

AGENDA ITEM: 9

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Meeting	Audit Committee
Date	5 December 2007
Subject	Annual Governance Statement
Report of	Director of Corporate Governance
Summary	This report advises the Committee on the arrangements for preparing an Annual Governance Statement

Officer Contributors	Jeff Lustig, Director of Corporate Governance
Status (public or exempt)	Public
Wards affected	All
Enclosures	Appendix of Charts
For decision by	Committee
Function of	Council
Reason for urgency / exemption from call-in (if appropriate)	Not applicable

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1. RECOMMENDATIONS

- 1.1 That the Committee note and approve the arrangements for preparing an Annual Governance Statement.**

2. RELEVANT PREVIOUS DECISIONS

- 2.1 None.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 Under the Council's Corporate Plan 2007/8 to 2010/11, one of the corporate priorities is "More Choice Better Value" and a key objective within this priority is "enhancing and further developing corporate governance".

4. RISK MANAGEMENT ISSUES

- 4.1 Referred to in the body of the report.

5. EQUALITIES AND DIVERSITY ISSUES

- 5.1 Good governance arrangements are necessary to ensure that the Council is meeting its equalities and diversity obligations and objectives.

6. FINANCIAL, STAFFING, ICT AND PROPERTY IMPLICATIONS

- 6.1 None.

7. LEGAL ISSUES

- 7.1 Referred to in the body of the report.

8. CONSTITUTIONAL POWERS

- 8.1 The Audit Committee's responsibilities include "to oversee the production of the Annual Governance Statement (AGS) and to recommend its adoption".

9. BACKGROUND INFORMATION

9.1 Background to the Annual Governance Statement

- 9.1.1 Regulation 4 of the Accounts and Audit Regulations (2003) required a local authority to conduct a review at least once a year of the effectiveness of its system of internal control and publish a statement on internal control (SIC) each year with the authority's financial statements.
- 9.1.2 The purpose of the SIC is to provide and demonstrate that there is a continuous review of the effectiveness of an organisation's internal control and risk management systems, so as to give assurance on their effectiveness and/or to produce a management action plan to address identified weaknesses in either process.

- 9.1.3 The SIC is to be compiled in accordance with “proper practice”, a framework which was subsequently published in April 2004 by CIPFA based on similar frameworks operating in central government departments.
- 9.1.4 Amendment Regulations required the findings of the review of the system of internal control to be considered by a committee or by the Council. They also required a review of the effectiveness of their system of internal audit once a year and for the findings of the review to be considered by a committee or by the Council.
- 9.1.5 The new CIPFA/SOLACE governance framework requires an AGS and CIPFA has also confirmed that the AGS will replace the SIC with effect from 2007/8 reporting year. The FAN (Financial Advisory Network which is affiliated to CIPFA) issue what they term Rough Guides on a number of topics and they issued one this year (that has been published on the CIPFA website) in support of the revised Regulations.
- 9.1.6 The Department for Communities and Local Government issued further guidance to clarify what they deemed as “proper practice”. Section 7 of Circular 03/2006 stated that “proper Practice” in relation to internal control relates to guidance contained in the following documentation:
- Statement on Internal Control in Local Government meeting the requirements of the Accounts and Audit Regulations 2003, published by CIPFA in 2004.
 - Corporate Governance in Local Government: A Keystone for Community Governance (Framework and Guidance Note), produced by CIPFA/SOLACE in 2001 (recently updated).
- The governance framework itself remains a discretionary code and is offered to organisations as good practice. It outlines six core principles of good governance focusing on the systems and processes for the direction and control of the Council and its activities through which it accounts to, engages with and leads the community. The degree to which the Council follows these principles should be declared in its AGS. It is this statement that has the legal backing of Regulation 4 of the Accounts and Audit Regulations from 2007/8.
- 9.1.7 The Rough Guide states that for those organisations, such as Barnet, that had already considered and compiled their SIC as a corporate document the transition to an AGS should not be a great one. An Appendix to the Rough Guide provides 30 pages of suggested evidence and areas of assurance for the statement in accordance with the framework’s governance principles.

9.2 Comments from the Audit Commission

- 9.2.1 As a member of the CIPFA/SOLACE working party that developed and published the revised governance framework, the Audit Commission is said to fully support the requirement for an AGS. The Commission is also said to

welcome the Rough Guide as “it provides a helpful, practical approach to preparing an AGS”.

- 9.2.2 In the Commission’s view, the arrangements required for gathering assurances for the preparation of the AGS provide an opportunity to authorities to consider the robustness of their governance arrangements. In doing so, authorities need to recognise that this is a corporate issue, affecting everyone in the organisation. It is also important to recognise that the purpose of the AGS is not just to be “compliant”, but also to provide an accurate representation of the arrangements in place during the year and to highlight those areas where improvement is required. This will also demonstrate to stakeholders what those arrangements are.
- 9.2.3 As part of their use of resources assessments auditors will consider the arrangements in place to enable the preparation of the AGS, including the degree to which the authority recognises the corporate ownership of its governance arrangements.

9.3. **Corporate Ownership & Responsibilities**

- 9.3.1 CIPFA’s original proper practice relating to the SIC required the most senior officer (Chief Executive or equivalent) and the most senior member (Leader or equivalent) to sign the statement – and this is also required by the CIPFA/SOLACE framework for the AGS. Clearly the signatories must be satisfied that the document is supported by reliable evidence. The AGS should also accurately reflect the corporate governance environment as described in an authority’s Local Code of Corporate Governance (produced in line with guidance contained within the CIPFA/SOLACE document “Delivering Good Governance in Local Government”).
- 9.3.2 The new CIPFA/SOLACE governance framework clearly sets out the fundamental principles of corporate governance, these are:
1. Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area.
 2. Members and officers working together to achieve a common purpose with clearly defined functions and roles.
 3. Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
 4. Taking informed and transparent decisions which are subject to effective scrutiny and managing risk.
 5. Developing the capacity and capability of members and officers to be effective.
 6. Engaging with local people and other stakeholders to ensure robust accountability.

9.3.3 In essence, the AGS is the formal statement that recognises, records and publishes an authority's governance arrangements as defined in the framework. It is a statement which has now subsumed the SIC just as the SIC subsumed the statement on internal financial control from 2003/4.

It is because of the closeness of links between the SIC and the AGS that CIPFA/SOLACE are keen to keep faith with the same "assurance gathering process" (first introduced by CIPFA's earlier proper practice document in relation to the SIC) as the template around which the new governance statement should be compiled.

The assurance gathering process is the well-established and structure link between the strategic objectives and statutory requirements of the authority and how these objectives are to be delivered. It requires the identification of key controls that are deemed critical to the delivery of these objectives and expects a formal review and risk assessment for the management and delivery of these key controls.

Possibly the most notable changes are the assurance and evidence relating to joint working arrangements and partnerships that have now clearly become much more prevalent and high profile for local authorities.

9.3.4 Like the SIC, the AGS is a key corporate document. The most senior member and the most senior officer have joint responsibility as signatories for its accuracy and completeness.

As a corporate document, the AGS should be owned by all senior members and senior officers of the authority. It is essential that there is a buy-in at the top level of the organisation; otherwise there is a risk that the preparation of the AGS is not perceived as the important task that it is by managers and other staff.

The signatories need to ensure that the AGS accurately reflects the governance framework for which they are responsible. The Rough Guide states that in order to achieve this they are likely to rely on many sources of assurances, such as:

- members;
- directors and managers;
- the responsible financial officer
- the monitoring officer;;
- the head of internal audit
- performance and risk management
- third parties, e.g. partnerships;
- external audit and other review agendas.

The Rough Guide advises that the statement should be continuously reviewed throughout the year, but observes that in practice, authorities with well-developed arrangements will find that it will emerge from the routine

governance and managerial processes (which necessarily operate continuously).

9.4 Process

- 9.4.1 The Rough Guide does not prescribe a process which it says is less important than the value the organisation gains from going through the process and from the assurance that it gives to the organisation and its stakeholders.

It counsels that authorities should build on the process employed for compiling the SIC and determine who should be involved, when should they be involved and what should be included or evidenced.

- 9.4.2 The Rough Guide envisages that at the centre of the review process will be a corporate group who are given ultimate responsibility for drafting the AGS, evaluating assurances and the supporting evidence. This group should review whether or not there is a consistency with existing policies and the authority's governance framework. The Guide is clear that risk management should feature strongly in the AGS process. It is also recommended that the Head of Internal Audit should provide a written annual report to those charged with governance timed to support the AGS and that this report should, amongst other matters, include an opinion on the overall adequacy and effectiveness of the organisation's risk management systems and internal control environment.
- 9.4.3 The Guide emphasises that compiling an AGS should not be done in a vacuum. Comments evidence and feedback can come from many places, including reports from inspectorates, internal and external audit on specific service areas, or corporate reviews on performance and risk management.
- 9.4.4 Reference is made to the need for a review body in the process, such as an audit committee or scrutiny role, who should be charged with critically reviewing the AGS and its supporting documentation. It is vital that this review body remains independent from the AGS compilation and is given real powers to make recommendations and ultimately changes to the process as it sees fit.

9.5. Timetabling

- 9.5.1 The Guide says that the AGS should be reviewed at least once a year but should not be seen simply as an end of year activity to comply with legislation and, for this process to add value to the organisation, assurances on the effectiveness of controls over key risks should be obtained throughout the year.

Once an authority has agreed the process involved in compiling an AGS, "it needs to consider an appropriate timeline that allows input into the document in a timely fashion".

Flowchart 1, Flowchart 2 and Chart 1 taken from the Guide set out how the document could be compiled over the year.

- 9.5.2 Authorities will be required to include the AGS document in the approval process of the statement of accounts, the statutory deadline for which was brought forward by the Accounts and Audit Regulations to the end of June from the 2005/6 financial year.

The statutory reporting requirement for the AGS, however, is linked to the publication of the authority's statement of accounts which is 3 months after the deadline for approval (i.e. end of September).

- 9.5.3 The AGS should be approved at a Council or Committee meeting, but there is no statutory timetable for approval. Where an authority publishes the statement with its financial statements, therefore, it should be satisfied that the AGS is still current in relation to its formal approval (i.e. the greater the delay between approval of the AGS and publication with the statement of accounts, the greater the need for the authority to challenge its adequacy at that point in time).

9.6. Next Steps

- 9.6.1 A Corporate Group of relevant officers has been formed to work on the preparation of the Annual Governance Statement. Amongst others, the Group would include Director of Corporate Governance and Monitoring Officer; Deputy Director of Resources and Chief Finance Officer; Head of Internal Audit and Ethical Governance; Head of Strategic Finance; the Head of Corporate Services Policy and Performance Manager and the Governance Manager.
- 9.6.2 The Group will provide informal progress reports to the Chief Executive and other Senior Officers and to the Cabinet Member for Policy and Performance.
- 9.6.3 It is anticipated that the Audit Committee will receive a report and will be asked to consider the robustness of the Council's governance arrangements and to approve the Annual Governance Statement at its meeting in June 2008 (subject to confirmation and approval of the Council diary of meetings).

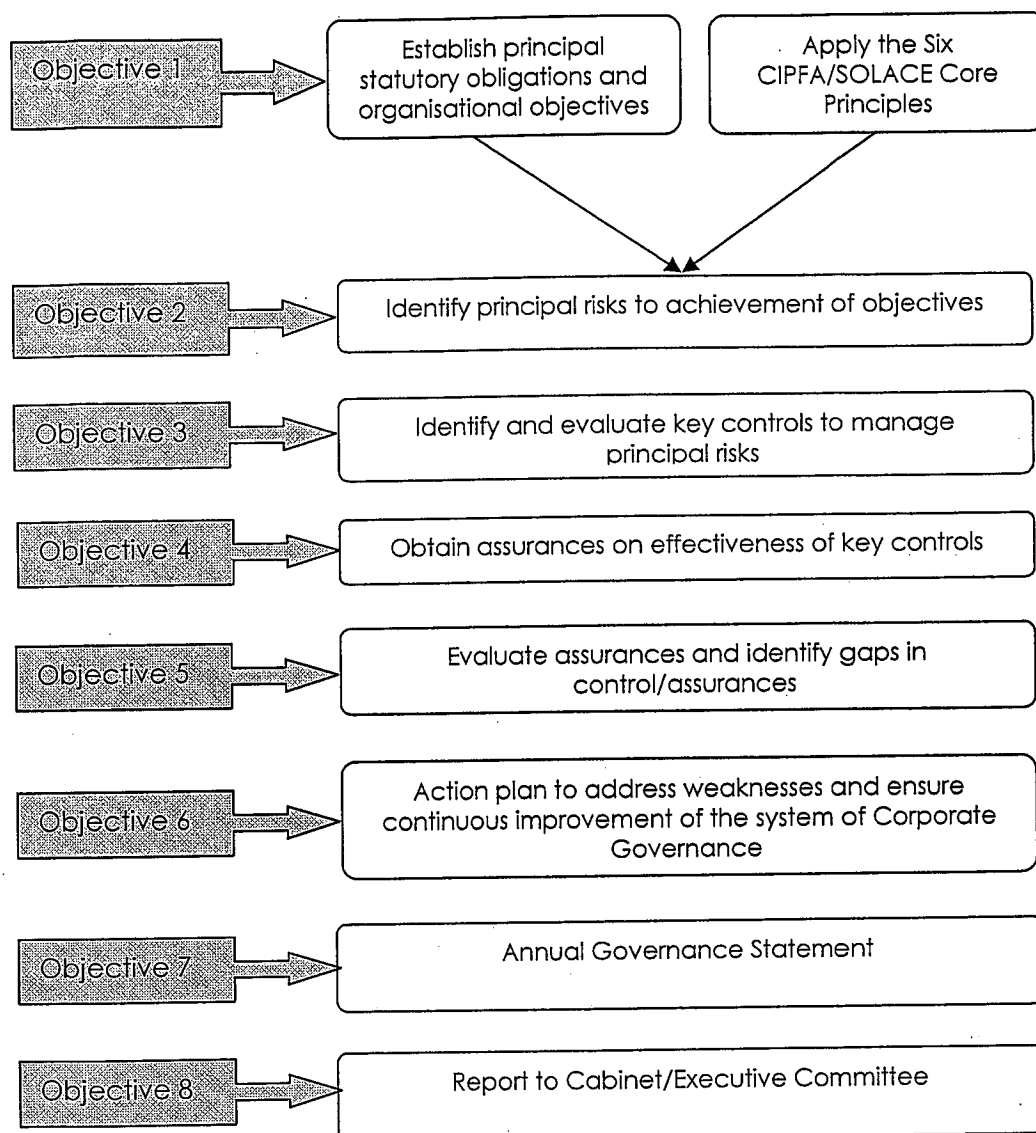
10. LIST OF BACKGROUND PAPERS

- 10.1 Financial Advisory Network Rough Guide.
- 10.2 Any person wishing to view the background paper should telephone Jeff Lustig, Director of Corporate Governance – Telephone: 020 8359 2008.

Legal: MM

CFO: CM

Flowchart 1: Review of Annual Governance Statement and the Assurance Gathering Process



ANNUAL GOVERNANCE STATEMENT FRAMEWORK (FLOWCHART 2)

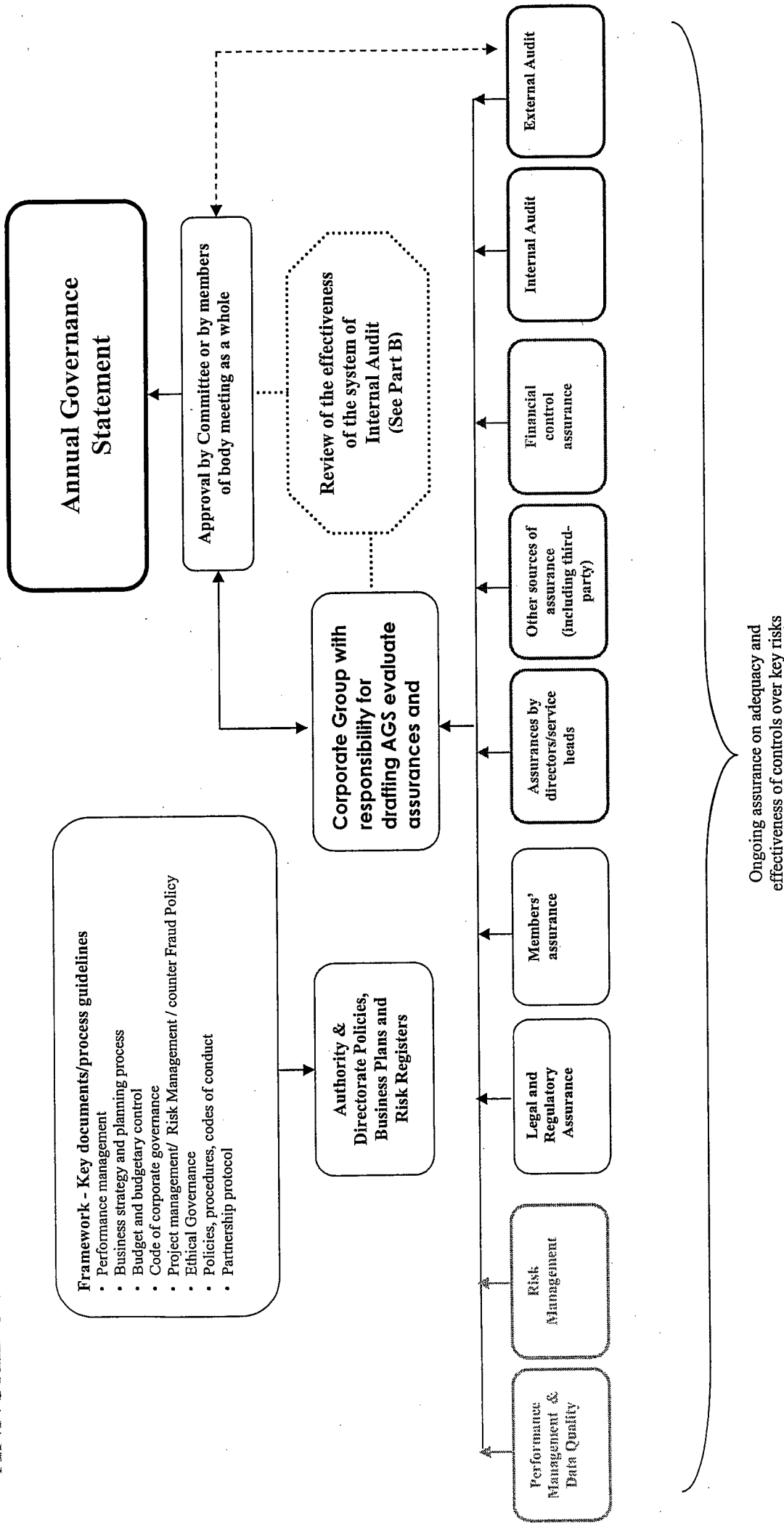


Chart 1:
Possible sequence of preparation and
reporting for the Annual Governance
Statement.

