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DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT
FRAMEWORK

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DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT
FRAMEWORK

The Working Group

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Section 1
Introduction

1.1   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 government bodies are big business, employing over two million people and accounting for 25% of public spending. They are vitally important to all tax payers and citizens. Authorities need to ensure the delivery of high-quality services to them.

1.2   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. Good governance enables an authority to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk. All authorities should aim to meet the standards of the best and governance arrangements should not only be sound but also be seen to be sound.

HOW TO USE THIS FRAMEWORK

1.3   This Framework is aimed at the following types of local government body or authority:

- county councils
- district councils
- most-purpose authorities
- Greater London Authority and functional bodies
- city regions
- the Corporation of London
- fire authorities

- joint authorities (including passenger transport, waste disposal and combined fire authorities)
- police authorities
- national park authorities.

However, it is recognised that authorities of different types and geographical areas can be subject to separate legislative arrangements. With this in mind, guidance notes to accompany the Framework have been developed for:

- authorities in England (excluding police)
- authorities in Wales (excluding police)
- police authorities in England and Wales
- authorities in Scotland
- authorities in Northern Ireland.

1.4 The guidance notes, which should be used in conjunction with the Framework, will assist authorities in considering how they might go about reviewing their governance arrangements. They will also help local government bodies in interpreting the overarching principles and terminology contained in the Framework in a way that is appropriate to the structure and role of their governing body and taking account of the legislative and constitutional arrangements that underpin them. However, it is not intended that the guidance notes are in any way prescriptive – all authorities are encouraged to consider carefully the content of the Framework and to use it in a way that best reflects their structure, type, functions and size.

WHAT DO WE MEAN BY GOVERNANCE?

1.5 Governance is about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

1.6 It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and

through which they account to, engage with and, where appropriate, lead their communities.[1]

PURPOSE OF THE FRAMEWORK

1.7 Each local government body 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 for discharging accountability for the proper conduct of public business, through the publication of an annual governance statement that will make the adopted practice open and explicit.

1.8 The Framework defines the principles that should underpin the governance of each local government body. It provides a structure to help individual authorities with their own approach to 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.

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1. Based on the definition contained in *The Report of the Committee on the Financial Aspects of Corporate Governance* (the Cadbury Committee, 1992). Cadbury defined corporate governance as the "system by which organisations are directed and controlled". In the police, this is distinct from the operational responsibility that the chief constable has for the direction and control of the police force.

1.9   **In England, the preparation and publication of an annual governance statement in accordance with this Framework is necessary to meet the statutory requirement set out in Regulation 4(2) of the Accounts and Audit (Amendment) (England) Regulations 2006 for authorities to prepare a statement of internal control in accordance with "proper practices". The supplement to this Framework serves to define such "proper practices". In Wales, it is likely that a review/update of the Accounts and Audit (Wales) Regulations will adopt the good governance framework as proper practices for the purposes of the Accounts and Audit (Wales) Regulations. Such a review is likely to be effected during 2007/08. In Scotland and Northern Ireland, the preparation and publication of an annual governance statement in accordance with this Framework will satisfy the requirements of chapter 7 of the *Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice*.**

1.10   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.

1.11   This document reflects the role or business of local government bodies. Four key roles have been identified in the diagram opposite. Not all types of authorities have all the responsibilities outlined.

1. Partnerships are a key component for public service provision and authorities have a major role to play in leading partnership working.

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.

2. Authorities are responsible for ensuring the delivery of high quality services to their communities. Some 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. Some act as 'governance bodies' and are responsible for ensuring the efficient and effective provision of the service by other providers. Authorities also enter into contracts with voluntary bodies and enter into shared or agency arrangements with other authorities.

1. To engage in effective partnerships and provide leadership for and with the community (Authorities*)

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

4. To develop citizenship and local democracy (Authorities*)

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

4. 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.

Authorities* are democratically accountable to their communities.

3. Each 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 the resources available to it as well as protecting the interests of local people.
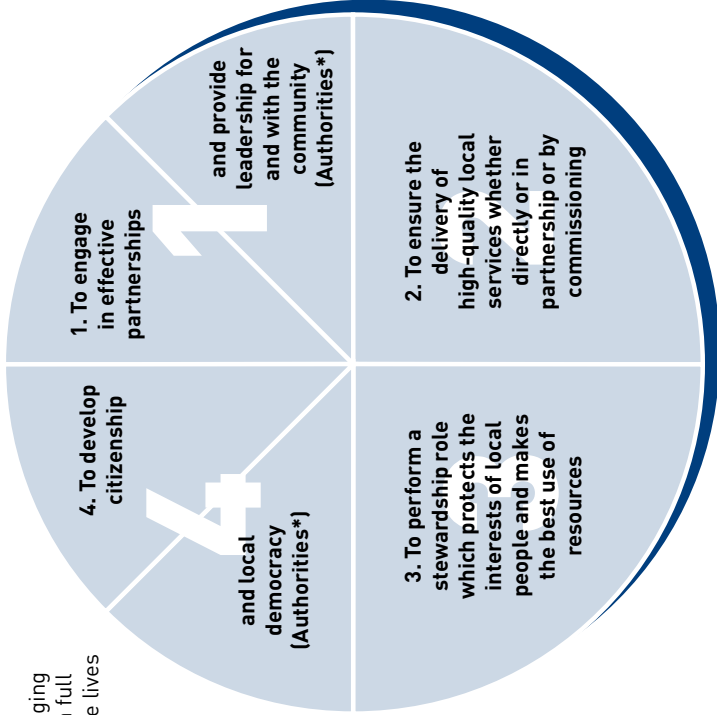
NB * Authorities include county councils, district councils, most-purpose authorities and the Greater London Authority.

These roles should be borne in mind when considering the principles outlined in section 2.

1.12   This Framework presents authorities with an opportunity to set a new standard for good governance. Good governance is important to all involved in local government. However, it is a key responsibility of the leader of the council (or equivalent) and of the chief executive (or equivalent). This document will be of particular importance to them, to other members of the leadership team and to the full council or authority and also to all those responsible for monitoring and providing assurance on governance arrangements.

Section 2
Framework for the Development of a Local Code

DEFINING THE PRINCIPLES OF GOOD GOVERNANCE

2.1 The following six core principles are taken from *The Good Governance Standard for Public Services* (2004) developed by the Independent Commission on Good Governance in Public Services with support from the Office for Public Management and CIPFA and have been adapted for local government purposes.

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

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

Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

Focusing on the purpose of the authority and on outcomes for the community[2] and creating and implementing a vision for the local area

Developing the capacity and capability of members and officers to be effective

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

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2. Including citizens and service users.

SUPPORTING PRINCIPLES

2.2   The six core principles have the following supporting principles, each
of which in turn translates into a range of specific requirements that
should be reflected in authorities' local codes:

	Paragraph reference
• **Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area** – exercising strategic leadership by developing and 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.	3.2
• **Members and officers working together to achieve a common purpose with clearly defined functions and roles** – ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function[3] – ensuring that a constructive working relationship exists between authority 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 knows what to expect of the other.	3.3

3.   Not all authorities operate an executive/scrutiny model; for example, police and fire
authorities. In England, local authorities with a population of less than 85,000 are able
to operate a streamlined committee system with arrangements for scrutiny and review.

	Paragraph reference
• **Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour** – ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance – ensuring that organisational values are put into practice and are effective.	3.4
• **Taking informed and transparent decisions which are subject to effective scrutiny and managing risk** – 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 – ensuring that an effective risk management system is in place – using their legal powers to the full benefit of the citizens and communities in their area.	3.5
• **Developing the capacity and capability of members and officers to be effective** – 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 individuals' skills and resources in balancing continuity and renewal.	3.6

	Paragraph reference
• **Engaging with local people and other stakeholders to ensure robust 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 whether directly by the authority, in partnership or by commissioning – making best use of human resources by taking an active and planned approach to meet responsibility to staff.	3.7

Section 3
The Principles of Good Governance – Application

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

CORE PRINCIPLE

3.2 **Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area**

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.

Local government bodies need to develop and articulate a clear vision of their purpose and intended outcomes for citizens and service users that is clearly communicated, both within the organisation and to external stakeholders.

Supporting principles	The local code should reflect the requirement for local authorities to:
• exercising strategic leadership by developing and clearly communicating the authority's purpose and vision and its intended outcome for citizens and service users	• develop and promote the authority's purpose and vision • review on a regular basis the authority's vision for the local area and its implications for the authority's governance arrangements • ensure that partnerships are underpinned by a common vision of their work that is understood and agreed by all partners • publish an annual report on a timely basis to communicate the authority's activities and achievements, its financial position and performance
• ensuring that users receive a high quality of service whether directly, or in partnership, or by commissioning	• 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 • put in place effective arrangements to identify and deal with failure in service delivery
• ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money	• decide how value for money is to be measured and make sure that the authority or partnership has the information needed to review value for money and performance effectively. Measure the environmental impact of policies, plans and decisions

CORE PRINCIPLE

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

The governing body of an organisation has overall responsibility for directing and controlling that organisation. In local government the governing body is the full council or authority.

Further information on the structure and roles of the local authority governing bodies is included in the guidance notes to this Framework.

Supporting principles	The local code should reflect the requirement for local authorities to:
• ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function	• 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
• ensuring that a constructive working relationship exists between authority members and officers and that the responsibilities of members and officers are carried out to a high standard	• determine a scheme of delegation and reserve powers within the constitution,[4] 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

4.   Authorities such as national parks do not have formal constitutions but normally rely on the scheme of delegation instead.

Supporting principles	The local code should reflect the requirement for local authorities to:
	• make a chief executive or equivalent responsible and accountable to the authority for all aspects of operational management
	• 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
	• make a senior officer (the S151 officer) 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 and regulations are complied with
• ensuring relationships between the authority, its partners and the public are clear so that each knows what to expect of the other	• develop protocols to ensure effective communication between members and officers in their respective roles
	• 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 (if applicable)
	• ensure that effective mechanisms exist to monitor service delivery

Supporting principles	The local code should reflect the requirement for local authorities to:
	• 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 members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority
	• when working in partnership:
	– ensure that there is clarity about the legal status of the partnership
	– ensure that representatives of organisations both understand and make clear to all other partners the extent of their authority to bind their organisation to partner decisions

CORE PRINCIPLE

3.4   Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

Good governance flows from a shared ethos or culture, as well as from systems and structures. It cannot be reduced to a set of rules, or achieved fully by compliance with a set of requirements. This spirit or ethos of good governance can be expressed as values and demonstrated in behaviour.

Good governance builds on the seven principles for the conduct of people in public life that were established by the Committee on Standards in Public Life, known as the Nolan principles. In England, the Local Government Act 2000 outlined ten principles of conduct – an additional three to those identified by Nolan – for use in local government bodies. The Nolan seven principles and additional three principles are included in the guidance notes accompanying this Framework.

A hallmark of good governance is the development of shared values, which become part of the organisation's culture, underpinning policy and behaviour throughout the organisation, from the governing body to all staff. These are in addition to compliance with legal requirements on, for example, equal opportunities and anti-discrimination.

Supporting principles	The local code should reflect the requirement for local authorities to:
• ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance	• ensure that the authority's leadership sets a tone for the organisation by creating a climate of openness, support and respect • ensure 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 • 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

Supporting principles	The local code should reflect the requirement for local authorities to:
• ensuring that organisational values are put into practice and are effective	• develop and maintain shared values including leadership values for both the organisation and staff reflecting public expectations, and communicate these with members, staff, the community and partners • put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice • develop and maintain an effective standards committee • use the organisation's shared values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the authority • 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 demonstrated by partners' behaviour both individually and collectively

CORE PRINCIPLE

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

Decision making within a good governance framework is complex and challenging. It must further the organisation's purpose and strategic direction and be robust in the medium and longer terms. To make such decisions, authority members must be well informed.

Members making decisions need the support of appropriate systems, to help to ensure that decisions are implemented and that resources are used legally and efficiently.

Risk management is important to the successful delivery of public services. An effective risk management system identifies and assesses risks, decides on appropriate responses and then provides assurance that the chosen responses are effective.

Supporting principles	The local code should reflect the requirement for local authorities to:
• being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny	• develop and maintain an effective scrutiny function which encourages constructive challenge and enhances the authority's performance overall and that of any organisation for which it is responsible • 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 to safeguard members and employees against conflicts of interest and put in place appropriate processes to ensure that they continue to operate in practice • develop and maintain an effective audit committee (or equivalent) which is independent of the executive and scrutiny functions or make other appropriate arrangements for the discharge of the functions of such a committee • ensure that effective, transparent and accessible arrangements are in place for dealing with complaints

Supporting principles	The local code should reflect the requirement for local authorities to:
• having good-quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs	• ensure that those making decisions whether for the authority or the partnership are provided with information that is fit for the purpose – relevant, timely and gives clear explanations of technical issues and their implications • ensure that proper professional advice on matters that have legal or financial implications is available and recorded well in advance of decision making and used appropriately
• ensuring that an effective risk management system is in place	• 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 jobs • ensure that effective arrangements for whistle-blowing are in place to which officers, staff and all those contracting with or appointed by the authority have access
• using their legal powers to the full benefit of the citizens and communities in their area	• actively recognise the limits of lawful activity placed on them by, for example, the ultra vires doctrine but also strive to utilise their powers to the full benefit of their communities • recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on authorities by public law

Supporting principles	The local code should reflect the requirement for local authorities to:
	• 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 good administrative law – rationality, legality and natural justice – into their procedures and decision-making processes

CORE PRINCIPLE

3.6   **Developing the capacity and capability of members and officers to be effective**

Effective local government relies on public confidence in authority members, whether elected or appointed, and in officers. Good governance strengthens credibility and confidence in our public services.

Authorities need people with the right skills to direct and control them effectively. Governance roles and responsibilities are challenging and demanding, and authority members need the right skills for their roles. In addition, governance is strengthened by the participation of people with many different types of knowledge and experience.

Good governance means drawing on the largest possible pool of potential members to recruit people with the necessary skills. Encouraging a wide range of people to stand for election or apply for appointed positions will develop a membership that has a greater range of experience and knowledge. It will also help to increase the diversity of authority members in terms of age, ethnic background, social class, life experiences, gender and disability. This concept should also be borne in mind when members are appointed to the boards of other public service organisations.

Supporting principles	The local code should reflect the requirement for local authorities to:
• making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles	• provide induction programmes tailored to individual needs and opportunities for members and officers to update their knowledge on a regular basis • 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
• developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group	• assess the skills required by members and officers and make a commitment to develop those skills to enable roles to be carried out effectively • 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 • ensure that effective arrangements are in place 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
• encouraging new talent for membership of the authority so that best use can be made of individuals' skills and resources in balancing continuity and renewal	• ensure that effective arrangements are in place designed to encourage individuals from all sections of the community to engage with, contribute to and participate in the work of the authority • ensure that career structures are in place for members and officers to encourage participation and development

CORE PRINCIPLE

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

Local government is accountable in a number of ways. Elected local authority members are democratically accountable to their local area and this gives a clear leadership role in building sustainable communities. All members must account to their communities for the decisions they have taken and the rationale behind those decisions. All authorities are subject to external review through the external audit of their financial statements. They are required to publish their financial statements and are encouraged to prepare an annual report. Many are subject to national standards and targets. Their budgets are effectively subject to significant influence and overview by government, which has 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.

Supporting principle	The local code should reflect the requirement for local authorities to:
• exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships	• make clear to themselves, all staff and the community to whom they are accountable and for what • consider those institutional stakeholders to whom the authority is accountable and assess the effectiveness of the relationships and any changes required • produce an annual report on the activity of the scrutiny function

Supporting principle	The local code should reflect the requirement for local authorities to:
• taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority, in partnership or by commissioning	• ensure clear channels of communication are in place with all sections of the community and other stakeholders, and put in place monitoring arrangements and ensure that they operate effectively • hold meetings in public unless there are good reasons for confidentiality • ensure that arrangements are in place 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 on or engage with the public and service users about including a feedback mechanism for those consultees to demonstrate what has changed as a result • 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

Supporting principle	The local code should reflect the requirement for local authorities to:
	• 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
• making best use of human resources by taking an active and planned approach to meet responsibility to staff	• develop and maintain a clear policy on how staff and their representatives are consulted and involved in decision making

Section 4
Annual Review and Reporting

4.1   Local government bodies 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 this 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:

- governance arrangements are adequate and operating effectively in practice, or

- where reviews of the 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 authority for consideration.

Supplement to the Framework

ANNUAL GOVERNANCE REVIEW AND REPORTING AND EXAMPLE OF ANNUAL GOVERNANCE STATEMENT

The governance statement

Proper practice

The preparation and publication of an annual governance statement in accordance with this Framework is necessary to meet the statutory requirement set out in Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 which requires authorities to "conduct a review at least once in a year of the effectiveness of its system of internal control" and to prepare a statement on internal control "in accordance with proper practices".

With effect from 2007/08, this supplement to the Framework defines proper practices for the form and content of a governance statement that meets the requirement to prepare and publish a statement on internal control in accordance with Regulation 4(2) of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit (Amendment) (England) Regulations 2006. There is no requirement to prepare and publish a separate statement on internal control.

In Wales, it is likely that a review/update of the Accounts and Audit (Wales) Regulations will adopt the good governance framework as proper practices for the purposes of the Accounts and Audit (Wales) Regulations. Such a review is likely to be effected during 2007/08.

CIPFA's previously published guidance on the form and content of the statement on internal control, *The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003*, has formally been withdrawn and does not apply to periods after 2006/07.

1   A governance statement should include the following information:

- an acknowledgement of responsibility for ensuring there is a sound system of governance (incorporating 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 framework, including reference to group activities where those activities are significant

- 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

  - other explicit review/assurance mechanisms

- an outline of the actions taken, or proposed, to deal with significant governance issues, including an agreed action plan.

2   A pro forma governance statement is provided in the appendix to this supplement. It does not 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.

3   A 'good' governance statement will be an open and honest self-assessment of the organisation's performance across all of its activities, with a clear statement of the actions being taken or required to address areas of concern. It is inevitable that, where

the process of review has been rigorous and robust, issues will be identified that the organisation will need to address. An organisation that sets out with the mistaken aim of achieving a 'clean' statement, with no issues to report, risks creating a culture in which problems and concerns are suppressed to avoid criticism. Moreover, the absence of any issues to report, rather than indicating a strong governance framework, may signal quite the reverse – that the governance arrangements are not as effective as they should be.

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 that:

- the authority's policies are implemented in practice

- high-quality services are delivered efficiently and effectively

- the authority's values and ethical standards are met

- laws and regulations are complied with

- required processes are adhered to

- financial statements and other published performance information are accurate and reliable

- human, financial, environmental and other resources are managed efficiently and effectively.

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.

6   In reviewing and approving the governance statement, members will require assurances on the effectiveness of the governance framework and how this addresses the key risks faced by the authority, taking account of changing risks and circumstances. It will be for individual authorities to identify what arrangements are needed, in the context of their own structures and objectives, to maintain a sound governance framework. However, an effective governance framework will demonstrate the following attributes:

- There is a clear vision of the authority's purpose and intended outcomes for citizens and service users that is clearly communicated, both within the organisation and to external stakeholders.

- Arrangements are in place to review the authority's vision and its implications for the authority's governance arrangements.

- Arrangements exist for 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.

- The roles and responsibilities of the executive, non-executive, scrutiny and officer functions are clearly defined and documented, with clear delegation arrangements and protocols for effective communication.

- Codes of conduct defining the standards of behaviour for members and staff are in place, conform with appropriate ethical standards, and are communicated and embedded across the organisation.

- Standing orders, standing financial instructions, a scheme of delegation and supporting procedure notes/manuals, which are reviewed and updated as appropriate, clearly define how decisions are taken and the processes and controls required to manage risks.

- The core functions of an audit committee, as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities* (2005), are undertaken by members.

- Arrangements exist to ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful. All reports are considered for legal issues before submission to members.

- Arrangements for whistle-blowing and for receiving and investigating complaints from the public are in place and are well publicised.

- Arrangements exist for identifying the development needs of members and senior officers in relation to their strategic roles, and are supported by appropriate training.

- Clear channels of communication have been established with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation.

- Governance arrangements with respect to partnerships and other group working incorporate good practice as identified by the Audit Commission's report on the governance of partnerships,[5] and are reflected in the authority's overall governance arrangements.

7   Management from across the organisation will provide the primary source of assurance and members will need to ensure that there are appropriate assurance-gathering arrangements in place to enable those assurances to be mapped against the principles[6] in this Framework. An effective internal audit function will also

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5.   *Governing Partnerships: Bridging the Accountability Gap*, Audit Commission, 2005.

6.   For further guidance please see *The Annual Governance Statement: Meeting the Requirement of the Accounts and Audit Regulations 2003, incorporating Accounts and Audit (Amendment) (England) Regulations 2006 – Rough Guide for Practitioners*, the CIPFA Finance Advisory Network, 2007. This document includes guidance on the compilation of the annual governance statement, a pro-forma for gathering assurance and suggested types and sources of evidence.

be a significant source of assurance. Further assurances will be available from a wide range of external sources, including corporate assessments and direction of travel statements, inspections and external audit (through the annual audit of the accounts and use of resources assessments), and the application of specific diagnostic tools developed by the Audit Commission, such as *Changing Organisational Cultures* (2005) and the *Ethical Governance Diagnostic: Setting High Standards in Public Life* (2005). Both of these publications are introductory leaflets on audit tools which bodies could obtain from their auditors.

8   The governance statement should be approved at a meeting of the authority or delegated committee. Whilst there is no statutory timetable for this approval, to comply with the Accounts and Audit Regulations the statement must be published with, although financial statements will drive the timetable for approval of the governance statement. As the governance statement provides a commentary on all aspects of the organisation's performance, it would be appropriate for it to be incorporated, either in full or in summarised form, into the annual report, where one is published. 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.

Appendix

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, facilitating 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 *Delivering 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(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts an Audit (Amendment) (England) Regulations 2006 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, and 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 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 framework

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

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

* reviewing the authority's vision and its implications for the authority's governance arrangements

* 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

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

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

- reviewing and 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 required to manage risks

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

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

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

- identifying the development needs of members and senior officers in relation to their strategic roles, supported by appropriate training

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

- incorporating good governance arrangements in respect of partnerships and other group working as identified by the Audit Commission's report on the governance of partnerships,[7] and reflecting these in the authority's overall governance arrangements.

7. *Governing Partnerships: Bridging the Accountability Gap*, Audit Commission, 2005.

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 governance framework, 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 by [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 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 (or equivalent) & Chief Executive (or equivalent) on behalf of [the authority]

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