**
 - making sure that members and officers have the skills, knowledge and experience they need to perform well in their roles
 - developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group
 - encouraging new talent for membership of the authority so that best use can be made of resources in balancing continuity and renewal.

- **Engaging with local people and other stakeholders to ensure robust local public accountability**
 - exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders including partnerships, and develops constructive accountability relationships
 - taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery
 - making best use of resources by taking an active and planned approach to meet responsibility to staff.

3 THE PRINCIPLES OF GOOD GOVERNANCE – APPLICATION

- 3.1 To achieve good governance, each local authority should be able to demonstrate that they are complying with the core and supporting principles contained in this Framework and should therefore develop and maintain a local code of governance comprising the requirements for best practice outlined below.

Core principle

Focussing on the purpose of the authority and on outcomes for the community including citizens and service users and creating and implementing a vision for the local area.

Supporting principles

- exercising leadership by clearly communicating the authority's purpose and vision and its intended outcome for citizens and service users
- ensuring that users receive a high quality of service whether directly, or in partnership or by commissioning
- ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money.

The local code should reflect the requirement for local authorities to:

- make a clear statement of the authority's purpose and vision and use it as basis for corporate and service planning and shaping the community strategy and local area agreement (or performance agreement)
- review on a regular basis the authority's vision for the local area and its impact on the authority's governance arrangements
- publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance
- decide how the quality of service for users is to be measured and make sure that the information needed to review service quality effectively and regularly is available. The authority must ensure that this information is reflected in its corporate plan, medium term strategy and resourcing plan in order to ensure improvement
- decide how value for money is to be measured and make sure that it has the information needed to review value for money and performance effectively is available. Ensure that the results are reflected in authorities' performance plans and in reviewing the work of the authority
- put in place effective arrangements to deal with failure in service delivery
- when working in partnership ensure that there is a common vision underpinning the work of the partnership that is understood and agreed by all partners. The vision should be :
 - supported by clear and measurable objectives with targets and indicators
 - the driver for deciding what services will be provided by or commissioned by the partnership, the quality and the cost.

Core principle

Members and officers working together to achieve a common purpose with clearly defined functions and roles

Supporting principles

- ensuring effective leadership throughout the authority by being clear about executive and non executive functions and of the roles and responsibilities of the scrutiny function
- ensuring that a constructive working relationship exists between elected members and officers and that the responsibilities of authority members and officers are carried out to a high standard.
- ensuring relationships between the authority and the public are clear so that each know what to expect of the other.

The local code should reflect the requirements for local authorities to:

- set out a clear statement of the respective roles and responsibilities of the executive and of the executive's members individually and the authority's approach towards putting this into practice
- set out a clear statement of the respective roles and responsibilities of other authority members, members generally and of senior officers
- develop protocols to ensure effective communication between councillors and officers in their respective roles
- develop protocols to ensure that the leader and chief executive (or equivalent) negotiate their respective roles early in the relationship and that a shared understanding of roles and objectives is maintained
- set out the terms and conditions for remuneration of members and officers and an effective structure for managing the process including an effective remuneration panel
- ensure that the organisation's vision, strategic plans, priorities and targets are developed through robust mechanisms, and in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated
- when working in partnership :
 - ensure that there is clarity about the legal status of the partnership
 - ensure that the roles and responsibilities of the partners are agreed so that there is effective leadership and accountability
 - ensure that representatives or organisations make clear to all other partners the extent of their authority to bind their organisation to partner decisions
- ensure that effective mechanisms exist to monitor service delivery
- determine a scheme of delegated and reserved powers within the constitution, including a formal schedule of those matters specifically reserved for collective decision of the authority taking account of relevant legislation and ensure that it is monitored and updated when required
- ensure that effective management arrangements are in place at the top of the organisation
- make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management
- make a senior officer (usually the director of finance) responsible to the authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control
- make a senior officer (usually the monitoring officer) responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes, regulations and other relevant statements of good practice are complied with.

Core principle

Promoting the values of the authority and demonstrating the values of good governance through behaviour

Supporting Principles

- ensuring council members and officers exercise leadership by behaving in ways that uphold high standards of conduct and exemplify effective governance
- ensuring that organisational values are put into practice and are effective.

The local code should reflect the requirements for local authorities to:

- develop and maintain shared values including leadership values both for the organisation and its staff reflecting public expectations about the conduct and behaviour of individuals and groups within and associated with the authority
- use the organisations shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority
- develop and adopt formal codes of conduct defining the standards of personal behaviour
- develop and maintain an effective standards committee which acts as the main means to raise awareness and take the lead in ensuring high standards of conduct are firmly embedded within the local culture (see Appendix B)
- put in place arrangements to ensure that members and employees of the authority are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders and put in place appropriate processes to ensure that they continue to operate in practice
- put in place arrangements to ensure that their procedures and operations are designed in conformity with appropriate ethical standards, and to monitor their continuing compliance in practice
- in pursuing the vision of a partnership, agree a set of values against which decision making and actions can be judged. Such values must be 'alive' and demonstrated by partners' behaviour both individually and collectively.

Core principle

Taking informed and transparent decisions which are subject to effective scrutiny and managing risk

Supporting principles

- exercising leadership by being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny
- having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs
- making sure that an effective risk management system is in place
- recognising the limits of lawful action and observing both the specific requirements of legislation and the general responsibilities placed on local authorities by public law, but also accepting responsibility to use their legal powers to the full benefit of the citizens and communities in their area.

The local code should reflect the requirements for local authorities to:

- develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall
- develop and maintain open and effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations on which decisions are based
- put in place arrangements so that conflicts of interest on behalf of members and employees can be avoided and put in place appropriate processes to ensure that they continue to operate in practice
- put in place arrangements for whistle blowing to which staff and all those contracting with the authority have access
- put in place effective transparent and accessible arrangements for dealing with complaints
- develop and maintain an effective audit committee which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of these functions (see Appendix B)
- develop and maintain an effective standards committee which lies at the heart of decision making and awareness raising on standards issues (see Appendix B)
- ensure that those making decisions are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications
- develop and maintain effective arrangements for determining the remuneration of senior staff
- ensure that professional advice on legal and financial matters is available and recorded well in advance of decision making and used appropriately when decisions have significant legal or financial implications
- ensure that risk management is embedded into the culture of the authority, with members and managers at all levels recognising that risk management is part of their job (See Appendix C)
- actively recognise the limits of lawful activity placed on them by the ultra vires doctrine but also strive to utilise their powers to the full benefit of their communities
- observe all specific legislative requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of administrative law – rationality, legality and natural justice into their procedures and decision making
- when working in partnership, put in place protocols for working together which include a shared understanding of respective roles and responsibilities of each organisation
- when working in partnership, ensure that there are robust procedures for scrutinising decisions and behaviour and that these decisions and behaviour are compliant with any local authority rules/codes or comply with any rules/codes developed for the purpose of the partnership
- when working in partnership, ensure that partnership papers are easily accessible and meetings are held in public unless there are good reasons for confidentiality. The partners must ensure that:
 - the partnership receives good quality advice and support and information about the views of citizens and stakeholders, so that robust and well reasoned decisions are made
 - risk is managed at a corporate and operational level.

Core principle

Developing the capacity and capability of members to be effective and ensuring that officers - including the statutory officers - also have the capability and capacity to deliver effectively.

Supporting principles

- making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles
- developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group
- encouraging new talent for membership of the authority so that best use can be made of resources in balancing continuity and renewal.

The local code should reflect the requirements for local authorities to:

- assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively
- ensure that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the authority
- provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis
- develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge and to recognise when outside expert advice is needed
- put in place arrangements for reviewing the performance of the executive as a whole and of individual members and agreeing an action plan which might for example aim to address any training or development needs
- put in place effective arrangements designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority
- consider career structures for members and officers to encourage participation and development
- when working in partnership, ensure that partners individually and the partnership collectively share responsibility for appointing people to the partnership who have the required skills and are at an appropriate level. The partnership should :
 - identify the capacity and capability requirements of the partnership
 - conduct an audit of the availability of the capacity and capability of the partnership and partners
 - develop an effective plan for addressing any gaps.

Core principle

Engaging with local people and other stakeholders to ensure robust local public accountability

Supporting principle

- exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders including partnerships, and develops constructive accountability relationships

- taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery
- making best use of resources by taking an active and planned approach to meet responsibility to staff.

The local code should reflect the requirements to:

- make clear to themselves, all staff and the community, to whom they are accountable and for what
- consider those institutional stakeholders to whom they are accountable and assess the effectiveness of the relationships and any changes required
- establish clear channels of communication with all sections of the community and other stakeholders and put in place monitoring arrangements to ensure that they operate effectively
- put in place arrangements to enable the authority to engage with all sections of the community effectively. These arrangements should recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands
- establish a clear policy on the types of issues they will meaningfully consult or engage with the public and service users including a feedback mechanism for those consultees
- on an annual basis, publish a performance plan giving information on the authority's vision, strategy, plans and financial statements as well as information about its outcomes, achievements and the satisfaction of service users in the previous period
- put in place effective systems to protect the rights of staff. Ensure that policies for whistle blowing which are accessible to staff and those contracting with the authority, and arrangements for the support of whistle blowers, are in place
- develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making
- produce an annual report on scrutiny function activity
- ensure that the authority as a whole is open and accessible to the community, service users and its staff and ensure that it has made a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so
- when working in partnership, ensure that engagement and consultation undertaken by the partnership is planned with regard to methodology, target audience and required outcomes. Existing mechanisms and groups should be used where appropriate. In the work cycle of the partnership it must be clear and demonstrable to the public what has happened to any feedback and what has changed as a result.

4 ANNUAL REVIEW AND REPORTING

(NB The proposed requirements included in this chapter will also be considered by the CIPFA/LASAAC Joint Committee which is responsible for the development of the Code of Practice on Local Authority Accounting in the United Kingdom for 2007/08).

The Governance Statement

Proper Practice

This section of the Framework defines proper practice for the form and content of a governance statement that subsumes the requirement to prepare and publish a statement on internal control. Regulation 4(2) of the Accounts and Audit Regulations 2003 requires a local authority to "conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement on internal control, prepared in accordance with proper practices....". To meet the requirements of the Regulations it is mandatory to prepare a governance statement in accordance with this section.

A pro forma governance statement is provided at Appendix D. This provides the key headings that should be covered in the statement, along with indications of what might be covered. It does not, however, provide standard wording for the sections dealing with the governance arrangements and the review of their effectiveness. It is not appropriate to use standard wording to describe or demonstrate the effectiveness of the particular governance arrangements at a given authority, which will be dependent on the risk profile and range of activities in operation. The statement should include the action plan to address any significant governance and internal control issues

The governance statement should be approved at a meeting of the authority or delegated committee. Whilst there is no statutory timetable for this approval, the statement must be published with the financial statements and so the publication timetable for the financial statements will drive the governance statement approval timetable. In considering whether to approve the governance statement, the relevant body should seek to satisfy itself that it has obtained relevant and reliable evidence to support the disclosures made. Following approval, the governance statement should be signed by the most senior officer and the most senior member of the council. Given that it might be prepared before the audit is completed, it is also important that the governance statement is kept up to date at the time of publication.

Guidance

- 4.1 Local authorities are responsible for ensuring that their business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The development of a code of corporate governance, consistent with the principles and requirements of the CIPFA/SOLACE framework, will help to ensure proper arrangements are in place to meet that responsibility. Authorities should undertake regular, at least annual, reviews of their governance arrangements to ensure continuing compliance with best practice as set out in the Framework. It is important that such reviews are reported on both within the authority, to the audit committee or other appropriate member body, and externally with the published accounts, to provide assurance that:

- corporate governance arrangements are adequate and operating effectively in practice; or
 - where reviews of the corporate governance arrangements have revealed gaps, action is planned that will ensure effective governance in future.
- 4.2 The process of preparing the governance statement should itself add value to the corporate governance and internal control framework of an organisation. It should be submitted to the council for consideration.
- 4.3 A governance statement should include the following information:
- an acknowledgement of responsibility for ensuring there is a sound system of governance, including in particular the system of internal control
 - an indication of the level of assurance that the systems and processes that comprise the authority's governance arrangements can provide
 - a brief description of the key elements of the governance arrangements
 - a brief description of the process that has been applied in maintaining and reviewing the effectiveness of the governance arrangements, including some comment on the role of: the authority; the executive; the audit committee/overview and scrutiny function/risk management committee/standards committee; internal audit and other explicit review/assurance mechanisms
 - an outline of the actions taken, or proposed, to deal with significant governance and internal control issues.
- 4.4 It is important to recognise that the governance statement covers all significant corporate systems, processes and controls, spanning the whole range of an authority's activities, including in particular those designed to ensure:
- the authority's policies are put into place
 - the authority's values are met
 - laws and regulations are complied with
 - required processes are adhered to
 - financial statements and other published information are accurate and reliable
 - human, financial and other resources are managed efficiently and effectively
 - high quality services are delivered efficiently and effectively.
- 4.5 It therefore covers performance issues – good governance promotes good service but poor service performance reflects a failure of governance. Consequently, approval and ownership of the governance statement should be at a corporate level and should be confirmed by the most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) signing the statement on behalf of the authority. Equally, the review and approval of the governance statement by a member group separately from the accounts will help to ensure its robustness and reinforce its corporate standing.
- 4.6 In reviewing and approving the governance statement, members will require assurances on the effectiveness of the governance framework, and in particular the system of internal control, and how these address the key risks faced by the authority. Those assurances will be available from a wide range of sources, including internal and external audit, a range of external inspectorates and managers from across the organisation. Management will provide the primary source of assurance. However, an effective internal audit function will also be a significant source of assurance.

- 4.7 Ultimately, an authority should seek to establish an assurance framework, embedded into its business processes, that maps strategic objectives to risks, controls and assurances. Such a framework will provide members with assurances to support the governance statement on a structured basis, and will help members to identify whether all strategic objectives and significant business risks are being addressed.

The Local Authority Context

- 1.1 For England and Wales, the Local Government Act 2000 introduced new governing structures for all principal local authorities, clarifying responsibility for making decisions and establishing a scrutiny role. Local authorities above a de minimus level are required to have 'executive arrangements' comprising an executive which can be:
- or a directly elected mayor with cabinet
 - or a cabinet with a leader
 - or a directly elected mayor and council manager.
- 1.2 Executive arrangements must include one or more overview and scrutiny committees through which non executive councillors can question and challenge the performance of the executive and promote public debate. The Act gave local authorities the power to promote the economic, social and environmental well-being of their areas and to work with other bodies to develop community strategies.
- 1.3 Elected members are collectively responsible for the governance of the council. The full council meeting is responsible for:
- agreeing the council's constitution containing the key governance documents including the executive arrangements
 - agreeing the policy framework including the community strategy and other key strategies
 - agreeing the budget
 - appointing the chief executive and leader of the council
 - appointing committees.
- 1.4 The executive is responsible for:
- proposing the policy framework and key strategies
 - proposing the budget
 - implementing the policy framework and key strategies.
- 1.5 In Scotland local authorities have traditionally adopted a committee structure to support their decision making process, operated under a scheme of delegation as laid down in the local authority's standing orders. Typically, the local authority in the form of a full council will devolve authority to service and other committees to take decisions on its behalf, with the meeting of the full council formally approving the decisions taken. More recently local authorities in Scotland have moved away from the traditional committee based structure and it is estimated that half of local authorities have adopted a cabinet style of structure.
- 1.6 In Northern Ireland, under the provisions of the Local Government Act (NI) 1972 councils were initially designated as 'district councils' but the Act provided for granting of city or borough status in certain circumstances. Each council consists of councillors elected by electors in each district and councils of city or borough status may designate up to one quarter of the number of their councillors with the ceremonial title of 'alderman'. Councils are required to elect a chairman annually from amongst the councillors. In city and borough councils the chairman is known as the mayor.

STANDARDS AND AUDIT COMMITTEES

(NB It is important that the functions of audit committees are discharged effectively and are recognised for their significance in relation to overall governance. Some local authorities may choose to adopt different arrangements other than those found in the CIPFA guidance *Audit Committees: Practical Guidance for Local Authorities*. They should be at liberty to do so. Whether authorities adopt this model guidance or an alternative arrangement, they should be ready to justify their decisions to electors and other stakeholders through the usual accountability channels).

The role of standards and audit committees

It is important that the respective committees are clear about their roles and responsibilities and that there is a clear distinction in their terms of reference. This will avoid confusion, disputes and possible duplication. Furthermore, committees are likely to be more effective if they are required to focus on their own defined areas of business.

A useful distinction can be made between the functions of 'overseeing financial processes, audit and risk management' and 'ensuring and promoting good ethical conduct.' The focus of audit committees should be on the former while the focus of standards committees should be on the latter.

An audit committee would then oversee the following functions, outlined in the CIPFA document *Audit Committees: Practical Guidance for local Authorities* (2005):

- Internal control
- Risk management
- Financial management and reporting
- Anti-fraud and anti-corruption arrangements
- Issues raised by internal and external auditors.

The role of standards committees is determined by statute and resolutions.¹ The introduction of regulations under *The Local Authorities (Code of Conduct) (Local Determinations) Regulations 2003* has led to standards committees having the responsibility for:

- Holding a local hearing following an investigation of misconduct and imposing sanctions.

The paper *Standards of Conduct in English Local Government: The Future* (Office of the Deputy Prime Minister 2005) emphasises greater local decision making on ethics issues. The paper asserts that consistent with this would be the following function:

- Initial assessment of all allegations of misconduct.

Reference is made to the role of standards committees in the Comprehensive

¹ Part III of the *Local Government Act 2000* requires standards committees to undertake the following functions:

- Give the council advice on adopting a local code of conduct
- Monitor the effectiveness of the code
- Train members on the code, or arrange such training
- Promote and maintain high standards of conduct for members
- Help members to follow the code of conduct.

Performance Assessment 2005: Key Lines of Enquiry for Performance Assessment. Of particular note is the role of promoting and maintaining high ethical standards and the need to have a high profile within the council. Similarly, the Government as part of its drive for local ownership of standards and ethical issues envisages standards committees as being at the heart of decision-making within the conduct regime and the main means of raising awareness of standards issues (Office of the Deputy Prime Minister 2005).

Other functions that could come under the remit of standards committees are overseeing the constitution, overseeing whistle blowing, assessing reports from the Ombudsman and developing protocols.

The above does not include an exhaustive list of possible functions. Although mindful of the need not to be over prescriptive there is, nevertheless, a need for clarity of roles, and for some protocol where committees coexist. It could also be possible that the committees would contribute to each others' work and/or undertake joint working and reporting on some issues, for which they both would have some responsibility, for example risk management and monitoring corporate governance.

Membership and skills of audit committees and standards committees

CIPFA (2005) recommend that members of the audit committee should be independent of both the executive and scrutiny functions. The Government have advocated that all chairs of standards committees should be independent (Office of the Deputy Prime Minister 2005). *The Relevant Authorities (Standards Committee) Regulations 2001* require that independent members comprise at least 25% of the membership of the committee, and the Standards Board for England recommends that there should be at least two independent representatives. Standards committees must, where they cover any parish or town councils, include at least one parish or town council representative (*Local Government Act 2000 and the Relevant Authorities (standards Committee) Regulations 2001*).

Given the different roles of the two committees it follows that arrangements should be in place to ensure that members of the respective committees have the necessary skills, experience and knowledge. The Government (Office of the Deputy Prime Minister 2005) recommends that standards committees should include independent members who reflect a balance of experience. Although some aspects of the skills and experiences required for either committee are likely to be similar, there are some which are likely to be more specific. For example, overseeing risk management and financial arrangements (undertaken by an audit committee) requires different skills to that of holding hearings and promoting ethics (undertaken by a standards committee).

RISK MANAGEMENT AND THE INTERNAL CONTROL ENVIRONMENT

This Framework defines governance as comprising " *the systems and processes for the direction and control of local authorities through which they account to, engage with and lead their communities*".

Regulation 4 of the Accounts and Audit Regulations 2003² requires that:

- (1) *The relevant body shall be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.*
- (2) *The relevant body shall conduct a review at least once in a year of the effectiveness of its system of internal control and shall include a statement on internal control, prepared in accordance with proper practices*".

There is, therefore, a clear and logical connection between reporting on the effectiveness of an authority's governance arrangements, and its systems of risk management and internal control.

Risk Management

Risk is the threat that an event or action will adversely affect on organisation's ability to achieve its objectives and to successfully execute its strategies. Risk management is the process by which risks are identified, evaluated and controlled and is a key element of the framework of governance³. Public services need to consider risk management and how they handle risk in all its forms. The CIPFA/ALARM publication *Risk Management in Public Services*⁴ helps public service managers at all levels within an organisation to understand their role in incorporating risk management into their work.

Risk management can be defined as "a *logical and systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risks associated with any activity, function or process in a way that will enable organisations to minimise losses and maximise opportunities*"⁵. It is not about being 'risk averse' but is about being 'risk aware'.

Good corporate governance requires that risk management is embedded into the culture of the organisation, with members and managers at all levels recognising that risk management is part of their job. At the highest level, risk management must be closely aligned to the organisation's strategic objectives, ensuring that there is a clear focus, at the top of the organisation, on those significant risks that would prevent the organisation achieving its key business objectives. An authority should, therefore, be able to demonstrate that risk management has been embedded in its corporate business processes, including:

- strategic planning
- financial planning
- policy making and review

² The Accounts and Audit Regulations 2003, SI 2003/533

³ Worth the Risk: Improving Risk Management in Local Government, The Audit Commission 2001

⁴ Risk Management in Public Services, CIPFA/ALARM, 2001

⁵ Australia/New Zealand Standard 4360:1999 Risk Management, Standards Australia 1999

- project management
- performance management.

To enable effective strategic risk management, the number of significant business risks should be limited to those that are considered business critical – say the 10 to 20 top risks. Above this, it becomes more difficult to effectively manage and monitor risks. Authorities will also need to identify what is the most effective structure for them to manage risk. This could be achieved through an audit committee convened in accordance with best practice identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities 2005*⁶. Alternatively, authorities may wish to establish a risk management committee.

At service or departmental level, service managers will need to be able to identify and manage those operational risks that could prevent or disrupt the delivery of services to users.

An organisation's risks will change over time as its objectives and service delivery arrangements change, either in response to local issues or to national policies. Risk management arrangements must be flexible enough to respond to these changes. What is seen as a low level operational risk today may be tomorrow's significant business risk.

To ensure an effective level of risk management, an authority will need to be able to demonstrate, as a minimum, the following attributes:

- A risk management strategy/policy has been adopted and approved by members.
- The risk management strategy/policy requires the authority to:
 - identify corporate and operational risks
 - assess the risks for likelihood and impact
 - identify mitigating controls
 - allocate responsibility for the mitigating controls.
- The authority maintains and reviews a register of its corporate business risks linking them to strategic business objectives and assigning ownership for each risk. The risks arising from and within partnerships and other joint working arrangements should be identified as part of this process. The corporate risk register will be supported by a series of department/service risk registers that identify and assign the lower level operational risks.
- A member committee has specific responsibility included in its terms of reference to consider corporate risk management. There should also be a link between this function and the organisation's arrangements for reviewing its system of internal control.
- Reports to support strategic policy decisions, and project initiation documents, include a risk assessment and the identification of mitigating action.

As an authority develops more robust risk management arrangements that reflect best practice it would be able to demonstrate some or all of the following:

- A risk management process that is reviewed and updated at least annually.
- Risk management awareness training for those members with specific responsibility for risk management, and, ultimately, for all members.
- Relevant training and guidance for all appropriate staff to enable them to take responsibility for managing risk within their own working environment.

⁶ Audit Committees – Practical Guidance for Local Authorities, CIPFA 2005

- Regular risk management reporting to the responsible member committee, which takes appropriate action to ensure that corporate business risks are being actively managed, including reporting to full council as appropriate.
- A senior officer champions and takes overall responsibility for embedding risk management throughout the organisation.
- Consideration by the organisation of positive risks (opportunities) as well as negative risks (threats).

The Internal Control Environment

Regulation 4(1) of the Accounts and Audit Regulations 2003 requires a local authority to "be responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk"⁷.

The system of internal control spans the whole range of local authority activities, including those designed to ensure:

- the authority's policies are put into place
- the authority's values are met
- laws and regulations are complied with
- required processes are adhered to
- financial statements and other published information are accurate and reliable
- human, financial and other resources are managed efficiently and effectively
- high quality services are delivered efficiently and effectively.

Therefore, the internal control environment forms a significant element of the governance framework and will have an impact on the effective operation of an authority, linking risk management with the day to day operations of the organisation. It will also have a key role in ensuring that public money is used effectively, preventing loss through error or fraud, and that the authority can report its financial and operational performance in a timely and accurate way.

Members and senior managers of an authority will need to assure themselves that there are appropriate arrangements in place to maintain a sound governance framework, including systems of internal control, taking account of changing risks and circumstances. It will be for individual authorities to identify what those arrangements are, in the context of their own structures and objectives. However, an effective internal control environment will demonstrate the following attributes:

- The core functions of an audit committee, as identified in the CIPFA's *Audit Committee - Practical Guidance for Local Authorities*, are undertaken by members.
- An internal audit function that operates in accordance with the CIPFA code for internal audit in local government⁸
- Procedure notes/manuals for key financial systems, which are reviewed and updated as appropriate.
- Standing orders, standing financial instructions and a scheme of delegation which are reviewed and updated as appropriate.
- A business continuity plan which is reviewed on a regular basis.
- Arrangements to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All reports are considered for legal issue before submission to members.

⁷ The Accounts and Audit Regulations 2003, SI 2003/533

⁸ Code of Practice for Internal Audit in Local Government in the UK, CIPFA 2003

- Arrangements to ensure a sound system of internal financial control including, for example, carrying out regular bank reconciliations and reconciliations of major feeder systems.
- Governance arrangements with respect to partnerships are reflected in the authority's overall internal control arrangements.

ANNUAL GOVERNANCE STATEMENT

Scope of responsibility

[The authority] is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. [The authority] also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, [the authority] is responsible for putting in place proper arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

[The authority] has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government*. A copy of the code is on our website at [...] or can be obtained from [...]. This statement explains how [the authority] has complied with the code and also meets the requirements of regulation 4 of the Accounts and Audit Regulations 2003 in relation to the publication of a statement on internal control.

The purpose of the governance framework

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of [the authority's] policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at [the authority] for the year ended 31 March 200x and up to the date of approval of the [annual report] and statement of accounts.

The governance environment

Describe the key elements of the systems and process that comprise the authority's governance arrangements including arrangements for:

- establishing and monitoring the achievement of the authority's objectives
- the conduct of behaviour
- the facilitation of policy and decision-making
- ensuring compliance with established policies, procedures, laws and regulations
- embedding risk management in the activity of the authority, including how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their authority and duties;

- ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty;
- the financial management of the authority and its financial reporting; and
- the performance management of the authority and the reporting of performance management.

Review of effectiveness

[The authority] has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the authority who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit’s annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

- Describe the process that has been applied in maintaining and reviewing the effectiveness of the system of internal control, including some comment on the role of:
- the authority
 - the executive
 - the audit committee/overview and scrutiny committees/risk management committee
 - the standards committee
 - internal audit
 - other explicit review/assurance mechanisms.

I/we have been advised on the implications of the result of the review of the effectiveness of the governance framework and system of internal control by the Authority, the executive/audit committee/overview and scrutiny committee/risk management committee (*amend list as appropriate*), and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Significant governance issues

[Include an outline of the actions taken, or proposed, to deal with significant governance and internal control issues.]

We propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed:

Leading Member & Chief Executive on behalf of [the authority]