

Report of the Deputy Chief Executive

DEVELOPING AN EFFECTIVE ANNUAL GOVERNANCE STATEMENT1. Purpose of report

To provide the Committee with details of items to consider in the production of an effective Annual Governance Statement and the contribution that the Committee can make to this process.

2. Background

The Accounts and Audit Regulations 2015 require local authorities to prepare and publish an Annual Governance Statement (AGS) alongside their financial statements each year. The Corporate Governance Arrangements report on this agenda includes a draft AGS and requests that approval be provided for including this in the Council's Statement of Accounts 2018/19.

This Committee plays a key role in the process, considering how effective the governance arrangements have been in the year and reviewing the draft AGS prior to approval and publication.

In March 2018 the Chartered Institute of Public Finance and Accountancy (CIPFA) produced a free document titled "*Developing an Effective Annual Governance Statement*" setting out the requirements of an AGS and how Members can contribute to this process. The document is set out in the appendix and includes sections on the following:

- What does the guidance say?
- Who is the audience?
- What makes a meaningful statement?
- What can be done to make the statement more effective?
- What we should not do?
- How can the audit committee help?

Consideration of the document set out in the appendix should assist Members when they examine the draft AGS prior to approval and publication.

Recommendation

The Committee is asked to NOTE the report.

Background Papers

Nil

APPENDIX**Developing an Effective Annual Governance Statement**

In April 2016 CIPFA/Solace introduced a new governance framework, *Developing Good Governance in Local Government: Framework*, with seven new governance principles. By adopting the new Framework local authorities should be ensuring that their governance arrangements in practice are in accordance with the principles.

The Annual Governance Statement (AGS) is a mandatory requirement for local government bodies set out in statutory regulations. In essence, it is an accountability statement from each local government body to stakeholders on how well it has delivered on governance over the course of the previous year. The benchmarks that are used to make that statement are the principles in the Framework.

What does the guidance say?

The guidance for the AGS is included along with the Framework and builds on the previous requirements. In addition to the organisation acknowledging its responsibility for ensuring governance is effective, the AGS should:

- focus on outcomes and value for money
- evaluate against the local code and principles
- be in an open and readable style
- include an opinion on whether arrangements are fit for purpose
- include identification of significant governance issues and an action plan to address them
- explain action taken in the year to address the significant governance issues identified in the previous year's statement; and
- be signed by the Chief Executive and leading member in a Council.

CIPFA has not established any 'set-text' for authorities to use in acknowledging their responsibility for the governance framework. Many authorities have tended to use the original text from the 2007 guidance, but CIPFA has not included this in the latest guidance in order to encourage more flexibility.

Who is the audience?

The AGS is prepared to account to your stakeholders. They are wide and varied and include local citizens, local businesses, partners, Ministry of Housing, Communities and Local Government (MHCLG), external auditors, inspectorates and regulators. In addition, it should also be a statement that is of value internally – to other members of the governing body and to employees.

What makes a meaningful Statement?

The most important way to make the statement meaningful is to ensure that it is an open and honest reflection of your governance and your current challenges. It has been known for the AGS to contain 'window dressing statements' to gloss over areas of poor performance or to fudge the effectiveness of interventions.

Where that is the case, the AGS adds little value and doesn't build confidence in the leadership of the organisation. One of the key aspects of the AGS is the identification of areas for improvement and the associated action plan. Where these are done well the AGS becomes a meaningful tool for improving governance.

The AGS should also provide a clear evaluation against the principles of good governance and an opinion of whether the arrangements are fit for purpose or not. If the opinion is vague or not included then again the AGS does not send a clear message about accountability.

What can be done to make the Statement more effective?

The effectiveness of the AGS will be improved if it more successfully communicates the key messages. There are a number of approaches that some authorities have taken to make their AGS more effective:

- keeping it short and focused
- using diagrams to explain key elements
- using colour or pictures to engage the reader.

Regardless of how well the AGS is written, it will not be effective if it is not regarded as important by those charged with governance and the leadership team.

What we should not do?

There are pitfalls in preparing an AGS. These are some of the common ones:

- not ensuring that a range of perspectives support the AGS
- making it too long and wordy
- including too much description rather than evaluation
- omitting the opinion on whether the arrangements are fit for purpose or not
- not being explicit about the actions that will be taken to address the governance issues identified
- not accounting for action taken to address previous weaknesses.

How can the Audit Committee help?

The Audit Committee can play a very valuable role in the development of the AGS and in the finished look of the statement. The Committee should understand the process that has been undertaken to review governance and so should be able to see how the conclusions in the AGS have been arrived at. There should be no real surprises for the committee.

The Committee can provide a valuable reality check for the draft document as well. Is it well written and clearly presented? Is the action plan adequate and realistic? The Committee can send an important message about the value and importance of the AGS, which will support those providing assurance to support its conclusions.

Once the AGS has been approved, the Committee can review progress in implementing the actions, so helping to ensure that the AGS is meaningful and is an effective tool for improvement in governance.