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**ANNUAL GOVERNANCE STATEMENT**

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**Purpose of Report**

1. To seek approval of the Council's Annual Governance Statement.

**Background**

2. Regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 requires local authorities to publish, each year, an Annual Governance Statement along with the Statement of Accounts.
3. The Annual Governance Statement must be signed by the Leader of the Council and Chief Executive and is a key corporate document involving a variety of people charged with delivering governance such as the Director of Corporate Services as the financial officer responsible for the accounting control systems and records and the preparation of the Statement of Accounts and the Monitoring Officer in meeting her statutory responsibilities.

**Information**

4. The Annual Governance Statement to be published with the Statement of Accounts for 2007/08 is attached at **Appendix 1**. It follows the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) recommended format.
5. The Annual Governance Statement outlines the Council's responsibilities, explains the purpose of the governance framework, sets out the key elements of the governance framework, details the review of its effectiveness, highlights significant governance issues and includes a commitment by the Leader of the Council and Chief Executive to ensure the continuous improvement of the system in place.

**Recommendation**

6. It is recommended that the draft Annual Governance Statement at Appendix 1 be approved.

**Paul Wildsmith**  
**Director of Corporate Services**

**Background Papers**

1. CIPFA/SOLACE Publication(s) – 'Delivering Good Governance in Local Government - Framework and Guidance Note'.
2. Audit Services' Annual Report 2007/08 reported to Audit Committee 27 June 2008.

3. Annual Audit and Inspection Letter reported to Audit Committee 27 March 2008.
4. Report on Review of Internal Audit Effectiveness reported to Audit Committee 27 June 2008.
5. Overview Report on Managers Assurance Statements reported to Audit Committee 27 June 2008.
6. Risk Management Reports to Audit Committee 28 September 2007, 14 December 2007 and 27 June 2008.
7. Corporate Governance Update Reports to Audit Committee 28 September 2007 and 27 June 2008.
8. Anti-Fraud and Corruption Arrangements Reports to Audit Committee 14 December 2007 and 27 June 2008.
9. Use of Resources Auditor Scored Judgements reported to Audit Committee 14 December 2007.
10. External Audit Report on Data Quality Reviews – Management Arrangements and Spot Checks reported to Audit Committee 14 December 2007.
11. Corporate Information, Governance Policy - Implementation Progress Report to Audit Committee 27 June 2008.
12. Combined Financial and Service Performance Reports to Cabinet on 18 September 2007, 13 November 2007 and 12 February 2008.
13. Annual Review of Significant Partnerships Report to Cabinet on 18 September 2007.
14. Darlington Eastern Transport Corridor Task and Finish Review Group's Report to Cabinet on 3 June, 2008.

Brian James : Extension 2140  
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## ANNUAL GOVERNANCE STATEMENT

### Scope of Responsibility

1. Darlington Borough 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.
2. In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
3. The Council has approved and adopted a Local 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 [www.darlington.gov.uk](http://www.darlington.gov.uk) or can be obtained from:-

Democratic Services  
Corporate Services Department  
Town Hall  
Feethams  
Darlington  
DL1 5QT  
Tel. (01325) 388351

4. This Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

### The Purpose of the Governance Framework

5. The governance framework comprises 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.
6. 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.

7. The governance framework has been in place at the Council for the year ended 31st March 2008 and up to the date of approval of the Statement of Accounts.

### **The Governance Framework**

8. The key elements of the Council's governance framework are tabulated in Appendix A to this statement which also indicates their relevance to the following six core principles that underpin good governance:-
  - (a) Focusing on the purpose of the Council and on outcomes for the community and creating and implementing a vision for the local area;
  - (b) Members and officers working together to achieve a common purpose with clearly defined functions and roles;
  - (c) Promoting values for the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
  - (d) Taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
  - (e) Developing the capacity and capability of members and officers to be effective;
  - (f) Engaging with local people and other stakeholders to ensure robust public accountability.
9. Each key element, as detailed in the Council's Local Code, has a nominated lead officer, outlines the duty to which it relates and includes three discrete types of action:-
  - (a) Awareness - making sure that everyone who needs to know about the element does know;
  - (b) Monitoring - ensuring that the duty is carried out;
  - (c) Review - actions to ensure that the element is reviewed in the light of effectiveness and emerging good practice.

### **Review of Effectiveness**

#### ***Background***

10. 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 executive managers within the Council who have responsibility for the development and maintenance of the governance environment, the Head of Corporate Assurance's Annual Internal Audit Report, and also comments made by the external auditors and other review agencies and inspectorates.
11. This Statement has been prepared by a management group that has responsibility for evaluating assurances and the supporting evidence. The group comprises the:-

- (a) Director of Corporate Services (S151 Officer);
  - (b) Borough Solicitor (Monitoring Officer);
  - (c) Assistant Chief Executive;
  - (d) Head of Human Resource Management; and
  - (e) Head of Corporate Assurance.
12. The Audit Committee is responsible for the independent review and approval of the Annual Governance Statement following examination of the supporting evidence.
13. Assurance on adequacy and effectiveness is outlined under the following categories identified in the Council's Annual Governance Statement Framework.

#### ***Local Code of Corporate Governance***

14. The Audit Committee received a six-monthly monitoring report in June 2008 to ensure that Members were satisfied that the management processes defined in the Council's Local Code were actually being adhered to throughout the organisation.
15. The report concluded that overall, positive progress was being made on the application of Corporate Governance within the Authority.

#### ***Managers' Assurance Statements***

16. Annual Managers' Assurance Statements are an integral part of the framework that supports production of the Annual Governance Statement.
17. The Statements cover key aspects of the internal control environment on which assurance is required and were completed in Spring 2008 by representatives on Departmental Senior Management Teams. The output from the exercise was reported to the Audit Committee in June 2008.
18. The overall position was positive. Required improvements identified through the Assurance Statements largely focus on the expansion of learning management software to better record acceptance and understanding by employees and members of a range of corporate policies/processes. In addition, Statements have been rolled out to secondary schools for completion and are to be endorsed by Governing Bodies during the Summer of 2008.

#### ***Performance Management/Data Quality***

19. The Council's Performance Management Framework (PMF) is a formal process whereby performance is monitored against both national and local indicators across key strategies. This process, operated by all departments to defined quality standards, is underpinned by a series of rules and procedures codified in a Data Quality Strategy (DQS).
20. Reporting of performance involves regular reports to Departmental Management Teams, Corporate Management Team, Cabinet and Scrutiny Committees. In addition, Members and Officers are able to look at more detailed performance information by using the Councils computerised performance management system, PerformancePlus.

21. The PMF is reviewed at least annually and any improvements identified as a result of internal or external audit work are incorporated as appropriate.
22. The 2007/08 performance data, to be published in the BVPP by the end of June 2008, shows overall improvement against the basket of non-financial BVPIs of 7%. Performance against targets for the community strategy themes and corporate objectives is generally positive, although targets have not been achieved for a limited number of indicators where under performance has impacted upon the headline picture for a number of themes and objectives.
23. The Council was reassessed in 2007 by external audit on its management arrangements to secure data quality and the assessment concluded that the Council was performing well.

### ***Financial Management***

24. The Council's Medium Term Corporate Plan incorporates four-year financial plans. The Council sets its annual revenue budget, capital programme and Council Tax within this wider planning framework. The Medium Term plans, annual budgets and Council Tax are developed in consultation with partner organisations in all sectors, residents and employees, and are approved by full Council.
25. Responsibility for controlling and managing budgets is delegated to Directors and devolved to service managers. Financial management is closely integrated with service management. Cabinet and Resources Scrutiny Committee receive regular reports to enable them to monitor and scrutinise financial performance and service delivery.
26. The Council must comply with external financial reporting requirements, including publishing an annual Statement of Accounts ('the Accounts') and reporting to Central Government and other funding providers. The Accounts, which are prepared in accordance with Accounting Codes of Practice, are approved by the Council's Audit Committee and are independently audited under arrangements made by the Audit Commission. The auditors gave an unqualified opinion on the council's 2006/07 financial statements by the statutory deadline of 31 September 2007, stated that no significant issues were noted during the course of the audit and commented that the accounts presented for audit were timely and of good quality.
27. The Council's cash-flow and borrowing to finance capital expenditure is managed through the Treasury Management Strategy, approved by full Council, and in accordance with legislation and codes of practice.
28. Specific arrangements exist for schools, to which responsibility for management of finance and other resources has been devolved under various legislation. A system of accreditation under the Financial Management Standard in Schools (FMSiS) is being rolled out to all Darlington schools in a phased three-year programme.

### ***Risk Management***

29. Risk is one of the elements of information incorporated into the development of departmental service plans and the Corporate Plan. Risk management is, therefore an essential element in establishing policy, developing plans and enhancing operational management.

30. The risk management process involves identifying, analysing, managing and monitoring risks. The identification of risks is derived from a 'top down' (corporate) and a 'bottom up' (departmental) process of risk assessment and analysis resulting in coverage of the whole Council. The process prioritises the risks resulting in a focus upon the key risks and priorities. The risks are managed through the development of appropriate action plans, allocated to responsible officers.
31. The approach to, and outcomes from, the Council's risk management processes for 2007/08 was reported to the Audit Committee in June 2008. The report detailed positive progress upon delivery of action plans to mitigate key risks and outlined advances in the management of operational risks through the Council's Corporate Risk Management Group. Indeed, proactive risk management work within the Council was recognised at national and European level this year.

### ***Information Governance***

32. In February 2008, Cabinet approved a Corporate Information Governance Policy in order to formally establish a strategic framework addressing the requirements that the law, ethics and policy place upon information and records management. The Policy is designed to ensure the systematic adoption of information management principles to underpin the Council's operations and service delivery.
33. Implementation of the Policy is led and monitored by the cross-departmental Corporate Information Governance Group, chaired by the Head of Corporate Assurance. This Group was mandated to approve information governance related policies and tasked to produce six monthly progress reports to the Audit Committee.
34. The initial progress report to the June 2008 Audit Committee concluded that significant progress had been made in all areas of information governance across the Council. The Information Governance Team was targeting those services and business areas that required urgent assistance with their information as well as delivering a strategic framework for the whole Council and developing approaches to managing information requests.

### ***Internal Audit***

35. The Council's Internal Audit Division operates to the standard defined in the CIPFA Code of Practice for Internal Audit in Local Government. The Annual Internal Audit Plan is risk-based and sets the foundation for an objective review of key controls and procedures operating within the Council.
36. The Audit Committee approves the Annual Internal Audit Plan and receives progress reports against the Plan during the year including any significant matters arising or other issues of concern and Internal Audit's Annual Report.
37. Internal Audit concluded in their Annual Report for 2007/08 that, overall, the Council continues to operate within a control environment that is generally sound.

### ***Review of Internal Audit Effectiveness***

38. A review of the effectiveness of the Council's system of internal audit was carried out by a team of senior officers that comprised a Policy Adviser, the Assistant Director – Housing and the Assistant Director – Public Protection based upon guidance issued by the Finance Advisor Network (FAN) of CIPFA. The findings of the review were considered by the Audit Committee in June 2008.
39. The review team concluded that the Council has an effective system of internal audit.

### ***Partnership Working***

40. In March 2007, Cabinet adopted a partnership working toolkit to provide a means to ensure that the Council's resources were effectively employed, the performance of each partnership was monitored and adequate governance arrangements were in place. As part of the toolkit, a clear definition of a partnership and those classed as significant was documented. The toolkit that comprises an on-line questionnaire was to be completed by the lead officer for each partnership.
41. There was to be an annual review of significant partnerships led by the Chief Executive of Darlington Partnership based upon completed questionnaires and the outcomes from the first such review was reported to Cabinet in September 2007. The summary of the report commented that the key partnerships in Darlington make a significant contribution to ensuring the Council enjoys and maintains positive relationships and develops joint projects with its external partners. The development of these partnerships becoming more responsible for resource deployment through the Local Area Agreement had meant that the considerations of governance must be formally applied at very stage and introduction of the toolkit had ensured a clear analysis of these partnerships could be applied to ensure they were delivering against their objectives and fulfilling the expectations of the Council.

### ***Standards Committee***

42. The Standards Committee continues to monitor a set of Ethical Health Indicators designed to provide an indication of an increase in dissatisfaction with the Council across a range of areas of the Council's activities. The Committee oversees the Council's Confidential Reporting Policy, the Protocol for Member Officer relations, Member Training and other key documents. The Committee produced its first Annual Report about the work of the committee, which was presented to Council in March.
43. The Committee has also implemented the new Local Assessment Framework receiving the first complaint and holding an initial assessment hearing on 2nd June 2008. The Council continues to have a record of no complaints upheld against a Member of this Council, and only 17 complaints across the Borough and the Parishes from inception to date.
44. The Committee has an ongoing work programme and an ambitious programme of work for the coming year.



## ***Annual Audit and Inspection Letter***

45. The Annual Audit and Inspection Letter, produced jointly by the Council's external auditors PricewaterhouseCoopers LLP (PwC) and the Audit Commission, was presented to the Audit Committee in March 2008. The Letter was extremely positive and highlighted that the Council retained the highest Comprehensive Performance Assessment (CPA) rating of 'four star' and under 'direction of travel', to describe improvement progress, was 'improving well'.
46. In terms of Use of Resources, comprising financial reporting, management and standing as well as internal control and value for money, the Council maintained its score of 3 out of 4. This equates to 'consistently above minimum requirements – performing well'. This represented good progress against a background in which the Audit Commission has consistently 'raised the bar' to support continuous improvement with a more stringent set of assessment criteria in 2007. Notable features of the Council's assessment were an improved overall theme score of 4 out of 4 for Value for Money and an improved score of 4 out of 4 for the procedures in place to manage significant business risks.
47. The Letter also commented that the Council has made good progress in promoting inclusive communities. It has raised the profile of the issue through agreeing a new community engagement strategy, 'A Bigger Say and a Better Deal for Communities', and appointing a portfolio holder with specific responsibility for communities and engagement.

## **Significant Internal Control Issues**

48. In November 2007, Cabinet requested an independent investigation into a major capital project, the Darlington Eastern Transport Corridor, following a significant projected increase in costs. Consultants EC Harris were commissioned to examine the factors contributing to the projected overspend and the decision to agree a change to the road level.
49. A Task and Finish Review Group, comprising all Members of Resources Scrutiny Committee, was established to give detailed consideration to the report made by EC Harris and its findings. Resources Scrutiny Committee endorsed the recommendations of the Review Group, which were forwarded to Cabinet in June 2008. They were that :-
  - (a) the report from EC Harris be noted
  - (b) Cabinet be advised of Resources Scrutiny Committee's view that :-
    - (i) the actions taken to improve project management within the Authority, including the restructure of departments implemented in 2007/08, be monitored and reviewed by this Scrutiny Committee and that the definition of strategic procurement, project management and the use of external consultants in delivering capital projects be included as part of this review and that this review should commence immediately;
    - (ii) the lessons learnt from the EC Harris report and discussions at this meeting be incorporated into the Capital Project review Action Plan;

- (iii) following completion of the Capital Project Review, the Action Plan be monitored by this Scrutiny Committee forthwith; and
- (iv) in the light of the EC Harris report, Cabinet be requested to review its level of involvement in capital projects taking account of its duty of care and due diligence.

50. Key lessons from the scheme and the recommendations from the Scrutiny Committee support the work that is ongoing to give greater levels of confidence and assurance around capital projects. The three key strands of activity that will strengthen programme and project management and strengthen Scrutiny and Cabinet oversight of major capital schemes, are :-

- (a) the reorganisation of the Council in the autumn of 2007;
- (b) the Capital Project Review, now nearing completion of its development phase (implementation to be complete by the end of October 2008); and
- (c) changes to the Contract Procedure Rules, agreed by Council in February 2008.

**Significant Internal Control Developments Since 31 March 2008**

- 51. Since the Balance Sheet date of 31 March 2008 and the date on which the Statement of Accounts was signed by the responsible officer the Council entered into a shared services partnership with Stockton Borough Council for the provision of ICT, Transactional Finance and HR and Print and Design.
- 52. Discussions are ongoing between the Internal and External Auditors of both Councils to establish an appropriate audit assurance framework for the partnership.

**Statement by the Leader of the Council and Chief Executive**

53. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee and are committed to ensure the continuous improvement of the system in place.

Signed \_\_\_\_\_ Dated \_\_\_\_\_  
 Leader of the Council

Signed \_\_\_\_\_ Dated \_\_\_\_\_  
 Chief Executive

<i>Document/Function</i>	<b>Core Principles of Corporate Governance</b>					
	Focusing on the purpose of the authority and on 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 members and officers to be effective	Engaging with local people and other stakeholders to ensure robust public accountability
Sustainable Community Strategy	✓					✓
Local Area Agreement	✓					✓
Constitution		✓		✓		✓
Service Planning Framework	✓	✓			✓	✓
Business Transformation Projects	✓	✓		✓	✓	
Community Engagement Strategy	✓				✓	✓
Communication Strategy	✓	✓	✓	✓		✓
ICT Strategy	✓		✓		✓	✓
Human Resources Strategy	✓	✓	✓		✓	
Performance Management Framework	✓	✓	✓		✓	
Schedule of Council Meetings				✓		✓
Council Procedure Rules			✓			
Record of Decisions		✓		✓		✓
Partnership Working Toolkit	✓	✓	✓	✓	✓	✓

Code of Conduct for Members				✓	✓	
Members Induction and Training Programme				✓	✓	
Code of Conduct for Employees				✓	✓	
Officer and Member Protocols		✓	✓			
Confidential Reporting Policy				✓	✓	
Code of Corporate Governance	✓	✓	✓	✓	✓	✓
Risk Management Strategy				✓		
Anti-fraud and Corruption Policy				✓		
Capital Programme Methodology		✓		✓		
Information Governance Policy	✓		✓	✓	✓	✓
Procurement Strategy	✓	✓	✓	✓		✓
Contract Procedure Rules	✓	✓	✓	✓		✓
Medium Term Financial Plan/Budgets	✓	✓		✓		✓
Treasury Management Framework		✓		✓		✓
Annual Statement of Accounts	✓					✓
Financial Procedure Rules	✓	✓	✓	✓		
Scheme of Delegation		✓		✓	✓	
Complaints Process	✓		✓	✓		✓
Social Inclusion Strategy	✓		✓			✓
Equalities Plan	✓		✓			✓