

CORPORATE GOVERNANCE IN LOCAL GOVERNMENT

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1 SUMMARY

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) have issued a joint publication making specific recommendations to local authorities on good corporate governance. The publication has been endorsed by the Accounts Commission and the Convention of Scottish Local Authorities. A copy of the statement is available for Members' reference.

Three fundamental principles of Corporate Governance have been identified as-

- Openness
- Integrity
- Accountability

CIPFA have built upon these three principles and redefined them to reflect the public services context. For local authority purposes, the principle of openness has been enhanced to emphasise the need to engage with their communities on an inclusive basis, taking care to include the many distinct communities of place and of interest, including those often referred to as "hard to reach" parts of the community. The principles have been set out on Appendix 1.

The publication puts corporate governance into a framework, as follows:-

1. Community Focus

Local authorities should work for and with their communities, exercise leadership and undertake an ambassadorial role.

2. Service Delivery Arrangements

Local authorities should ensure that continuous improvement is sought, agreed policies are implemented and decisions carried out.

3. Structures & Processes

Local authorities should establish effective political and managerial structures and processes to govern decision making and the exercise of authority within the organisation.

4. Risk Management & Internal Control

Authorities need to establish and maintain a systematic strategy, framework and processes for managing risk.

5. Standards of Conduct

Openness, integrity and accountability of individuals within a local authority form the cornerstone of effective corporate governance. The reputation of the authority depends on the standards of behaviour of everyone in it, whether members, employees or agents contracted to it.

In each of the five foregoing areas, corporate governance should be demonstrated by arrangements which ensure that there is accountability, effectiveness, integrity and openness and inclusivity in all matters.

CIPFA and SOLACE have published a detailed Guidance Note to assist Councils' in making their arrangements on corporate governance. The Chief Executive has instructed the Director of Corporate and Legal Services to prepare a local code on corporate governance to ensure that the Council may be able to include a statement in their financial statements for the 2001/2002 financial year to the effect that a review of existing corporate governance arrangements has been carried out and a local code of corporate governance has been adopted.

2. **RECOMMENDATIONS**

Internal Audit should monitor arrangements and report back to the Audit Committee on the implementation of the local code of corporate governance in accordance with the timescale of 31 March 2002 stipulated in the publication.

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Director of Finance  
8 October 2001

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## CORPORATE GOVERNANCE

## PRINCIPLES

**Openness and inclusivity**

**Openness** is required to ensure that stakeholders can have confidence in the decision-making and management processes of local authorities, and in the approach of the individuals within them. Being open through genuine consultation with stakeholders and providing access to full, accurate and clear information leads to effective and timely action and lends itself to necessary scrutiny. Openness also requires an **inclusive** approach, which seeks to ensure that all stakeholders and potential stakeholders have the opportunity to engage effectively with the decision-making processes and actions of local authorities. It requires an outward focus and a commitment to partnership working. It calls for innovative approaches to consultation and to service provision.

**Integrity**

**Integrity** comprises both straightforward dealing and completeness. It is based upon **honesty, selflessness and objectivity**, and high standards of propriety and probity in the stewardship of public funds and management of an authority's affairs. It is dependent on the effectiveness of the control framework and on the personal standards and professionalism of the members and staff within the authority. It is reflected in the authority's decision-making procedures, in its service delivery and in the quality of its financial and performance reporting.

**Accountability**

**Accountability** is the process whereby local authorities, and the members and staff within them, are responsible for their decisions and actions, including their stewardship of public funds and all aspects of performance, and submit themselves to appropriate external scrutiny. It is achieved by all parties having a clear understanding of those responsibilities, and having clearly defined roles through a robust structure.

The concept of **leadership** overarches these three principles. The principles described above can only be adhered to if leadership is exercised through:

- The local authority providing vision for its community and leading by example in its decision-making and other processes and actions
- Members and managers conducting themselves in accordance with high standards of conduct.