

Report of	Meeting	Date
Assistant Chief Executive (Business Transformation) & Corporate Director of Governance	Audit Committee	26 th June 2008

ANNUAL GOVERNANCE STATEMENT

PURPOSES OF THE REPORT

- 1 To remind the Audit Committee of the regulatory framework requiring the Council to continuously review its system of governance and to formally publish an Annual Governance Statement (AGS) alongside its annual financial statements.
- 2 To explain the structure and processes that are in place within the Council to enable the AGS to be produced.
- 3 To invite Members to review and approve the draft AGS (shown at Appendix 1) which has been produced in accordance with new guidelines issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE).
- 4 Thereafter the approved AGS will need to be formally signed-off by the Leader & Chief Executive and be submitted for external audit as part of the 2007/8 financial statements.

RECOMMENDATIONS

- 5 That members review and approve the draft AGS which has been produced in accordance with CIPFA / SOLACE guidelines.
- 6 That the approved AGS be formally signed off by the Leader and Chief Executive before being submitted for external audit as part of the 2007/8 financial statements.

EXECUTIVE SUMMARY OF REPORT

- 7 The Council is now required to conduct an annual review of the effectiveness of its system of governance and publish an AGS each year alongside its financial statements.
- 8 CIPFA and SOLACE have issued guidance explaining the required format of the AGS and the self-assessment process, which councils must undertake in order to compile it.
- 9 This report contains a draft AGS for 2008 for members' approval and gives assurance that it has been properly compiled in accordance with the prevailing guidance.

CORPORATE PRIORITIES



Put Chorley at the heart of regional economic development in the central Lancashire sub region		Improved access to public services	
Improving equality of opportunity and life chance		Develop the character and feel of Chorley as a good place to live	
Involving People in their Communities		Ensure Chorley is a performing Organisation	✓

BACKGROUND

- 10 Under the Accounts and Audit (Amendment) Regulations 2006 every Council is now required to conduct an annual review of the effectiveness of its system of governance and publish an AGS each year alongside its financial statements.
- 11 CIPFA and SOLACE recently issued a new Framework and supporting guidance entitled "Delivering Good Governance in Local Government", under which councils are required 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.
- 12 The new CIPFA SOLACE Framework defines proper practice for the form and content of the AGS, which subsumes the earlier requirement to prepare and publish an annual Statement on Internal Control (SIC).
- 13 The 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.
- 14 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).
- 15 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.
- 16 The guidance also states the need for a review body in the process such as the Audit Committee or Scrutiny role, which 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.

- 17 **Although CIPFA SOLACE only becomes mandatory for the 2007/8 reporting year, the Council worked with the consultation draft of the Framework last year to publish a compliant AGS for 2006/7 rather than a SIC. A report was taken to the Audit Committee in January 2008 detailing the progress made to address the "significant governance issues" disclosed in the 2006/7 AGS. All those issues have now been rectified with the exception of some work still ongoing in respect of the Finance shared services project, business continuity planning and asset registers.**

STEPS TAKEN TO COMPILE THE 2007/8 AGS

- 18 The definitive CIPFA SOLACE Framework and guidance for 2007/8 onwards differs only marginally from the draft version followed in 2006/7 and therefore we were able to update the 2006/7 self-assessment rather than starting with a blank canvas. The updated self-assessment takes account of the actions that have since been implemented to address the "significant governance issues" which were identified last year.
- 19 Like last year, a management group consisting of the following officers contributed to the updated self-assessment and the 2007/8 AGS itself:
- Corporate Director of Governance (Monitoring Officer)
 - Assistant Chief Executive - Business Transformation & Improvement (S151 Officer)
 - Assistant Chief Executive - Policy & Performance
 - Audit & Risk Manager
- 20 Section 5 of Appendix 1 again discloses what the management group consider to be the current "significant governance issues" taking account of changes to the prevailing guidance, organisational changes and the corrective action implemented following last year's self assessment. 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 Use of Resources assessment.

DIRECTORATE ASSURANCE STATEMENTS

- 21 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. Directorate Assurance Statements have been compiled which 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.
- 22 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

- 23 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.

- 24 The Audit Commission conduct a detailed review of Internal Audit on a triennial basis and the latest CIPFA Code of Internal Audit Practice also contains a self-assessment toolkit / checklist for the same purpose. The Audit Committee has previously agreed that it will rely on the Audit Commission's triennial review plus internal self-assessments in the intervening years.
- 25 On this basis we undertook a self-assessment of the system of internal audit for 2006/7 and identified no substantive compliance issues with regard to the CIPFA Code of Practice, with the exception of the need for us to produce a formal Internal Audit Strategy. This was developed and reported to the Audit Committee in September 2007.
- 26 We have since updated the self-assessment for 2007/8 and have no non-compliance issues to report to members this year.

FURTHER ACTIONS

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

IMPLICATIONS OF REPORT

- 28 This report has no implications for specific Directorates. The matters raised in the report are cross cutting and impact upon the authority as a whole

GARY HALL
ASSISTANT CHIEF EXECUTIVE (BUSINESS TRANSFORMATION)

ANDREW DOCHERTY
CORPORATE DIRECTOR OF GOVERNANCE

Background Papers			
Document	Date	File	Place of Inspection
Accounts & Audit Regulations	2006	FINANCE	UNION ST OFFICES
Delivering Good Governance in Local Government (CIPFA / SOLACE)	2007		
Report Author	Ext	Date	Doc ID
Garry Barclay	5468	20/06/08	AC GAS 2008

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, facilitating the effective exercise of its functions and which includes arrangements for the management of risk.

The Council 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 www.chorley.gov.uk under "Council & Democracy" or can be obtained from Andrew Docherty, Corporate Director of Governance, Town Hall, Chorley, PR7 1DP. This statement explains how Chorley Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) Regulations 2006 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, the culture and values by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

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 Council'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 2008 and up to the date of approval of the annual report and statement of accounts.

3. The Governance Framework

The following paragraphs describe the key elements of the systems and processes that comprise the authority's governance arrangements:

Identifying & communicating the authority's vision of its purpose and intended outcomes for citizens and service users

- The Corporate Strategy sets out the Council's vision, priorities and strategic objectives. These are derived from the Community Strategy, which clearly articulates a shared vision for the Borough of Chorley.
- Long term outcomes and interim performance targets have been established for each strategic objective.
- The Community Strategy and Corporate Strategy published widely and are also available on the Council website and intranet.

Reviewing the authority's vision & its implications for the authority's governance arrangements

- The Community Strategy and Corporate Strategy are regularly reviewed and the Council's vision and strategic objectives have been refined to reflect changing aspirations, both locally and nationally.
- A performance management framework is in place for the Local Strategic Partnership providing clear arrangements for joint working, including specific LSP projects.

Measuring the quality of services for users, for ensuring they are delivered in accordance with the authority's objectives and for ensuring that they represent the best use of resources

- Service level Business Improvement Plans contain key projects that are geared towards achieving overall strategic objectives. They also contain challenging targets in respect of both national performance indicators and local performance targets.
- This system is in turn supported by individual staff performance and development reviews to ensure that everyone understands their individual and service unit contribution to corporate goals.
- The Council uses a bespoke performance management software system, Performance Plus, which uses a traffic light system to monitor not only individual performance indicators, but also their combined effect on the achievement of strategic objectives. Reports are produced to ensure that trends in performance can be identified and corrective action introduced if appropriate. This is supported by a robust data quality control system, which ensures the accuracy of the reported information.
- Performance against targets is monitored at officer and member levels, by Strategy Group, Executive Cabinet, Overview & Scrutiny and the Audit Committee.
- The Council achieved a maximum score of 4 for the 2007 Use of Resources assessment by the Audit Commission, which demonstrates that the above arrangements are effective.

Defining & documenting the roles & responsibilities of the executive, non-executive, scrutiny and officer functions, with clear delegation arrangements and protocols for effective communication

- The Council's Constitution sets out how the Council operates, how decisions are made and the procedures that 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.
- The Constitution also sets out the situations where senior officers of the Council can make decisions under delegated authority
- The Council publishes a Forward Plan containing 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).

Developing, communicating and embedding codes of conduct, defining the standards of behaviour for members and staff

- 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.
- Both members and officers have been extensively briefed on personal conduct and disclosure requirements.
- An automated system has been established on the Council's intranet for officer disclosures.

Reviewing & updating standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes / manuals, which clearly define how decisions are taken and the processes and controls to manage risks

- The Corporate Director of Governance arranges for the review and re-adoption of the Council Constitution on an annual basis. This includes a review of Standing Orders, Contract Procedure Rules, Financial Procedure Rules and Responsibilities for Functions.
- The standard member reporting procedure requires a consideration of risk for all significant decisions. This is also underpinned by a robust structure and system for identifying and evaluating all significant business risks at both the strategic and operational levels, the key elements of which are a Strategic Risk Register and service level risk assessments built into the business planning process.

Undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committees - Practical Guidance for Local Authorities

- 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.

Ensuring compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful

- 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 Corporate Director of Governance 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.
 - The standard committee reporting procedure and template now requires the monitoring officer to consider legality and compliance in respect of all decisions made by members.

Arrangements for whistle blowing and for receiving and investigating complaints from the public

- The Council has an up to date Whistle Blowing Policy, which has been widely publicised via the Council web site, intranet and other channels. All members of staff have been fully briefed on the Policy including how, and whom they should make a disclosure.
- The Council also operates a formal Corporate Complaints Procedure, which has been widely publicised.

Identifying the development need of members and senior officers in relation to their strategic roles, supported by appropriate training

- Formal induction programmes and training & development plans are in place for both members and senior officers.
- All senior officers participate in the corporate staff appraisal scheme.

Establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation

- Up to date strategies are in place in respect of communications, marketing and consultation.

Incorporating good governance arrangements in respect of partnerships and other group working as identified in the Audit Commission's report on the governance of partnerships, and reflecting these in the authorities overall governance arrangements

- The Council has adopted a formal Framework for Partnership Working which specifies the minimum governance requirements in respect of all the Council's partnerships and the enhanced requirements in respect of its key partnerships.

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 executive managers 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 describe the processes that has been applied in maintaining and reviewing the effectiveness of the Council's governance framework:

Corporate Level Review

- A management group consisting of the following officers has been established for some time to oversee the compilation of the Annual Governance Statement (previously Statement on Internal Control):
 - Assistant Chief Executive - Business Transformation & Improvement (S151 Officer);
 - Corporate Director of Governance (Monitoring Officer);
 - Assistant Chief Executive - 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.

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 Corporate Director of Governance 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 and have identified the following improvement opportunities:

No.	Governance Areas	Planned Improvements
	<i>Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area</i>	
1	Ensuring that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners	This is the case for the Chorley Partnership (LSP) but it will also be made clear in the Council's other key commercial partnership agreements
2	Measuring the environmental impact of policies, plans and decisions	The standard committee report template will be amended to address this, supported by staff training and awareness
	<i>Members and officers working together to achieve a common purpose with clearly defined functions and roles</i>	
3	When working in partnership, ensuring that members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority	Clear terms of reference & feedback mechanisms will be established for members working on outside bodies
	<i>Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour</i>	
4	Ensuring that standards of conduct and personal behaviour expected of members and staff, of work between members and staff and between the authority, its partners and the community are defined and communicated through codes of conduct and protocols.	The Officers' Code of Conduct will be updated and communicated to staff and a section on personal behaviour will be inserted in the Framework for Partnership Working
5	Putting 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	More formalised monitoring of the Officers' Register of Interests & Disclosures will be established
6	In pursuing the vision of a partnership, agreeing a set of values against which decision making and actions can be judged. Such values must be demonstrated by partners' behaviour both individually and collectively.	This will be incorporated within the performance management & reporting frameworks for the Chorley Partnership and the Council's other key commercial partnerships
	<i>Developing the capacity and capability of members and</i>	

	<i>officers to be effective</i>	
7	Ensuring 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	Staffing plans for the Corporate Governance and Finance functions will be implemented
	<i>Directorate Compliance</i>	
8	Customer feedback mechanisms	More regular, formalised collection & monitoring methods will be introduced for back-office / support services
9	Computer & Data Security	Staff will be reminded to log-off from the network when not in use, supported by a programme of spot-checks
10	Document Retention Guidelines	Annual reviews will be introduced incorporating paper-based and electronic records

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 propose over the coming year to take steps to address the above matters to further enhance our governance arrangements through the corporate business improvement planning process. 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.

Cllr. P Goldsworthy
Leader of the Council

D Hall
Chief Executive

G Hall
Assistant Chief Executive
Business Transformation &
Improvement
(Section 151 Officer)

A Docherty
Corporate Director
of Governance
(Monitoring Officer)