**Audit Committee**

**30 June 2011**

**Draft Annual Governance Statement for the year April 2010 – March 2011**

**Durham County Council**

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## Report of Don McLure, Corporate Director, Resources

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### Purpose of the Report

1. This report seeks approval of the draft Annual Governance Statement (AGS), attached in Appendix 2, and the list of significant governance improvements attached in Appendix 3

### Background

2. The 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 which functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

3. The Council 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'. The AGS explains how the Council complies with this code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a Statement on Internal Control.

### Presentation of the AGS

4. In order to prepare the AGS each year, the Council has a responsibility for conducting, at least annually, a review of the effectiveness of its governance framework, including the system of internal control.

5. In preparing the AGS, those charged with governance must seek adequate assurance that its corporate governance arrangements are effective and identify any significant areas of improvement. The Change Co-ordination Group (CCG) co-ordinates and oversees the Council's corporate assurance arrangements, and prepares the AGS to demonstrate how far the Council complies with the principles of good governance and recommending improvements, to be published in the Council's Annual Statement of Accounts. CCG also monitors progress each quarter against the action plan of governance improvements.

6. In gathering the evidence to prepare the AGS, the following approach has been adopted:

**6.1 Consideration of corporate sources of assurance**

- Progress made on improvements identified as part of the previous years AGS;
- The identification of key documents, processes and procedures that support the governance framework, many of which may have been revised during the year. This information has been gathered from across the Council, and is recorded in detail;
- The work of those officers who have specific responsibility for the development and maintenance of the governance framework. Key officers confirmed any changes in the governance arrangements since the last review;
- External Audit Annual Report;
- The work of Internal Audit, including the annual opinion on the adequacy of internal control by the Manager of Internal Audit & Risk as set out in the Annual Internal Audit report;
- Current Service and Corporate Strategic risk registers;
- The review of the effectiveness of the system of Internal Audit;
- Partnership governance arrangements;
- Other work undertaken by the External Auditor, the Audit Commission and other review agencies.

**6.2 Service assurance on the effectiveness of the governance framework**

Corporate Directors and the Assistant Chief Executive were asked to complete an assurance statement, which noted any changes implemented during the 2010/ 11 year, and to identify any improvements required/ planned.

**Recommendations and reasons**

7. Audit Committee to approve:

- the first draft of the AGS for 2010/ 11 attached in Appendix 2;

- the list of significant governance improvements in Appendix 3.

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**Contact:     David Marshall     Tel:   0191 3834311**

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# Appendix 1: Implications

**Finance -** Financial planning and management is a key component of effective corporate governance.

**Staffing -** Ensuring the adequate capability of staff meets a core principle of the CIPFA/ SOLACE guidance.

**Equality and Diversity -** Engaging local communities including hard to reach groups meets a core principle of the CIPFA/ SOLACE guidance.

**Accommodation -** Asset management is a key component of effective corporate governance

**Crime and Disorder –** None.

**Human Rights -** None.

**Consultation -** Engaging local communities meets a core principle of the CIPFA/ SOLACE guidance.

**Procurement –** None.

**Disability Discrimination Act –** Ensuring access to services meets a core principle of the CIPFA/ SOLACE guidance.

**Legal Implications –** Ensuring compliance with relevant laws and regulations, and ensuring that expenditure is lawful, is a key component of effective corporate governance

## 1. SCOPE OF RESPONSIBILITY

Durham County Council (the 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, which includes arrangements for the management of risk.

The Council has approved, adopted and published on its website, a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework – "Delivering Good Governance in Local Government". This statement explains how the Council has complied with the code and also meets the requirements of Regulation 4 (3) of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a Statement on Internal Control.

## 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises of the systems and processes, and culture and values, by which the Council is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services for the people of County Durham.

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 2011 and up to the date of approval of the statement of accounts.

## 3. THE GOVERNANCE FRAMEWORK

This sets out the key documents and processes that determine the way the Council is directed and controlled to meet the six core principles of the CIPFA/ SOLACE Framework. The key elements of the systems and processes that comprise the Council's governance arrangements include:

### 3.1 Identifying and communicating the Council's vision of its purpose and intended outcomes for citizens and service users

The County Durham Partnership (CDP) is the strategic partnership for the County. The Sustainable Community Strategy 2010-2030 (SCS) produced by the Council in conjunction with its partners on the CDP demonstrates its shared long-term vision for the future of County Durham. This vision for County Durham, namely 'Altogether Better Durham' outlines two areas of focus – **Altogether Better Place** and **Altogether Better for People** and five priority themes, which represent the major issues identified by residents in the Place Survey:

- Altogether wealthier;
- Altogether better for children and young people;
- Altogether healthier;
- Altogether greener;
- Altogether safer.

A comprehensive timetable of consultation was in place to develop the SCS and the accompanying three year action plan, and progress is monitored quarterly by the Cabinet and the CDP to ensure that the vision becomes a reality. It is based on consideration of a broad range of information and evidence and consultation with a wide range of stakeholders. Since the abolition of the National Indicator set of performance measures due to changes in national policy, work has progressed on developing a locally led performance framework for the CDP to monitor progress. This will be the key framework for measuring performance following the abolition of the Local Area Agreement.

The Council Plan contains the Council's corporate priorities and the key actions to take in support of delivering the longer term goals in the SCS and the Council's own improvement agenda. The Council Plan is supported by a series of Service Plans at a Service Grouping level which details the planned actions to deliver the Council's vision. Priorities within the Council Plan are based on:

- The SCS;
- Current performance;
- External inspection findings including Annual Audit and Inspection Letter, Care Quality Commission annual performance assessment of social care for adults, and a number of countywide inspections carried out by the Audit Commission.

Other governance processes and procedures, such as the Asset Management Plan and Partnership Governance Framework, also make clear links to the Council priorities, to ensure that the impact on achieving them is considered when decisions are made.

**3.2    Reviewing the Council's vision and its implications for the Council's governance arrangements**

The CDP annually review the SCS to ensure that it remains informative and valuable, and renew it every three years to ensure that our plans remain realistic, achievable within our current resources and soundly based, taking account of national and international developments and other changes.  Over 6,500 residents participated in the Countywide resident survey undertaken during the year and provided the Council with excellent feedback on their views on Council services.

The Council considers the governance implications of its actions, and annually reviews its Code of Corporate Governance to ensure that it remains consistent with the principles of the CIPFA/SOLACE Framework – "Delivering Good Governance in Local Government".

The Council has also implemented a system of Extended Management Team meetings consisting of Chief Executive, Directors and Heads of Service which included a programme of activity linked to the strategic management of the Council.

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

The Council Plan, the SCS, Area Action Partnerships, and the Medium Term Financial Plan (MTFP) contribute into the corporate performance management arrangements, and the Council has a framework of quarterly reporting to Cabinet and Overview and Scrutiny on corporate performance. A Performance Management Report is produced quarterly by all Service Groupings and has been improved significantly during the year.  It includes a summary of achievements and identifies areas with significant performance challenges where a more in depth analysis of performance and improvement work should be carried out.

Reports on the budgetary control statement are also considered quarterly by Cabinet. Supporting this, improvements to service delivery are identified and monitored through service improvement plans.  The Improvement and Planning Group (IPG) meets fortnightly to discuss Council performance management issues. The Council continually reviews its performance management frameworks, both corporately and across service groupings, and reviews the corporate basket of indicators following the adoption of the Council Plan and Service Plans.  It has adopted a new corporate basket of indicators which will present a balanced scorecard of performance across five types of indicator. Similarly, the Delivery & Improvement Group, which reports to the CDP has been transformed into two groups, namely a performance group that will meet quarterly to consider performance, and a strategic group made up of high level officers from the Council, Police, Fire and Health which meets monthly.  This latter group considers how key public sector plans for change align, and where efficiencies and greater value for money can be achieved through strategic integration, shared services and joint commissioning.

Significant work has taken place in 2010/11 to update the Council's Medium Term Financial Plan 2011-15 (MTFP) to take account of the large reductions in government grant funding. Savings targets have been developed for each service grouping after taking account of grant reductions and other significant cost pressures. Savings of £66m need to be delivered in 2011/12 and a comprehensive schedule of reviews has been programmed which are designed to achieve the necessary savings to enable us to deliver a balanced budget and MTFP. Detailed and frequent monitoring of this programme is being undertaken by the Change Co-ordination Group, CMT and Cabinet.

All complaints are logged and recorded on the customer relationship management system. The Standards Committee review a quarterly report indicating the number and type of complaints (not relating to the members code of conduct), response times and outcomes. It also states how services have changed practices, procedures or policies as a result of complaints received. These reports can be found on the Council's intranet and website.

The Council's employee performance appraisal arrangements, which are designed around a series of competencies, are a key method of assessing the individual performance of officers, and addressing areas where performance can be improved There is a commitment to introduce 360$^{o}$ appraisals for senior management (Heads of Service and above).

To enable greater local participation in determining the priorities for service delivery, the Council has fourteen Area Action Partnerships (AAPs) covering the whole County. Working via a series of Task and Finish Groups, multi- agency AAPs are fully engaged with identifying and resolving local priorities, and utilise locality budgets allocated to each AAP to drive improvements to service quality. Progress on achieving these improvements is monitored by the AAP Boards.

A Single Equality Scheme has been implemented during the year, and actions from this plan are included in Service Plans.

The performance and quality of service delivery of the Community and Voluntary sectors is measured against a standard Service Level Agreement that they all work to.

**3.4   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**

The key document which clearly describes roles and responsibilities is the Council Constitution.  This includes the individual roles and responsibilities of the:
- Leader of the Council;
- Deputy Leader of the Council;
- Executive Member;
- Executive Support Member;
- Chairman of the Council;
- Vice Chairman of the Council;
- Chairman of a Committee;
- Vice Chairman of a Committee;
- Opposition Group Leader;

- Frontline Councillor (Community Leadership and Corporate Roles);
- Corporate Parenting Panel Member;
- Non-Elected Members (for Audit Committee, Overview & Scrutiny Committee, Pensions Committee and the Standards Committee);
- Officers of the Council, including the Chief Executive and other statutory senior management appointments.

Together with the responsibilities for functions such as the:
- Responsibility for Council Functions (which sets out those matters specifically reserved for collective decision of the Council);
- Responsibilities for Executive Functions;
- Officer Scheme of Delegation;
- Joint Committee Arrangements;
- Overview and Scrutiny arrangements;
- The Standards Committee;
- Budget Framework procedures.

To provide clarity for new councillors regarding their role, responsibilities and how to perform their duties, a Councillor Compact is in place. Specifically it covers:
- The role of the Elected Member;
- Frontline Councillor Roles;
- Executive Roles;
- Non-Executive Roles;
- Membership of Regulatory Committees;
- Partnership Working.

The Corporate Management Framework sets out the collective role and management arrangements for the Corporate Management Team and Extended Management Team.

Members and Officers work together on the workload of the Cabinet which is managed through a system of Cabinet pre-agenda meetings. To support this, Corporate Directors hold regular briefing sessions with Cabinet Portfolio Members and their support Members, and there are clear principles of how media relations work with elected Members.

When working in partnership, the Council ensures that Members are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the authority. It also ensures that there is clarity about the legal status of the partnership and ensures that representatives of the organisations both understand and make clear to all other parties the extent of their authority to bind their organisation to partner decisions. Formal guidance is provided for Members when representing the Council on outside bodies and partnerships.

## 3.5 Developing, communicating and embedding codes of conduct, defining the standards of behaviour for Members and staff

The key elements of the Council's approach are detailed in the Constitution and include:

- The Code of Conduct for Elected Members, Voting Co-opted Members and Independent Members of the Standards Committee;
- The Code of Conduct for Employees;
- The Code of Practice for Members and Officers dealing with planning matters;
- The Statutory Declaration of Acceptance of Office, which all Members are required to sign. This includes an undertaking to observe the requirements of the Code of Conduct in operation at the time. Similar arrangements exist for independent members of the Standards Committee and Voting Co-opted members of the Scrutiny Committee.

The Council's partnership governance framework also makes clear reference to Codes of Conduct applying to any partnership working.

Any breach of the employee code is investigated in accordance with the Council's disciplinary procedures and any breach of the Member code is dealt with under Standards Committee Procedures. All complaints under the Members code of conduct are maintained and monitored by the Monitoring Officer and her staff. Quarterly statistics containing information about the effectiveness of local standards arrangements are submitted to the Standards Committee by the Monitoring Officer, returns to Standards for England no longer being required.

The Register of Gifts, Interests and Hospitality for Members is available online. The Code of Conduct for Members requires Members (including Co-opted Members with voting rights):

- to register in the Authority's Register of Interests details of their personal interests;
- who become aware of any changes to his/her interests to provide details of that change to the Monitoring Officer within 28 days;
- to review their declarations of standing interests on an annual basis.

Gifts and hospitality and conflicts of interest are registered as and when required throughout the year.  In terms of disclosure of gifts, hospitality and interests, Member declarations/ registrations are maintained and monitored by the Monitoring Officer and her staff.

The Monitoring Officer issues advice and guidance (usually on an annual basis) reminding Corporate Directors of their responsibilities under the Code in relation to gifts and hospitality.  Staff declarations are maintained and monitored by their Head of Service.

The Council's Standards Committee has an independent Chair and has been given a deliberately broad remit, including all complaints handling and oversight of other relevant codes and protocols, so as to reinforce the Council's commitment to these issues. In accordance with the Standards Committee

(England) Regulations 2008, the role of the Committee has been extended to include the local assessment of Member Conduct complaints.

**3.6 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**

The Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are effective, transparent and accountable to local people. The Constitution is reviewed and amended on an annual basis as required. A Committee Management System has been implemented to streamline the process of managing formal reporting.

The Officer Scheme of Delegation is also reviewed annually in line with the review of the Council's Constitution.

The Council operates a risk management approach that aids the achievement of its strategic objectives, supports its decision making processes, protects the Council's reputation and other assets and is compliant with statutory and regulatory obligations. The Council annually reviews its risk management strategy and policy, which outlines the formal approach to identifying and managing risk.

Policy Framework Rules are in place which ensure that policies are developed in line with the values of the Council.

**3.7 Ensure the Authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)**

The Council has appointed the Corporate Director, Resources as Chief Financial Officer (CFO) and Section 151 Officer. The CFO, who is a member of the Corporate Management Team and reports directly to the Chief Executive, is professionally qualified, and has the skills, knowledge, experience and resources to perform effectively in both a financial and non-financial role. The CFO is also the designated lead officer for the Audit Committee, the Corporate Risk Management Group and External Audit. To support these roles, the finance function is adequately resourced to fulfil its duties, and a structure is in place which provides a line of professional accountability for finance staff throughout the Council.

Key CIPFA codes, such as the Code on a Prudential Framework for Local Authority Capital Finance, and the Treasury Management Code, are complied with. Reports on the budgetary control statement, and quarterly outturn reports, are regularly presented to Cabinet and Corporate Management Team.

The CFO is involved in all Corporate Management Team discussions, and reviews all reports to Cabinet which have financial implications. The CFO also provides an opinion under section 25 of the Local Government Act 2003 on the reserves for the County Council, which Members consider when setting the budget.

**3.8  Undertaking the core functions of an Audit Committee, as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities**

The Council has an Audit Committee with responsibility for monitoring and reviewing the risk, control and governance processes and associated assurance processes, to ensure internal control systems are effective, and that policies and practices are in compliance with statutory and other regulations and guidance. This includes considering the work of External Audit, Internal Audit, Risk Management, Corporate Governance and making recommendations concerning relevant governance aspects of the Constitution.

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

The Constitution takes into account all relevant legislation including the Local Government Act 1972, the Local Government Act 2000, the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 and the Local Government and Public Involvement in Health Act 2007. The Constitution is reviewed annually by the Constitution Working Group (CWG). This group consists of the lead Members from each political party and is chaired by the Leader of the Council. It is supported by the Chief Executive and the Head of Legal and Democratic Services as the Council's monitoring officer, and other officers as required, and makes recommendations to full Council on changes required to the Constitution.  Externally audited accounts are published in the Annual Statement of Accounts.

All reports written by officers include the financial and legal implications in the decisions they are asking Cabinet or Committees to make, and the Constitution states that the Chief Financial Officer can bring influence to bear on all material decisions.

The Constitution states that the Head of Legal and Democratic Services is the senior officer responsible to the authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with. This is supported by the independent assurance work of Internal Audit. Information is provided for senior officers to understand what they can or cannot do under the Scheme of Delegation.

**3.10  Whistle-blowing and procedures for receiving and investigating complaints from the public**

The Confidential Reporting Code (Whistle blowing policy) is part of the Council's Constitution.  Together with the Council's complaints procedures, they provide mechanisms for the public to raise concerns about potential breaches of conduct. They are accessible on the Council's website, are communicated to all staff and Members, and have been brought to the attention of School Governing Bodies. These procedures also form part of the Council's approach to counter-fraud and are linked to the Councils' Counter Fraud and Corruption Strategy. An awareness campaign, "combating fraud through awareness" has been developed and encourages the public, staff, Members, contractors and the Council's partners to speak up and report any suspected irregularity.

The Standards Committee regularly monitors complaints handling by Services, including dip-sampling of completed investigations.  It reports annually to the Full Council on its business which includes details of Member conduct complaints and Local Government Ombudsman investigations.

### 3.11  Identifying the development needs of Members and senior officers in relation to their strategic roles, supported by appropriate training

The Council has established systems and processes for identifying the development needs of Members and senior officers.  It does this generally by:

- Operating robust recruitment and selection processes;
- Implementing a Member Development Strategy;
- Maintaining the Investor in People Standard;
- Consistent application of the People and Organisational Strategy;;
- Cascading regular information to Members and Staff;
- Investing in Member and Officer Leadership Training;
- Providing resources that support Member and Officer Development;
- Promoting schemes and supporting ongoing professional development;
- Personal Development Plans;
- Providing training to help Members understand their role on committees;
- Assessing personal development needs as part of the induction process for both Members and officers;
- Introducing an Employee Support Programme to support employees through the restructuring process associated with the MTFP outcomes

A Member Training and Development Strategy and Member Learning and Development Programme is in place.  To support this, the Member Development Group has been established to oversee and co-ordinate Members training needs. This meets six times a year to discuss training and development initiatives for elected Members.

A training programme, based on needs analysis, has been developed, "Building Resilient Organisations Programme", for Corporate Management Team (CMT) and extended management team members, and other senior managers have the opportunity to undertake the North East Excellent Managers programme. Individual personal development of senior officers is addressed as part of the Council's employee performance appraisal arrangements developed with staff and is designed around a series of competencies. There is also a commitment to introduce $360^o$ appraisals for senior management (Heads of Service and above).

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

A full programme of communication is in place involving presentations, press releases, articles in local magazines and partners publications.  The Council itself publishes Durham County News, a community magazine which is provided to all households across the County four times per year.  This is used to raise public awareness and promote consultation and engagement with the Community.  To make information more accessible for people who have difficulty reading, the Council website is speech enabled via 'Browsealoud'.

As part of its commitment to greater transparency, the Council publishes details of specific expenditure on the Internet.

A climate of openness has been encouraged by holding regular Cabinet meetings at various locations throughout County Durham including former district council offices. The Council responds to the views of stakeholders and the community in a number of ways including:

- Publishing a forward plan of key decisions;
- During the MTFP process, more than 8,000 people either participated or responded to the consultation.
- Encouraging and supporting the public in submitting requests for aspects of the Council services to be scrutinised;
- Providing to the public the opportunity to ask questions or make representations at full Council and regulatory committees;
- Implementing a protocol for managing e-petitions.
- Undertaking a Countywide resident survey in which over 6,500 residents participated;
- Designing AAPs in consultation with the public to ensure that they are recognised as representing our natural communities. Each AAP has its own Plan, Board, budget and officer support structure, and are used to identify priorities for each area.   They are consulted on the development of our MTFP to identify local priorities for action, test strategic priorities at a local level and seek innovative ideas from local people on how to realise efficiencies by working more closely with our partners.   Community development officers attached to AAPs work closely with communities;
- Consulting effectively with children and young people, service users and carers and key client groups to help plan and be involved in the design, delivery and evaluation of local services;
- Consulting with staff and Trade Unions;
- Reviewing and improving 'Open Doors', a responsive staff engagement mechanism which captures and quickly responds to questions, compliments, suggestions and complaints raised by staff.
- The Engagement and Third Sector team, who support the Council's approach to community engagement and support Members in their community leadership role.

The CDP has developed a County Durham Partnership Community Engagement and Empowerment framework to shape and support a common vision and approach for community engagement by partners in County Durham, so that people feel able to influence decision making.

**3.13    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, and reflecting these in the Council's overall governance arrangements**

As the strategic partnership for the County, the CDP is the lead umbrella partnership for most other partnerships in County Durham, and the Leader of the Council is the chair of the CDP.

The Council has a strong commitment to working with partners to meet the needs of its communities, and involves partners when developing the council's own three year MTFP, working with key agencies to develop complementary proposals and consulting on a joint basis with the Police and County Durham & Darlington NHS Foundation Trust. The Council has developed a partnership governance framework (PGF) to enable partnerships to be identified, recorded and reported upon corporately and to provide a mechanism for their effectiveness to be assessed.  The Council is establishing joint assurance functions with our partners to improve accountability and data quality.  A report is presented bi-monthly to Cabinet on the work of the CDP, including input from each of the AAP's.

To strengthen community governance, the AAP boards comprise seven Members of the public selected through open recruitment; seven Members chosen from partner agencies working in the area and seven selected from local elected Members - including town and parish councillors - on a politically balanced basis for that area.  They have a rotating chair, so that they are not indefinitely controlled by the Unitary administration.

The County Durham Compact provides a framework for partnership and engagement with the voluntary and community sector.

The Council's Codes of Conduct also apply to its partnership working.

## 4    REVIEW OF EFFECTIVENESS

The 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 the senior managers within the Council who have responsibility for the development and maintenance of the governance environment, the annual report of the Manager of Internal Audit and Risk, and also by comments made by the external auditors and other review agencies and inspectorates.

The process for maintaining and reviewing the effectiveness of the corporate governance framework is outlined below:

### The Executive

The Council is responsible for appointing the Leader of the Council for the remainder of the term of the Council, and the Cabinet, who are appointed annually, which together are known as the Executive. As a group, the Executive is responsible for most decisions. Where a decision is identified as key, these are published in advance in the Executive's Forward Plan.

### Chief Financial Officer

The principles outlined in the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010) are complied with by the Council.

### Overview and Scrutiny Committee

The Council maintains an Overview and Scrutiny Management Board and six Scrutiny Committees that support the work of the Executive and the Council as a whole in the interests of achieving common aims and continuous improvement. In doing this, Overview and Scrutiny may make recommendations on policies, budget and service delivery and can call-in a decision of the Executive which has been made but not yet implemented.

### Standards Committee

A Standards Committee has responsibility for promoting high ethical standards across the Council, overview of the Member and Officer codes and other relevant protocols together with the Council's complaints handling regime.

### The Audit Committee

The Audit Committee contributes to this review by seeking assurance that the Council's governance arrangements are effective. It does this by:

- Reviewing the Annual Governance Statement and how it has been prepared;
- Reviewing the Council's Statements of Accounts and how they have been prepared;
- Monitoring progress made on improvements identified from the previous year's Annual Governance Statement;
- Reviewing the effectiveness of the system of internal audit;

- Reviewing regular risk management and internal audit progress reports;
- Reviewing the Annual Internal Audit Report and Risk Management Report;
- Reviewing reports from the external auditor;
- Maintaining an awareness of the key processes and policies in place, and how they are reviewed, that underpin the corporate governance framework.

**Change Co-ordination Group**

The Change Co-ordination Group (CCG) which is chaired by the Corporate Director, Resources, co-ordinates and oversees the Council's corporate assurance arrangements.  It does this by:

- Preparing and maintaining the Council's Code of Corporate Governance as a formal framework for the Council's governance arrangements;
- Reviewing the systems, processes and documentation to determine whether they meet the requirements of this Code, reporting any breaches and recommending improvements;
- Preparing an Annual Governance Statement to demonstrate how far the Council complies with the principles of good governance and recommending improvements, to be published in the Council's Annual Statement of Accounts.

**Internal and External Audit**

Internal and External Audit provide independent assurance on the effectiveness of the corporate governance framework.

The review was also informed by a statement provided by each Corporate Director and the Assistant Chief Executive commenting on the effectiveness of the Council's governance arrangements generally and how they impacted on their service areas.  These included consideration of the effectiveness of internal controls.

Significant issues arising from the review of the effectiveness, where improvements are needed, are outlined in section 5 below.  These will be included in an action plan and will be regularly reviewed and monitored.

## 5   SIGNIFICANT GOVERNANCE ISSUES

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee.  The Council is fully committed to the principles of corporate governance, and has made further progress during the past twelve months in developing its arrangements.

Following the production of the Annual Governance Statement (AGS) for 2009/10, an action plan, containing the following recommendations was produced. Progress made in implementing each recommendation, as outlined below, was confirmed by CCG and formed the starting point of the work to produce the 2010/11 AGS.

- **Continue the positive direction of travel by implementing the planned control improvements to financial systems.**  In addition to improvements tracked through the Service Improvement Planning process, an Action Plan was developed which looked to address a range of issues identified during the annual external audit in relation to internal control, and this Action Plan is monitored via the Audit Committee.  In identifying these issues, the extent of change following local government re-organisation across the Council in the last year should not be under estimated.  It has been particularly challenging for the Council to maintain effective controls over financial systems in the period of migrating to a single financial system (Oracle) for the new Council. One disappointing outcome of this has been delays in consolidating financial information together to provide a single set of final accounts, which has resulted in the final Statement of Accounts being agreed later than the statutory deadline.  A further programme of work and actions is ongoing in order to ensure continuous improvements are made in this area in order to ensure the Council meet all of our statutory responsibilities by the due dates for the closure of our 2010/11 Statement of Accounts.

- **Improve the Council's approach to tackling fraud.**  The Counter Fraud and Corruption Strategy and Policy, and the Fraud Response Plan, were reviewed and approved by the Audit Committee in November 2010.  Fraud awareness among Officers, Members and the wider community has been raised through a number of channels. Reporting arrangements have been improved, and will be further improved after the new Revenues and Benefits system is implemented in 2011.

- **Improve awareness of, and accessibility to, key policies and documents.** Policy information has been communicated throughout the year.  However, as priority has focused on the development of the Council website, the target implementation dates for the remaining actions were revised and have been carried forward into the action plan for 2011/ 12.

- **Improve awareness of senior officers of the parts of the constitution relevant to their role, including the scheme of delegated powers, and the legal implications of their decisions.**  Improvements to deal with gaps in the scheme of delegated powers that had come to light have been incorporated into the Council Constitution.  Delegated decisions are now recorded on the new modern.gov system.

- **Implement policies for Records Management and Information Management and Governance.** During the year, a Records Management policy and a Data Protection policy have been implemented. As planned, further policies will be implemented in this area during 2011, following which the Council will develop a draft Information Management and Governance strategy by June 2012. This action has been carried forward into the action plan for 2011/ 12.

- **Implement a Single Equalities Scheme.** The Single Equalities Scheme was approved by Cabinet in July 2010, and actions from the Scheme have been built into relevant Service Plans and are monitored through corporate quarterly reporting.

- **Improve the management by the Services of their contract and supplier relationships.** The Contract Procedure Rules have undergone an internal review, and guidance has been issued from Corporate Procurement to service managers drawing attention to the County's procurement procedures. A draft Corporate Supplier Engagement Strategy, to be implemented in both service areas and the corporate centre, has been drafted, but will not be finalised until the impact of the Localism Bill and central government policy on social enterprises have been taken into account.

- **Implement revised Financial Management Standards.** Work has continued during the year to develop the standards. However, these remain in draft, and will not be finalised until the Unitisation structure of the Council's finance function is completed during 2011. This action has been carried forward into the action plan for 2011/ 12.

- **Further embed Officer and Member Codes of Conduct.** Awareness of the Officer Code of Conduct was raised through a number of channels, such as articles in the staff magazine. Member seminars were held in October 2010 to explain the Member Code of Conduct. However, further work is on hold until central government confirms what it intends to do with the Code in the future, and this will be addressed when the Council reviews the ethical framework in 2011/ 12.

Based on internal audit work undertaken during 2010/11, the Manager of Internal Audit and Risk has issued a moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Council in 2010/11. This moderate opinion ranking provides assurance that there is basically a sound system of control in place, but there are weaknesses and evidence of non-compliance. Control objectives are often achieved.

CCG also sought assurance on the effectiveness of the Council's governance arrangements from each of the Council's Corporate Directors and the Assistant Chief Executive. As a result of this exercise, and the work of both Internal and External audit, a number of issues have been identified where improvement in the Council's governance arrangements are required. The most significant issues, agreed by the Corporate Management Team (CMT) at its meeting on 22 June 2011, and as reported to the Audit Committee on 30 June 2011, together with a summary of action taken or being taken to address each issue, are detailed below.

**1. Continue the positive direction of travel by implementing the planned control improvements to financial systems.**

A number of key actions to address the financial systems weaknesses have been incorporated into the Resources Service Improvement Plan or the Corporate Improvement Plan, and progress on these improvement plans will be monitored by Corporate Management Team throughout the year.  This action has been carried forward from the 2010/ 11 Annual Governance Statement.

**2. Pay Harmonisation and Single Status.**

A project is in place to develop and implement a pay structure for the Council and resolve outstanding pay harmonisation and single status issues, which have been complex given the implications of TUPE following Local Government Reorganisation.

**3. Implement an Information Management and Governance Strategy**

The Council will develop a draft Information Management and Governance strategy by June 2012.  This action has been carried forward from the 2010/ 11 Annual Governance Statement.

**4. Implement revised Financial Management Standards.**

The Council is developing Financial Management Standards to supplement the very high level roles and responsibilities defined in the financial procedures rules contained in the Constitution. Financial management standards set out in more detail how the procedure rules will be implemented to help embed sound financial management across the Council.  This action has been carried forward from the 2010/ 11 Annual Governance Statement.

**5. Business Continuity.**

The Council will develop a robust ICT architecture without single points of failure, and with data stored securely by implementing a new backup strategy across two physically segregated server environments.

**6. Changing Government Policy on the Ethical Framework.**

Following the abolition of the current Standards regime, the Council will review the ethical framework and implement a new compliant, fit for purpose and workable ethical structure for the Council. Supporting this, advice and guidance will be provided to Members and Officers on the new ethical structure.

**7. Improve accessibility to key policies.**

The Council will develop a framework for ensuring that the latest versions of all key policies are accessible and are up-to-date.  This action has been carried forward from the 2010/ 11 Annual Governance Statement.

**8. Performance Management of Integrated Teams.**

The Children's Trust intends to transform services for children and young people by developing services in local communities, for local communities. These services will be easy to access, effective and integrated where appropriate and will deliver improved outcomes for children and families in County Durham. To support this, a Performance Management Framework for Integrated teams will be implemented.

**9. Succession Planning.**

Following year one MTFP workforce changes, policies will need to be implemented to ensure effective succession planning in the future. This is a long-term goal, but after the completion of the Unitisation of Human Resources function, plans will be developed by April 2012 to take this forward.

We propose over the coming year to take steps 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.

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**Signed:**

Simon Henig
Leader of Durham County Council

George Garlick
Chief Executive

Don McLure
Corporate Director, Resources

## Appendix 3: Governance Action Plan – 2010-11 Annual Governance Statement

The Lead Officer is the officer who will oversee and monitor the implementation of the action. However, for a number of actions, it is the responsibility of the Services, not the Lead Officer, to implement the actions

| No. | Significant governance issue | Further Action Required | Lead Officer | Target Implementation Date |
|---|---|---|---|---|
| 1 | A number of significant weaknesses in the system of financial control. | The actions to address the financial systems weaknesses will be incorporated into the Resources Service Improvement Plan or the Corporate Improvement Plan. Progress on these improvement plans will be monitored by CMT throughout the year. This action has been carried forward from the 2010/ 11 Annual Governance Statement. | Don McLure | Throughout 2011/ 12 |
| 2 | Pay Harmonisation and Single Status. | Implement the Pay and Conditions project | Kim Jobson | April 2012 |
| 3 | Implement an Information Management and Governance Strategy | Implement an Information Management and Governance strategy. This action has been carried forward from the 2010/ 11 Annual Governance Statement. | Jenny Haworth | June 2012 |
| 4 | Implement revised Financial Management Standards. | The revised Financial management standards should be finalised and implemented. This action has been carried forward from the 2010/ 11 Annual Governance Statement. | Jeff Garfoot | Sep 2011 |
| 5 | Business Continuity | Develop a robust ICT architecture without single points of failure, and with data stored securely by implementing a new backup strategy across two physically segregated server environments. | Phil Jackman | March 2012 |
| 6 | Changing Government Policy on the Ethical Framework. | Review the ethical framework and implement a new compliant, fit for purpose and workable ethical structure for the Council. | Colette Longbottom | March 2012 |
| | | Provide advice and guidance to Members and Officers on the new ethical structure. | Colette Longbottom | March 2012 |
| 7 | Improve accessibility to key policies. | Improve accessibility to key policies and documents via the website/ search engines. This action has been carried forward from the 2010/ 11 Annual Governance Statement. | Roger Goodes | Aug 2012 |
| | | Scope and develop a database of policies and procedures as part of the Council's Intranet. | Roger Goodes | Aug 2012 |
| 8 | Performance Management of Integrated Teams. | Implement a Performance Management Framework for Integrated Services | Carole Payne | Sep 2011 |
| 9 | Succession Planning. | Plans will be developed by April 2012 outlining the implementation of the policies required to ensure effective succession planning in the future. | Kim Jobson | April 2012 |