

Report of	Meeting	Date
Director of Finance	Audit Committee	21/06/07

## ANNUAL GOVERNANCE STATEMENT

### PURPOSES OF THE REPORT

- 1 To advise the Audit Committee of the regulatory framework requiring the Council to continuously review its system of governance / internal control and to formally publish an Annual Statement alongside its annual financial statements.
- 2 To explain the structure and processes that are in place within the Council to enable the Statement to be produced.
- 3 To invite Members to review and approve the draft Statement (shown at Appendix 1) which has been produced in accordance with new CIPFA / SOLACE guidelines.
- 4 Thereafter the approved Statement will need to be formally signed-off by the Leader & Chief Executive and be submitted for external audit as part of the 2006/7 financial statements

### CORPORATE PRIORITIES

- 5 A sound system of governance and internal control is an essential ingredient of any well-managed, high performing organisation.

### RISK ISSUES

- 6 The issues raised and recommendations made in this report involve risk considerations in the following categories:

Strategy		Information	
Reputation	3	Regulatory/Legal	3
Financial		Operational	
People		Other	

- 7 Failure to produce a compliant Statement would constitute a regulatory breach. More substantially, any significant governance issues emanating from the process could impact upon the Use of Resources assessment and ultimately affect the Council's score in Comprehensive Performance Assessment (CPA).



## BACKGROUND

- 8 Regulation 4 of the Accounts and Audit Regulations (2003) requires every Council to conduct an annual review of the effectiveness of its system of internal control and publish a Statement on Internal Control (SIC) each year alongside the authority's financial statements. The Council has produced a compliant SIC for each financial year up to and including 2005/6.
- 9 The Accounts and Audit Regulations also gave Councils the option to publish a wider Annual Governance Statement (AGS) in place of the SIC but few have done so, largely due to a lack of clear guidance. However in June 2006 the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) issued a consultation draft document entitled "Good Governance in Local Government: A Framework", under which Councils are urged to:
- develop and maintain an up-to-date local code of governance consistent with certain "core principles" set out in the Framework;
  - review their existing governance arrangements against the Framework;
  - prepare a governance statement in order to report publicly on the extent to which the Council complies with its own code on an annual basis including how it has monitored the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- 10 **The new CIPFA SOLACE framework defines proper practice for the form and content of an AGS that subsumes the requirement to prepare and publish a SIC. Although CIPFA SOLACE is only due to become mandatory in 2008/9 the Council has elected to publish an AGS for 2006/7 rather than a SIC.**
- 11 The new framework requires the most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) to sign the AGS. They must be satisfied that the document is supported by reliable evidence and accurately reflects the Council's system of governance.
- 12 The AGS is a corporate document and should involve (in addition to the most senior officer and the most senior member as signatories) a variety of people charged with delivering governance, including:
- the monitoring officer in meeting his/her statutory responsibilities;
  - the responsible financial officer who is responsible for the accounting control systems and the preparation of the statement of accounts;
  - directors assigned with the ownership of risks and the delivery of services;
  - members (e.g. through audit or scrutiny committees); and
  - others responsible for providing assurance (e.g. Internal & External Audit).
- 13 Thus as a corporate document, the AGS should be owned by all senior officers and members of the authority. A shared approach should be taken to compiling the AGS because any delegation to a single individual or section will dilute its significance and encourage other people to distance themselves from their proper responsibilities.
- 14 The guidance also states the need for a review body in the process such as the Audit Committee or Scrutiny role who should be charged with critically reviewing the AGS and its supporting documentation. It is vital that this review body remains independent from the AGS compilation and is given real powers to make recommendations and ultimately changes to the process as it sees fit.

## STEPS TAKEN TO COMPILE THE ANNUAL GOVERNANCE STATEMENT

- 15 A management group consisting of the following officers has been established for some time to oversee the compilation of the SIC and more recently the AGS:
- Director of Customer, Democratic & Legal Services (Monitoring Officer)
  - Director of Finance (S151 Officer)
  - Director of Policy & Performance
  - Audit & Risk Manager
- 16 The management group has undertaken a detailed corporate self-assessment following the CIPFA SOLACE guidance. Section 5 of Appendix 1 discloses what the management group consider to be " significant governance issues". This view has been derived from the group's cumulative knowledge of the Council's system of governance and the views of independent assurance sources such as the Audit Commission.

## **DIRECTORATE ASSURANCE STATEMENTS**

- 17 In addition to the corporate self-assessment, assurance has also been obtained from Directors, as it is they who are responsible for implementing the respective governance systems and procedures within their service areas. The Council has therefore introduced Directorate Assurance Statements, to be compiled on an annual basis to coincide with the production of the AGS. These require Directors to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues.
- 18 The completed Directorate Assurance Statements have been analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues. Again, any significant non-compliance issues emerging from the Directorate Assurance Statements have also been included in the AGS at Appendix 1.

## **REVIEW OF THE EFFECTIVENESS OF THE SYSTEM OF INTERNAL AUDIT**

- 19 The Accounts & Audit (Amendment) (England) Regulations 2006 state at paragraph 6(3) that (the Council) "shall at least once a year conduct a review of the effectiveness of its system of internal audit". The regulations go on to say that the findings of this review be considered by a committee of the Council as part of the wider consideration of its system of governance. Such a review has been undertaken and the significant issues arising are also included in the AGS at Appendix 1.

## **FURTHER ACTIONS**

- 20 Section 5 of Appendix 1 lists all the actions that will be taken to address all the improvement opportunities that have been identified in the corporate self-assessment, directorate assessments and review of the system of internal audit. These actions will be fed into the Business Improvement Plans of the directorates concerned.

## **RECOMMENDATIONS**

- 21 That members review and approve the draft Annual Governance Statement (Appendix 1) which has been produced in accordance with CIPFA SOLACE guidelines.
- 22 That the approved Statement be formally signed off by the Leader and Chief Executive before being submitted for external audit as part of the 2006/7 financial statements.

GARY HALL  
DIRECTOR OF FINANCE

<b>Background Papers</b>			
<b>Document</b>	<b>Date</b>	<b>File</b>	<b>Place of Inspection</b>
Accounts & Audit Regulations	2003	FINANCE DIRECTORATE	UNION ST OFFICES
"Good Governance in Local Government: A Framework", (CIPFA / SOLACE)	2006		
Report Author	Ext	Date	Doc ID
Garry Barclay	5468	13/06/07	Aud Comm GAS

# CHORLEY COUNCIL

## ANNUAL GOVERNANCE STATEMENT

### 1. Scope of Responsibility

Chorley Council 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 Council 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 Council 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 Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Good Governance in Local Government*. This Annual Governance Statement explains how the Council has complied with the local 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.

### 2. 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 Council for the year ended 31 March 2007 and up to the date of approval of the annual report and statement of accounts.

### 3. The Governance Environment

#### *Establishing & Monitoring the Achievement of Objectives*

- The Council's priorities are derived from consultation on the Community Strategy and the approved Corporate Strategy clearly sets out the Council's priorities and strategic objectives.
- Long term outcomes and interim performance targets have been established for each strategic objective. These are in turn transferred into individual directorate business plans and business plan monitoring reports are produced on a quarterly basis. This is supported by a system of individual staff performance and development reviews.

### *The Conduct of Behaviour*

- The Council's Constitution contains formal Codes of Conduct that articulate the standards of ethical behaviour that are expected from members and officers. These incorporate procedures for the disclosure of pecuniary interests and offers of gifts and hospitality.

### *Policy & Decision Making*

- The Council has adopted a constitution, which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people.
- Policy and decision-making is facilitated through the Executive Cabinet supported by a framework of Statutory and Overview & Scrutiny Committees.
- Meetings are open to the public except where personal or confidential matters are being disclosed. In addition, senior officers of the Council can make decisions under delegated authority.
- The Council publishes a Forward Plan which contains details of key decisions to be made by the Council, its committees and chief officers under their delegated powers (and has specified what is significant expenditure in terms of the definition of a key decision).

### *Compliance*

- The Council aims to ensure compliance with established policies, procedures, laws and regulations through a variety of mechanisms, including:
  - Monitoring Officer;
  - Section 151 Officer;
  - Internal Audit;
  - External Audit;
  - Performance management system.
- The Council has designated the Director of Customer, Democratic and Legal Services as Monitoring Officer, who plays a key role in ensuring compliance. After consulting with the Chief Executive, the Monitoring Officer will report to the full Council if he/she considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision being implemented until the report has been considered.

### *Risk Management*

- The Council has embedded a robust structure and system for identifying and evaluating all significant business risks at both the strategic and operational / service levels. The key elements of which are a Strategic Risk Register and service level risk assessments built into the business planning process.

### *Economy, Efficiency & Effectiveness*

- The Council has constantly sought ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised. These now include:
  - Corporate Improvement Board;

- Overview & Scrutiny Committees;
  - External Audit;
  - Internal Audit.
- The Council recently obtained a score of 4 for the value for money element of the Use of Resources assessment, indicating that the Council is performing excellently in this area.

#### *Financial Management*

- The Council has designated the Director of Finance as chief finance officer under Section 151 of the Local Government Act 1972.
- The financial management of the Council is conducted in accordance with the Financial Procedure Rules set out in the Council's Constitution. The Council has also adopted and implemented the relevant financial codes of practice covering such areas as treasury management and the Prudential Code.
- The Council has in place a five-year Financial Strategy, updated annually, to support the medium-term aims of the Corporate Strategy.
- The Council maintains a sound Internal Audit function which operates to the standards set out in the 'Code of Practice for Internal Audit in Local Government in the UK'. Internal Audit report four times annually to the Audit Committee and are a prime source of assurance to the authority regarding its financial management (including the adequacy of its financial systems, budgetary control and the efficient and effective use of resources). Internal Audit also provides assurance in the areas of governance, risk management and compliance.
- The Council has an objective and professional relationship with its external auditors and statutory inspectors.

#### *Performance Management*

- The Council's Performance Management Framework is underpinned by the Community Strategy which clearly articulates a shared vision for the Borough. Derived from this is our Corporate Strategy which articulates our corporate vision, priorities, strategic objectives and anticipated outcomes. Individual service unit Business Plans contain key projects which are geared towards achieving overall corporate objectives. This system is in turn supported by individual staff performance and development reviews to ensure that everyone understands their individual and unit contribution to corporate goals.
- Separate detailed guidance exists for Business Planning and the Performance Review processes. Performance against targets is monitored by Strategy Group, Executive Cabinet, the Overview & Scrutiny function and the Audit Committee. Where necessary corrective action is identified and implemented.
- The Council uses a bespoke performance management software system, Performance Plus. The system uses a traffic light system to monitor not only individual performance indicators, but also their combined effect on the achievement of corporate objectives. These reports are produced to ensure that trends in performance can be identified and corrective action introduced if appropriate.

#### **4. Review of Effectiveness**

Chorley Council 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 Directors within the authority who have responsibility for the development and maintenance of the governance environment, the

Audit & Risk Manager's Annual Report and also by comments made by the external auditors and other review agencies and inspectorates.

The following paragraphs explain the various roles and responsibilities that have been applied in maintaining and reviewing the effectiveness of the Council's system of governance and internal control:

#### *Corporate Level Review*

- A management group consisting of the following officers has been established for some time to oversee the compilation of the Statement on Internal Control and now the Annual Governance Statement.
  - Director of Finance (S.151 Officer);
  - Director of Customer, Democratic & Legal Services (Monitoring Officer);
  - Director of Policy & Performance;
  - Audit & Risk Manager.
- The group have conducted a detailed corporate level review of the Council's system of governance in accordance with the guidance provided by CIPFA / SOLACE. The work of this management group in respect of governance will in future be undertaken by the recently constituted Corporate Improvement Board.

#### *Directorate Level Review*

- The Council has also introduced Directorate Assurance Statements requiring Directors to review the operation of a range of governance systems and procedures within their service areas and indicate whether there are any significant non-compliance issues. These are analysed to ascertain whether there are any common areas of concern, and if so, whether these constitute significant governance issues and as such need to be included in the Annual Governance Statement.

#### *Monitoring Officer*

- As the Council's Monitoring Officer, The Director of Customer, Democratic & Legal Services has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution each year at its Annual Meeting.

#### *Scrutiny Committee*

- The Council has an Overview and Scrutiny Committee and two subsidiary panels which can challenge a decision which has been made by the Executive Cabinet or a statutory committee but not yet implemented, to enable them to consider whether the decision is appropriate.

#### *Audit Committee*

- The Council has appointed an Audit Committee whose terms of reference comply with the latest CIPFA guidelines. These extend to monitoring the Council's governance and risk management framework and include reviewing the adequacy of the governance framework.



### *Standards Sub-Committee*

- The Council has appointed a Standards Sub-Committee whose terms of reference comply with the guidance set out by the Standards Board for England, including the statutory functions in respect of the local Code of Conduct for Members.

### *Internal Audit*

- Internal Audit is responsible for monitoring the quality and effectiveness of the system of governance and internal control. A risk-based Internal Audit Plan is produced each financial year. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant Directorate. The report includes recommendations for improvements that are included within a Management Action Plan and require agreement or rejection by service managers. The process includes follow-up reviews of agreed recommendations to ensure that they are acted upon.
- The Internal Audit Annual Report contains a statement / judgement on overall levels of internal control (a view based on the relative significance of the systems reviewed during the year, in the context of the totality of the control environment).
- The Internal Audit Section is subject to regular inspection by the Council's external auditors, who place reliance on the work carried out by them.

### *External Audit*

- In accordance with the Audit Commission's Code of Audit Practice, the Council receive regular reports on elements of its internal control environment, including performance management, risk management, financial management and governance.

## **5. Significant Governance Issues**

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 Corporate Improvement Board and have identified the following improvement opportunities:

<i>No.</i>	<i>Control</i>	<i>Planned</i>
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	<b>Areas</b>	<b>Improvements</b>
	<b>Ethical Governance</b>	
1	Articulating the Council's shared values regarding personal conduct and behaviour	Capture the Council's values in the Constitution and the Human Resources / Customer Care Strategies
	<b>Decision Making</b>	
2	Making professional legal advice available well in advance of decision making	Incorporate the comments of the Director of Customer, Democratic & Legal Services in committee reports
	<b>Capacity / Capability of Members &amp; Officers</b>	
3	Ensuring that the statutory officers have the resources and support necessary to perform effectively in their roles	Address capacity issues in Finance, Legal and Policy Services
	<b>Engaging with Local People &amp; Stakeholders</b>	
4	Establishing a clear policy on the types of issues the Council will meaningfully consult with stakeholders	Roll out the improved consultation strategy and review the operation of the Citizens' Panel
5	Developing and disseminating the Council's vision, strategic plans, priorities and targets	Roll out the improved communications strategy
	<b>Directorate Compliance</b>	
6	Managing partnering arrangements in accordance with the Council's Framework for Partnership Working	Embed the new Framework for Partnership Working including the compilation of joint risk registers for key partnerships
7	Applying the risk management procedure in the corporate project management toolkit	Roll out the risk management procedure in the corporate project management toolkit consistently across all key business projects
8	Ensuring that Directorate Business Continuity Plans are in place	Bring Directorate Business Continuity Plans up to date following organisational restructuring
9	Complying with corporate Health & safety policies and procedures	Bring health & safety risk assessments up to date and increase staff awareness of the health & safety incident reporting system
10	Achieving value for money in the use of resources	Embed the new Corporate Value for Money Framework including the application of benchmarking strategies by all directorates
11	Maintaining asset registers / inventories in accordance with corporate procedures	Bring Directorate inventories up to date following corporate restructuring
	<b>Internal Audit</b>	
12	Producing an up to date Internal Audit Strategy for delivering the service to meet the Council's needs and priorities	Produce a formal strategy for the Internal Audit service for Audit Committee approval

The majority of the above improvement actions are not new but represent work in progress or the need to embed frameworks or systems that have been introduced relatively recently.

We will take steps to address the above matters to further enhance our governance arrangements through the corporate business improvement planning process and 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.

**Cllr. P Goldsworthy**  
Leader of the Council

**D Hall**  
Chief Executive

**G Hall**  
Director of Finance (Section 151 Officer)

**A Docherty**  
Director of Customer, Democratic & Legal  
Services (Monitoring Officer)