



KNOWSLEY METROPOLITAN BOROUGH COUNCIL

ANNUAL GOVERNANCE STATEMENT

2010 - 2011

1. Scope of Responsibility

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, 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 also responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of the Council's functions and which includes arrangements for the management of risk.

The Council has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government, and is available on the Authority's website (www.knowsley.gov.uk) as part of the Constitution.

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 an annual governance statement.

2. The Purpose of the Governance Framework

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.

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 2010 and up to the date of approval of the Statement of Accounts.

Accordingly, the scope of internal control spans the whole range of local authority activities and includes those controls designed to ensure that:-

- the Council's policies are put into practice;
- the Council's values are met;
- laws and regulations are complied with;
- required processes are adhered to;
- financial statements and other published information are accurate and reliable; and,
- human, financial and other resources are managed efficiently and effectively.

3. The Governance Framework

The governance of the Council is based fundamentally around the Constitution, and is supported by numerous policies, procedures, codes of practice, management processes, and a system of delegation and accountability. The Council's governance arrangements are reflected in the Code of Corporate Governance. This brings together all aspects of corporate governance, grouped by the six core principles of effective governance.

The key elements of each of these core principles are as follows:-

Determining the Council's purpose, its vision for the local area and intended outcomes for the community

The Council aims to deliver high quality services which provide value for money and are aligned to the needs and priorities of the local community. The Council is part of the Knowsley Partnership, which has agreed a Sustainable Community Strategy setting out the vision and priorities for the Borough.

The Council sets out its priorities, in the context of the Sustainable Community Strategy, in the Corporate Plan 2010-2011. A Local Area Agreement has also been developed between the Council and the Knowsley Partnership which reflects these priorities. The Sustainable Community Strategy and the Corporate Plan reflect the outcome of extensive consultation, analysis of current and future needs, and consideration of current performance.

To deliver each of the aims of the Corporate Plan, there are service improvement plans for all service units. These plans, updated annually, include clear identification of objectives and targets, reflect Corporate Plan priorities, and include risk registers identifying risks in meeting the service objectives.

The Council has a range of performance indicators used to measure progress against its key priorities in the Corporate Plan. Performance against targets is reported routinely to the Cabinet and the Scrutiny Committees.

The Council's Medium-term Financial Plan and Capital Programme allocate resources to priorities. Monitoring reports are submitted routinely to the Cabinet. Service improvements are identified, and there is a change and transformation programme in progress with a view to achieving significant service efficiencies and savings over the coming years.

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

The Council ensures that the roles and responsibilities for governance are defined and allocated so that accountability for decisions made and actions taken are clear. Additionally, the Council appoints several committees to discharge the Council's regulatory and scrutiny responsibilities. These leadership roles, and the delegated responsibilities of officers, are set out in the Constitution which is reviewed at least once each year and amended if necessary.

The Constitution, which defines and facilitates policy and decision-making processes, also defines the:-

- Committees' Terms of Reference;
- Role of Scrutiny;
- Member and Officer Codes of Conduct;
- Scheme of Delegation;
- Member and Officer Protocol (for working together effectively);
- Contract Procedure Rules;

- Financial Procedure Rules, which determine the financial management of the Council, the reporting of financial matters, and safeguard financial standing;
- Arrangements for identifying, establishing, and managing the key strategic and operational aims of the Council; and,
- Mechanisms for ensuring compliance with established policies, procedures, laws, and regulations.

Ensuring compliance with these policies is the responsibility of the Executive Directors, while the Counter Fraud and Internal Audit Service checks compliance with policies. Where incidents of non-compliance are identified, appropriate action is taken.

The Council's Chief Executive is the Head of Paid Service and leads the Council's officers and chairs the Corporate Management Team. All staff, including senior management, have clear conditions of employment and job descriptions which set out their roles and responsibilities.

In accordance with Section 5 of the Local Government and Housing Act 1989, the Deputy Chief Executive is the Council's Monitoring Officer. This officer is responsible for ensuring that, at all times, the Council acts within its legal powers.

Similarly, in accordance with Section 151 of the Local Government Act 1972, the Borough Treasurer is the officer responsible for ensuring the proper administration of the Council's financial affairs, and that financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010).

Any proposals, decisions, or omissions which give rise to unlawfulness or maladministration would be reported to the Council by the above officers as appropriate. Such a report would have the effect of halting the proposal or implementation of the decision until the Council considered the report.

CIPFA's Statement on the Role of the Chief Financial Officer in Local Government (2010) suggests that the Council's Section 151 Officer be professionally qualified, report directly to the Chief Executive, and be a member of the leadership team with a status at least equivalent to other members. The Statement also suggests that, if different organisational arrangements are adopted, the reasons for these should be explained publicly in this Annual Governance Statement, together with how these deliver the same impact. Knowsley's Borough Treasurer is not a permanent member of the Corporate Management Team and, in terms of line management, reports to the Deputy Chief Executive.

However, the Borough Treasurer remains able to operate effectively and perform the core responsibilities of the chief financial officer as described in CIPFA's Statement. In particular, the Borough Treasurer has an unrestricted right of access to the Chief Executive and the Corporate Management Team, and all draft proposals and reports with financial implications are dealt with in consultation with the Borough Treasurer's office. All key financial reports to the Corporate Management Team are presented by the Borough Treasurer, who also attends the Corporate Management Team whenever key strategic financial issues are discussed. In addition, the Borough Treasurer chairs the Senior Management Group which deals with operational matters, which are then reported to the Corporate Management Team. The Borough Treasurer is the Section 151 Officer, controls the Counter Fraud and Internal Audit Service, and is not burdened with non-financial services ensuring a focus on the finance role as described in CIPFA's Statement. Crucially, the Borough Treasurer leads the promotion and delivery of good financial management across the Council, so that public money is safeguarded and used appropriately, economically, efficiently, and effectively at all times.

The Council's governance arrangements are overseen by the Governance and Audit Committee which undertakes the core functions as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities, and which:-

- provides independent scrutiny and assurance on the adequacy of the internal control environment and risk management framework;
- reviews the Council's policies relating to governance and audit matters;
- considers the strategic direction of counter fraud and internal audit, and the review of the effectiveness of internal audit;
- reviews the treasury management strategy and performance; and,
- oversees the financial reporting process.

Promoting our values and upholding high standards of conduct and behaviour

The Council supports a culture and forms of behaviour based on a series of ethical standards and values in the Constitution which are contained within the Member and Officer Codes of Conduct, including a requirement for declarations of outside interests to be completed. The conduct of Members is monitored by the Standards Committee, which has an independent Chairman as well as independent and parish/town council members alongside elected Members of the Council. The Standards Committee (supported by specific Sub-Committees) also investigates allegations of misconduct by Members.

In addition, the Council takes fraud, corruption, and maladministration very seriously and has the following policies which aim to prevent and deal with such occurrences:-

- arrangements for whistle blowing by employees, contractors and the public, investigating suspected financial irregularities, suspected money laundering, anti-bribery, and complaints procedures including complaints regarding the behaviour of elected or co-opted Members; and,
- an overall Anti-Fraud and Corruption Policy.

Whistle blowing and fraud reporting can be made via the Council's website (www.knowsley.gov.uk) or via a telephone hotline (0800 0730 532).

Taking informed and transparent decisions and managing risk

The Council's Constitution sets out how the Council operates and the process for policy and decision making, and budget setting. Meetings are open to the public (except where items are exempt under the Access to Information Act), and a Forward Plan of key decisions to be taken over the next four months is published on the Council's website.

All decisions made by the Council, Cabinet, or Committees are made on the basis of written reports, including the legal and resource implications, impact on population groups, consideration of the risks involved and their management, and communication issues. The operations and policies of the Council are examined by a series of Scrutiny Committees.

Many other decisions are made by Executive Director(s) in consultation with the relevant Portfolio Holder(s) under delegated powers which are detailed in the Council's Scheme of Delegation.

The Council's Corporate Risk Management Strategy requires that consideration of risk is embedded in all key decisions undertaken, which:-

- identifies, analyses, evaluates, and manages the key strategic and operational risks facing the Council, including those arising from joint working and partnerships;

- ensures potential losses, service disruption, failure to achieve corporate aims, negative publicity, reputational risks, and insurance claims compensation are minimised; and,
- promotes informed decisions on policy, service delivery options, and opportunities.

In addition, corporate and directorate risk registers are maintained and a monitoring group meets to review the extent to which the risks identified are being effectively managed. The Governance and Audit Committee oversees the effectiveness of risk management arrangements.

Effective management - capacity and capability of Members and officers

The Council aims to ensure that Members and officers of the Council have the skills, knowledge, and capacity they need to discharge their responsibilities and recognises the value of well trained and competent people in effective service delivery. All new Members and employees undertake an induction to familiarise them with the protocols, procedures, values, and aims of the Council.

There is a Member Development Programme to assist Members and strengthen their capacity as confident and effective political and community leaders, who are capable of forming healthy and productive relationships, networks, and partnerships.

The scheme of Members' Allowances, which is part of the Constitution, sets out the basic and special responsibility allowances for Members in carrying out their duties. These were adopted by the Council having regard to the recommendations of an Independent Remuneration Panel.

The Council has a learning and development strategy which, through a series of training development priorities, ensures that staff have the appropriate skills and competencies. Development and support material is available for the competencies and training in the form of courses and computer based learning. All staff are part of a performance review and development scheme ensuring performance is managed and mandatory or priority development needs are met. This is recognised by the Council achieving the Investors in People accreditation.

Engaging with local people and other stakeholders to ensure robust accountability

The Council's planning and decision making processes are designed to include consultation with stakeholders and the submission of views by local people. Arrangements for consultation and for gauging local views include the tracker and place surveys about the Council's services, and using the internet to collect and show the results of consultations. Those involved may also be invited to take part in other activities such as discussion groups and telephone interviews to talk about certain issues in more detail.

All Members offer surgeries for their constituents, and Area Partnership Boards aim to improve services at neighbourhood level, with improvements being driven by a closer relationship between local communities and the services being delivered.

The Council works extensively in partnership with other organisations in the Borough via the Knowsley Partnership and it is that body which shapes the Borough's Sustainable Community Strategy. Where the Council acts as an accountable body, there is a protocol for ensuring that a full risk analysis is undertaken and governance arrangements determined prior to fulfilling that role.

Performance and progress against the strategy is evaluated regularly using a performance management framework, which provides for:-

- the systematic review and reporting of performance across the Council;
- establishing and monitoring the achievement of the Council's aims;
- ensuring that services meet the needs of users, taxpayers, and the public;
- ensuring the economical, effective, and efficient use of resources;
- securing continuous improvement in the way functions are exercised;
- engaging the wider community;
- an independent counter fraud and internal audit function with arrangements for reviewing the implementation of their recommended actions; and,
- reporting by the Council's external auditor and other inspection bodies.

Examples of the Council and its partners undertaking significant consultation and engagement with local people in developing key strategies and plans are the Local Development Framework, Joint Strategic Needs Assessment, Commissioning Strategic Plan, the Children and Young People's Strategic Plan, and on the improvements and changes to services. Users of social care services are surveyed routinely and the results are used to inform service development and improvement.

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 Executive Directors within the Council who have responsibility for the development and maintenance of the governance environment, the Internal Audit Manager's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

In addition, the Council has various review mechanisms that operate continuously throughout the year. A key review mechanism is the various Scrutiny Committees, which have examined independently various services and review topics.

The Governance and Audit Committee met four times during 2010/11 to provide independent assurance to the Council in relation to the effectiveness of the governance, internal control environment, treasury management, and risk management framework.

The Standards Committee met regularly throughout the year to consider and review issues relating to the conduct of Members including any referrals. Of the four outstanding complaints from 2009/10, two separate cases involving one councillor each were completed at the Hearing Stage in June 2010. A further complaint involving one councillor finished at the Initial Assessment Stage in July 2010. The remaining outstanding complaint involving one councillor concluded at the Consideration Sub-Committee stage in August 2010. During 2010/11, five new complaints were submitted to the Standards Committee alleging breaches of the Code of Conduct in respect of four Borough/Parish/Town councillors. Two cases involving one councillor concluded in April 2011 at the hearing stage. Two further cases involving one councillor were investigated. The Hearing Sub-Committee stage is expected to be reached later in 2011/12. In the remaining case, no further action was agreed by the Initial Assessment Sub-Committee.

Regarding the Section 151 Officer and Monitoring Officer, in discharging these functions during the year, neither officer was required to report any adverse matters as required under the various Acts. The provisional report of the Ombudsman for 2010/11 had no complaints that found maladministration against the Council or causing any injustice to the complainant.

Each year, the Council's Constitution is reviewed to ensure its aims and principles are effective and reflect any changes and developments in the Council's governance.

The Council's Counter Fraud and Internal Audit Service, as an independent and objective assurance service, completed a programme of reviews throughout the year in order to provide an opinion on internal control, risk management, and governance arrangements. The Internal Audit Manager is able to conclude that there are sound internal financial control systems in place by taking assurance from the system and risk-based audits undertaken across the Council during 2010/11, and the resultant actions taken by management. The Internal Audit Manager reports the findings of audits to Executive Directors and action is agreed to address these findings as necessary. The Annual Counter Fraud and Internal Audit Report on audit activity and findings, together with a review on the implementation of 2010/11 recommendations that were due to be implemented, were submitted to the Governance and Audit Committee on 28 June 2011.

In addition, the Counter Fraud and Internal Audit Service undertake fraud investigations and the Council's Investigation Panel met 13 times during the year to deal with a total of 23 suspected irregularities. None of the cases were major financial irregularities, or had an adverse effect on the Council's reputation. Proper action was taken in all instances to ensure that any control weaknesses were addressed, appropriate disciplinary action taken, and where necessary the matter was referred to the police. An annual report on the Investigation Panel's activities was submitted to the Governance and Audit Committee on 19 April 2011.

Regarding information security and data handling, the Deputy Chief Executive is designated as the Senior Information Risk Owner, whose role provides a focal point for resolving information risk issues and investigating data security breaches. In 2011/12, this area became part of the Council's Investigation Panel's remit. There was one information security incident reported to the Information Commissioner's Office during 2010/11. In addition, to ensure controls are effective, the Council has requested that the Information Commissioner's Office conduct a data security audit later in 2011/12.

Attention nationally has been focussed on the significantly reduced funding of local authorities and the need to transform services. The Council's funding settlement for 2010/11 was based on an expectation that local authorities and their partners should use efficiency savings to prepare for tough economic challenges. From 2011/12, the financial challenges facing the Council have significantly intensified with cuts in funding and reduced staffing levels as services are transformed. There are resultant governance implications as fewer staff may mean internal controls are undermined and fraud risks change. Against this background, the Audit Commission published "Protecting the Public Purse 2010: Fighting fraud against local government and local taxpayers" that considered the key fraud risks and pressures facing councils and identified good practice. Therefore, the Governance and Audit Committee performed a self-assessment against the report's checklist which identified some risk areas that should be included in the 2011/12 Counter Fraud and Internal Audit plan.

In April 2009, the Comprehensive Area Assessment was introduced to assess the Council and its partner organisations through the Area Assessment, and the Council through the Organisational Assessment and Use of Resources. In May 2010, the Government announced the Comprehensive Area Assessment was to be abolished. In response, the Audit Commission ceased all Use of Resources assessment work. In addition, plans were announced to disband the Audit Commission, and the intention is to have new external audit arrangements.

An important aspect of governance is the need to ensure that all of the Council's policies are up to date, relevant, and consistent. A protocol is in place that allows for a uniform approach to developing and managing Council policies. It sets out the procedure for policy production, approval, implementation, and review. This is supported by procedures and a policy template to help officers follow the protocol, and the policies are available on the intranet.

Risk management forms an integral part of the Council's policy, planning, operational, and control processes. A review of strategic and operational risks is undertaken annually.

Strategic risks are agreed and monitored by the Corporate Management Team and the Cabinet, whilst each Directorate identifies and controls the risks associated with their business plan priorities. This requirement is not only described in the Corporate Risk Management Strategy, but also is included in the Corporate Plan. It provides a robust approach to business planning and better informed decision making, allowing uncertainty not to slow progress or stifle innovation. All reports and briefing papers include a risk assessment paragraph as standard. All identified strategic and operational risks are held in a database, which is readily accessible for management to use to enable the tracking of controls and actions taken. The inter-directorate Corporate Risk and Resilience Group meets regularly to coordinate, monitor and develop risk management across the Council.

The requirement that all schools must attain the Government's Financial Management Standard in Schools (FMSiS) was removed during 2010/11 and will be replaced by a new set of national standards in September 2011. Regardless of the changes, schools are still audited by the Counter Fraud and Internal Audit Service.

The specific annual review of governance arrangements and the control environment was conducted in the following manner:-

- a Corporate Governance Officer Working Group of senior officers reviewed the Constitution and the Council's own governance arrangements against the best practice framework endorsed by CIPFA/SOLACE. This Group is responsible for reviewing the draft of this Statement, evaluating the assurances and self-assessments, and judging whether or not there is consistency with existing policies and the Council's governance framework; and,
- as it is the managers within the Council who are responsible principally for the development and maintenance of the governance environment, each directorate is required to produce a self-assessment in order to provide assurance that those controls and arrangements are in place. The outcomes, where applicable, are set out in action plans for further strengthening governance controls. Assurance is obtained from Executive Directors that there are satisfactory internal controls in place. They are also asked to identify any significant internal control issues which need to be reported in this Statement. The requirement to review internal controls alongside the routine monitoring of finance, performance, and risk is embedded in the management of directorates.

A theme arising from the directorates' reviews of governance arrangements and the control environment is the implications of changes in staff and their duties. This requires the reiteration of policy, and decision making procedures via awareness and staff development to those affected.

5. Significant Internal Control Issues

Taking into account the actions of the Section 151 Officer and the Monitoring Officer, the review performed by senior managers, assurances obtained from Executive Directors, the work of the Counter Fraud and Internal Audit Service, and various external reviews that were reported to the Council, the Cabinet, or the Governance and Audit Committee during 2010/11, we can reasonably conclude that there are no unresolved and significant internal control issues.

Over the coming year, we propose to take steps to further enhance our governance arrangements. We are satisfied that these steps will address the need for the improvements which were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

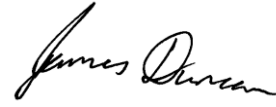
Signed:-



**Councillor Ron Round,
Leader of the Council**



**Sheena Ramsey
Chief Executive**



**James Duncan
Borough Treasurer**

20 September 2011