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| Meeting | Audit Committee |
| Date | 30 June 2008 |
| Subject | Annual Governance Statement |
| Report of | Director of Corporate Governance |
| Summary | This report seeks approval of the proposed Annual Governance Statement to be included in the annual accounts |

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

Contact for further information: Jeff Lustig, Director of Corporate Governance -Tel: 020 8359 2008

1. RECOMMENDATIONS

- 1.1 To approve the proposed Annual Governance Statement for inclusion with the Statement of Accounts for 2007/8.

2. RELEVANT PREVIOUS DECISIONS

- 2.1 Audit Committee 5 December 2007 approved the arrangement for preparing an Annual Governance Statement.

3. CORPORATE PRIORITIES AND POLICY CONSIDERATIONS

- 3.1 Under the Council's Corporate Plan 2008/9 to 2011/12, one of the corporate priorities is "More Choice Better Value" and a key objective within this priority is "enhance and further develop 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 in the context of this report.

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 (amended 2006) 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- 9.1.2 The requirement for an authority to produce a SIC has been replaced by a requirement to prepare an Annual Governance Statement (AGS).

9.1.3 Circular 03/206 issued by the DCLG in August 2006 stated that proper practice in relation to internal control would include guidance in the “Corporate Governance in Local Government. A keystone for Community Governance (Framework and Guidance Note)” produced by CIPFA/SOLACE in 2001. The CIPFA/SOLACE framework was revised in 2007 and it is this new framework which requires authorities to produce an AGS rather than a SIC to meet the requirements of the Accounts and Audit Regulations 2003 (as amended).

9.1.4 The new CIPFA/SOLACE framework is titled “Delivering Good Governance in Local Government”. It sets out the following core principles of corporate governance. They are:-

1. Focussing on the purpose of the authority and 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.

9.1.5 In essence, the AGS is the formal statement that recognises, records and publishes the 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.

9.2 Content of the AGS

9.2.1 The AGS should incorporate a review to ensure that the Council has effective governance, risk management and internal control processes in place. Actions being taken or required to be taken should be identified.

9.2.2 The best practice framework provides guidance on what the AGS should contain including:-

- Responsibilities for ensuring there is a sound system of governance (incorporating the system of internal control).

- Indication of the level of assurance that the systems and processes that form the governance arrangements can provide.
- Brief description of the key elements of the systems and processes that have been applied in maintaining and reviewing the effectiveness of the governance arrangements.
- An outline of the actions taken, or proposed to deal with significant governance issues, including an agreed action plan.

9.2.3 By way of comparison with the SIC, the purpose of the SIC was to report on the robustness of the internal control environment based on identification of key risks; identification and assessment of controls to mitigate risks; evaluation and identification of gaps in control and assurance and plans to close control gaps and improve assurance. The purpose of the AGS is to report on the Council's governance arrangements and covers all systems processes and controls, spanning the whole range of its activities. Pretty much all that the SIC covered will also feature in the AGS, but it has a corporate governance dimension on top of that.

9.3. Process

9.3.1 The new framework requires the AGS to be reviewed at least once a year. The AGS document is required to be included in the annual statement of accounts, the statutory deadline for which was brought forward by the Accounts & 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).

9.3.2 Part of the review process includes this reporting to the Audit Committee, which is responsible for assessing that the arrangements in this respect are effective to determine if their work during the year has identified issues of significant weakness.

9.3.3 If the Committee approves the AGS it will be incorporated into the statement of accounts for 2007/8. The Council's external auditors will comment on the robustness of the AGS when carrying out the external audit of the 2007/8 accounts. Those comments will be reported to the Committee at its meeting on 25 September 2008 in order to enable the Committee to take those comments into account before the statutory reporting deadline of 30 September 2008.

9.3.4 The draft AGS for 2007/8 is attached at Appendix A (to follow). Further work following upon the review may result in updating of the position and some changes to the content of the AGS when the matter next comes before the Audit Committee in September.

10. LIST OF BACKGROUND PAPERS

10.1 CIPFA/SOLACE - Delivering Good Governance in Local Governance Framework.

CIPFA/SOLACE – Delivering Good Governance in Local Government Guidance Note for English Authorities

CIPFA/SOLACE Financial Advisory Network: The Annual Governance Statement.

10.2 Any person wishing to view the background papers should telephone Jeff Lustig, Director of Corporate Governance – Telephone: 020 8359 2008.

Legal: MM

CFO: CM