

**FALKIRK COUNCIL**

**Subject: ANNUAL GOVERNANCE STATEMENT 2011/12**  
**Meeting: SPECIAL AUDIT COMMITTEE**  
**Date: 24 September 2012**  
**Author: CHIEF EXECUTIVE**

**1. INTRODUCTION**

1.1 The purpose of this paper is to:

- advise Members of arrangements for reporting on the Council's governance framework for the year ended 31 March 2012; and
- to seek approval of a draft Annual Governance Statement for inclusion in the Council's 2011/12 Annual Accounts.

**2. GOVERNANCE ARRANGEMENTS AND GUIDANCE**

2.1 In 2007 the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) jointly issued guidance entitled 'Delivering Good Governance in Local Government'. This defined the six principles that should underpin the governance of each local government body, namely:

- focussing on the purpose of the Authority and outcomes for the community, and creating and implementing a vision for the local area;
- 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;
- taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
- developing the capacity and capability of Officers and Members to be effective; and
- engaging with local people and other stakeholders to ensure robust public accountability.

- 2.2 The guidance recommends that Authorities review their own arrangements and prepare an Annual Governance Statement (the Statement) to report on the adequacy of those arrangements. While it is not mandatory in Scotland, publication of a Statement is viewed as good practice and satisfies the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.
- 2.3 An Annual Governance Statement has been included in the Council's Annual Accounts since 2008/09 and I attach, at **Appendix 1**, a draft Statement for the year to 31 March 2012. The Statement is structured around the above six principles, and includes a separate section on the Council's system of internal financial control, as well as a number of areas for improvement over the coming year.
- 2.4 Following consideration by Committee, the Statement requires to be signed by the Leader of the Council and Chief Executive, and will be published with the Council's 2011/12 Annual Accounts.

### **3. RECOMMENDATIONS**

#### **3.1 Members are invited to:**

- 3.1.1 **note the report on the Council's governance arrangements;**
- 3.1.2 **review and approve the draft Annual Governance Statement;**  
**and**
- 3.1.3 **note that the Annual Governance Statement will form part of the Council's 2011/12 Annual Accounts.**

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**Chief Executive**

**Date: 13 September 2012**

## FALKIRK COUNCIL

### ANNUAL GOVERNANCE STATEMENT 2011/12

#### Introduction

1. Falkirk Council has a duty under the Local Government in Scotland Act 2003 to secure best value and ensure continuous improvement in the Services it delivers. The Council must ensure that public money is used economically, efficiently, and effectively, with due regard to the achievement of sustainability. To help ensure that these responsibilities are met, the Council must put in place robust governance arrangements, ensuring that these are properly applied.
2. Responsibility for ensuring good governance is shared by all Council employees and elected Members. To demonstrate Falkirk Council's commitment to ensuring good governance, this Annual Governance Statement (the Statement) has been prepared on the basis of the principles set out in the CIPFA / SOLACE Framework '*Delivering Good Governance in Local Government*'. It should be noted that any review of governance arrangements can provide reasonable (not absolute) assurance that policies, aims, and objectives are being applied and implemented as intended.
3. The CIPFA / SOLACE Framework defines governance as being the arrangements that ensure Authorities are doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest, and accountable manner. In practice, this comprises the systems, processes, cultures, and values by which the Council is directed and controlled, and through which it engages with the community.
4. Preparation of this Statement meets the requirements of Section 3.7 of the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

#### Falkirk Council's Governance Framework

5. As well as the clear budgetary and expenditure pressures brought to bear by the global financial climate, 2011/12 has been a year of change and challenge for Falkirk Council with the finalisation of the senior management structure review, the formation of Falkirk Community Trust, preparation for Welfare Reform, and changes to the way in which Fire and Police services are to be delivered. In addition, the need to move towards a more partnership focussed approach to service delivery, as recommended in the report on the Future Delivery of Public Services by the Commission chaired by the late Dr Campbell Christie, requires that Falkirk, like all Councils, demonstrably focuses on clear, preventative approaches to delivering outcomes, priorities, and targets.
6. Against this backdrop of change and uncertainty, robust and transparent governance arrangements take on a heightened profile and priority. The following sections summarise the key elements of Falkirk Council's governance framework, set out within the context of the CIPFA / SOLACE Principles.

#### **Principle 1 - Focusing on the purpose of the Authority and outcomes for the community, and creating and implementing a vision for the local area.**

7. The Council must communicate its vision, purpose, and intended outcomes for citizens and service users. It does this via its Corporate Plan and the wider Strategic Community Plan, which are underpinned by the well established Strategic Planning and Management Framework (SPMF). The SPMF is fundamental to ensuring that the Council undertakes its business in a focussed, efficient, and effective way.
8. Related to that, the need to ensure continued improvement and efficiency in the way the Authority delivers its services has prompted a review of the linkages between the Council's financial and business planning processes with a view to building a robust and reliable Medium Term Financial Strategy with clear reference to strategic service delivery aims and objectives.
9. Financial performance continues to be reported via Annual Report and Accounts, which were again prepared within the required timescales and are available on the Council's website ([www.falkirk.gov.uk](http://www.falkirk.gov.uk)). The website also includes a 'Performance Zone' bringing together the various outputs from the Council's public performance reporting systems, including statutory and non-statutory performance indicators.

**Principle 2 - Members and Officers working together to achieve a common purpose with clearly defined functions and roles.**

10. This principle focuses on ensuring effective leadership and on the clarity and consistency of roles and responsibilities.
11. The Council's Standing Orders are a key component of how the Council conducts its business at elected Member and Officer level. These comprise procedures for Committee meetings, a Scheme of Delegation to Committees and Officers, Contract Standing Orders, and Financial Regulations.
12. These documents are periodically reviewed to ensure that they remain current. For example, Contract Standing Orders and Financial Regulations have recently been reviewed, updated, and approved by Council, to reflect procurement legislation and best practice.
13. In February 2010 a revised Service Structure was agreed by Council. Since this was agreed, work has been ongoing to make appointments to Chief Officer posts and, over the course of 2011/12, this process has been completed. Work towards finalising the Council's middle management structure is also underway.

**Principle 3 - Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.**

14. The Council has a Code of Conduct for Members and Officers and all elected Members are expected to abide by the Standards Commission Scotland's Councillors' Code of Conduct. In addition, Protocols are in place setting out arrangements for governing Member / Officer Relations and Officer / Convener Relationships. Taken together, these help ensure that all Officers and Members demonstrate and maintain the appropriate levels of leadership and good governance.
15. The Council collects and processes significant volumes of information and data, and has an Information Security Policy (updated in May 2011) that sets the framework for ensuring the confidentiality, security, and integrity of information held. This is supported by Data Protection Guidelines, an Acceptable Use Policy, and guidance for Officers and Members on the risks associated with the use of Social Media. In addition, work is underway to establish Data Handling registers as an up to date record of data held and of all internal and external information and data transfers.
16. Arrangements are in place to document and record extra-mural employment, and registers of gifts and hospitality are maintained. The Council has a Confidential Reporting Policy and Procedure and an Anti-Fraud and Corruption Strategy. In addition, an Anti-Fraud and Prosecution Policy is in place within the Revenues and Benefits Division of Finance Services. These policies and guidance help foster a corporate culture of fraud awareness, prevention, and detection, and sit alongside the Authority's participation in wider anti-fraud programmes such as the National Fraud Initiative.

**Principle 4 - Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.**

17. The Audit Committee is now well embedded, and is a key element of the Council's governance and accountability structures. Since March 2011 the Committee has been chaired by an external lay member and, in line with good practice, the Committee has held a formal roundtable discussion to consider its own effectiveness, role, and remit.
18. As well as inspection and scrutiny via Internal and External Audit, Council activities are subject to review from various other external agencies. For example, during 2011/12, reports have been received from the Scottish Housing Regulator on the effectiveness of housing service delivery, and from Social Care and Social Work Improvement Scotland on services to protect children and young people. Action to address matters arising from internal and external scrutiny and inspection is reported to, and considered by, Members on an ongoing basis, as part of the Council's continuous improvement agenda.
19. Efforts continue to be made to equip Officers and Members to make the right decisions in an efficient and considered way. For example, in relation to the procurement of goods and services, training has been delivered to all Services on their requirement to comply with Contract Standing Orders and Financial Regulations. Both documents have, themselves, also been reviewed and refreshed during 2011/12.

20. Related to that, self assessment assurance in areas such as gas safety and premises management, linking into the Council's Corporate Risk Management Group, supplements the internal and external scrutiny referred to above. There does, however, remain work to be done on fully embedding risk management and on linking this into the financial and business planning process. Work in relation to the development of a Medium Term Financial Strategy (see paragraph 8), offers the opportunity to do this, and the Audit Committee has a key role in scrutinising and reviewing risk management arrangements.

### **Principle 5 - Developing the capacity and capability of Officers and Members to be effective.**

21. To effectively fulfil their roles and responsibilities Officers and Members must have the appropriate knowledge and skill and be provided with the right support. This is particularly important in an election year, which has seen changes to the elected Member group and in Committee roles and remits.
22. A programme of elected Member induction training will be delivered following the election, and Members will continue to be encouraged to undertake Continuing Professional Development to ensure their skills remain commensurate with their role. As the Council moves through a period of change and budgetary pressure, with financial and investment (including infrastructure investment) arrangements taking on heightened complexity and priority, it is important that Officers and Members continue to be supported.
23. The Achievement and Professional Development scheme has been widely adopted. In addition, business areas are encouraged to work towards Investors in People standards and accreditation, to help ensure that the necessary staff development framework is in place across the organisation.
24. Falkirk Council has always been committed to developing and supporting Officers and Members, and continues to provide robust induction programmes for new staff and a corporate 'Learning Zone' for existing staff, as well as structured training programmes (in areas such as leadership and coaching) for those moving into management roles across the Council.

### **Principle 6 - Engaging with local people and other stakeholders to ensure robust public accountability.**

25. The Council adopts an open and inclusive approach to engaging with stakeholders. A revised and updated Community Participation Strategy was approved by the Leisure, Tourism, and Community Committee in April 2011, with a Community Participation database maintained as a record of all consultation and community engagement undertaken.
26. Agendas and minutes of all Council meetings are available on-line, with meetings held in public. The Council's website complies with relevant web accessibility guidelines, and allows users to interact and transact with the Council via the 'On-Line services' section.
27. The 'Citizens Panel' continues to play an important role in gathering information from stakeholders to help ensure that services are continuously improving and that they meet the needs of citizens. Recent panel activity has focussed on areas such as the Council's Waste Strategy, the Antonine Wall, Community Participation, and Roads and Footways.
28. A revised and updated Scheme of Decentralisation was approved by Council in June 2011. This sets out arrangements for localised decision making, and fits with the wider Community Participation Strategy (as per paragraph 25 above).

### **Monitoring and Review of Governance Arrangements**

29. Falkirk Council's governance arrangements are formally monitored via:
  - the Committee framework, including the Audit Committee;
  - Best Value Forum;
  - Corporate and Departmental Management Teams;
  - Internal and External Audit work; and
  - the work of Falkirk Council's Best Value 2 Local Area Network.
30. This monitoring is done within the context of the Delivering Good Governance guidance, the Council's Corporate Plan, Strategic Community Plan, agreed Single Outcome Agreement, and the fundamental statutory requirement to demonstrate and achieve best value.

**System of Internal Financial Control**

31. This section of the Statement relates to the systems of internal financial control of Falkirk Council and of the consolidated entries in the Council's group accounts for the year to 31 March 2012.
32. The Chief Finance Officer is responsible for ensuring the operation and maintenance of an effective system of internal financial control. It should, however, be noted that the system of internal financial control can provide only reasonable (not absolute) assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or detected.
33. The system of internal financial control is based on a framework of risk management; Contract Standing Orders, Financial Regulations, and associated guidance; proper delegation and accountability; comprehensive budgeting systems; clear financial targets; and robust management information.
34. The Council's Internal Audit Section provides an independent assessment of arrangements for risk management, governance, and control. The Section undertakes an annual programme of work approved by the Chief Executive, Chief Finance Officer, and Audit Committee. This work is planned taking account of the outcomes of the Council's risk management arrangements and Internal Audit's own assessment of risk.
35. The Council's appointed External Auditors have concluded that the Internal Audit Section operates in accordance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006 (the Code), and formally place reliance on work undertaken by the Section. In addition, an independent assessment has been undertaken by West Lothian Council's Audit and Risk Manager, who confirmed the Section's compliance with the Code.
36. All Internal Audit reports are brought to the attention of management and include recommendations and agreed action plans. It is then management's responsibility to ensure that appropriate action is taken to address these recommendations. Significant matters arising are reported to the Council's Audit Committee.
37. The Audit Committee, which was set up on the basis of a decision by Council in June 2008, operates in accordance with relevant CIPFA guidance. The Committee is chaired by an external lay member, and has a remit to provide:
  - independent scrutiny on the adequacy of the risk management framework and associated control environment;
  - independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects risk exposure and weakens the control environment; and
  - assurance that any issues arising from the process of drawing up, auditing, and certifying the Authority's annual accounts are properly dealt with.
38. Part of the role of the Committee is to consider the Internal Audit Manager's Annual Assurance Report. This report provides an independent opinion on the adequacy and effectiveness of the Council's arrangements for risk management, governance, and control, and is based on work undertaken during the year. In his 2011/12 Report the Internal Audit Manager concluded that he was able to provide substantial assurance on the Council's overall framework of control for the year to 31 March 2012.
39. The Chief Finance Officer is required to review the effectiveness of the Council's systems of internal financial control, taking account of the work of managers within the Council, the work of Internal Audit (as described above), and the work of External Audit. Based on consideration of this work, the Chief Finance Officer has concluded that substantial assurance can be placed on the adequacy and effectiveness of the Council's internal financial control systems for the year to 31 March 2012.
40. In respect of other entities that fall within the Council's group boundary, the Chief Finance Officer's review of their internal control systems is informed by the:
  - Annual Governance Statement included within the Annual Accounts of Central Scotland Joint Fire and Rescue Board;
  - Statements on the System of Internal Financial Control included within the Annual Accounts of Central Scotland Joint Police Board and Central Scotland Valuation Joint Board; and
  - work of these bodies' respective External Auditors (and, where relevant, Internal Auditors) and other interim reports.

41. Based on consideration of the above, the Chief Finance Officer has concluded that, on the whole, substantial assurance can be placed on the internal financial control systems (and, where available, governance arrangements) of other bodies falling within the Council's group boundary.
42. As part of the 2010/11 Annual Governance Statement, a commitment was made to undertake assessments of compliance with the principles set out in the 2010 CIPFA Statements on 'the Role of the Chief Financial Officer (CFO) in Local Government' and 'the Role of the Head of Internal Audit in Public Service Organisations'. Assessments against these Statements have now been undertaken, confirming broad compliance with both.

**Governance Arrangements – Areas for Improvement**

43. Falkirk Council continues to be committed to ensuring that governance and internal financial control arrangements are robust, proportionate, and in line with best practice. The process of preparing this Statement has, however, highlighted areas where further work is required, and these will be addressed within the context of the Council's continuous improvement agenda:
  - continue to work towards building a robust Medium Term Financial Strategy;
  - establish Data Handling Registers across all Council Services;
  - further embed corporate risk management arrangements;
  - continue to provide support and development opportunities to Officers and elected Members, particularly in the period following the Local Government elections.

**Conclusion**

44. This Annual Governance Statement summarises, openly and transparently, arrangements established by Falkirk Council for ensuring good governance and appropriate arrangements for internal financial control for 2011/12 and the period to date. It highlights areas of improvement that have been identified to enhance existing governance arrangements, and is consistent with the Council's established improvement agenda.

**Councillor Craig Martin**  
**Leader of Falkirk Council**  
**29 June 2012**

**Mary Pitcaithly**  
**Chief Executive**  
**29 June 2012**