
THE ANNUAL GOVERNANCE STATEMENT

1 SUMMARY

- 1.1 This report is to draw Members' attention to the need to change the way we report our assurances through the production of the Statement on Internal Control and the review of the Chartered Institute of Public Finance and Accountancy/Society of Local Authority Chief Executives (CIPFA/SOLACE) Corporate Governance Framework. The recommended best practice, which now has statutory backing, is to produce an Annual Governance Statement (AGS) with effect from 1 April 2007 incorporating the Corporate Governance Framework and the Statement on Internal Control (SIC). The Annual Governance Statement will cover the whole Council.

2 INTRODUCTION

- 2.1 The Accounts and Audit Regulations 2003 refer to proper practice on internal control and the requirement to produce an annual SIC. The Council has followed good practice as set out in the revised CIPFA/SOLACE framework and guidance notes on 'Corporate Governance in Local Government: A Keystone for Community Governance (Framework and Guidance Notes)' reporting on the Corporate Governance Framework and the SIC through the Audit Committee.
- 2.2 In the last year, the Accounts and Audit (Amendment) (England) Regulations 2006 introduced a statutory requirement to report the SIC to an independent Committee (in Rochford's case, the Audit Committee) for consideration, together with an annual independent review of the effectiveness of Internal Audit. The first review was reported to the Audit Committee on 6 June 2007.
- 2.3 Following these amendments and a review of best practice across authorities, the Council is now required to produce a combined statement called the Annual Governance Statement (AGS). This has "proper practice" status and takes effect from 1 April 2007. It replaces the SIC and the Corporate Governance framework.

3 THE NEW FRAMEWORK

- 3.1 The new governance framework is designed to bring together an interrelated system that identifies the key set of legislative requirements, governance principles and management processes relating good governance to the whole organisation.
- 3.2 The degree to which the authority complies with the principles of good governance (the Corporate Governance Framework) needs to be declared in the annual statement. It is this Annual Governance Statement (AGS) that has the legal backing of Regulation 4 of the Accounts and Audit Regulations from 2007/08.

- 3.3 In the Audit Commission's view, the arrangements required for gathering assurances for the preparation of the annual governance statement provide an opportunity for 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 annual governance statement 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. The External Auditors under the "Use of Resources Assessment" will report on the degree to which the authority recognises the corporate ownership of its governance arrangements.
- 3.4 The assurance framework is similar to that used for the SIC and can be seen in diagram form within Appendix 1. Recommended best practice is to have a corporate working group to assess the different levels of assurance required and it is proposed to use the Service Development and Improvement Management Team of officers for this role. The detailed approach to producing the AGS will be discussed within this group.
- 3.5 As 'Those charged with Governance', the Audit Committee will receive a number of reports giving assurances on the process of compliance with governance arrangements that will feed into the Annual Governance Statement (AGS) in preparation for a draft AGS in June 2008. These are:-
- Annual Audit Plan
 - Audit & Performance Manager's opinion on the assurances provided
 - Summary of the audit work undertaken and where reliance can be placed on systems
 - Self-assessment of Internal Audit
 - Audit Strategy and a review of the Audit Charter
 - Assessment of Risk Management
 - Assessment of Performance Management
 - Closure of Accounts
 - PKF Reports
- 3.6 The CIPFA Finance Advisory Network has produced a Rough Guide on producing the Annual Governance Statement. A copy has been placed in the Members' library and will be used as the framework for producing the AGS. Appendix 2 shows the principles for reviewing the annual governance assurance gathering process. As with the SIC, effective management of key risks to achievement of corporate objectives (and demonstration of this) underpins the assurance process. The main addition to the process is consideration of the six core governance principles in Objective 1, Appendix 2. References to systems and statements regarding internal control are now replaced by references to systems and statements on governance.

4 RISK IMPLICATIONS

- 4.1 The Annual Governance Statement should reflect major risks affecting the Authority.

5 LEGAL IMPLICATIONS

- 5.1 With effect from 1 April 2007 it is a statutory requirement to produce an Annual Governance Statement by the close of accounts in June 2008.

6 RECOMMENDATION

- 6.1 It is proposed that the Committee **RESOLVES**

That the changes in legislation in relation to the production of an Annual Governance Statement be noted.

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Background Papers:-

None

For further information please contact Tracey Metcalf on:-

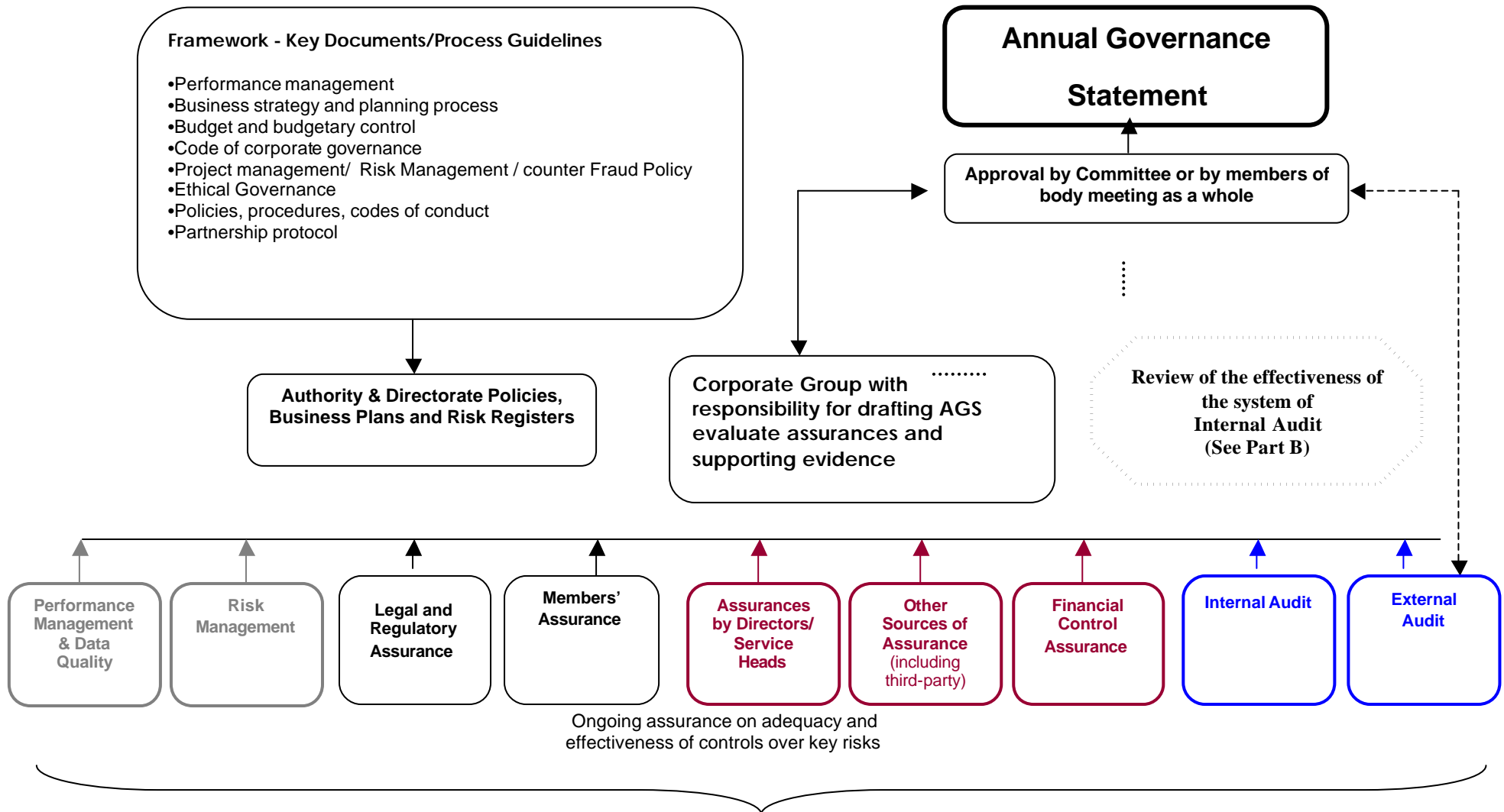
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ANNUAL GOVERNANCE STATEMENT FRAMEWORK (FLOWCHART)

APPENDIX 1



APPENDIX 2

The CIPFA Finance Advisory Network – Rough Guide for Annual Governance Statement		
Suggested examples of assurance & evidence in support of the authority’s annual governance statement		
Objective	Key task	Supplementary Tasks
1a	Establish principal statutory obligations and organisational objectives	Mechanism established to identify principal statutory obligations
		Mechanism in place to establish organisational objectives
		Effective corporate governance arrangements are embedded within the authority
		Performance management arrangements are in place
1b	Apply the six CIPFA/SOLACE Core Principles	Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area
		Members and officers working together to achieve a common purpose with clearly defined functions and roles
		Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour
		Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
		Developing the capacity and capability of members and officers to be effective
		Engaging with local people and other stakeholders to ensure robust public accountability
2	Identify principal risks to achievement of objectives	The authority has robust systems and processes in place for the identification and management of strategic and operational risk
3	Identify and evaluate key controls to manage principal risks:	The authority has robust system of internal control which includes systems and procedures to mitigate principal risks
4	Obtain assurance on the	Appropriate assurance statements are received from designated internal and

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	effectiveness of key controls	external assurance providers: <ul style="list-style-type: none"> o The authority has identified appropriate sources of assurance o Appropriate external assurances are identified and obtained
5	Evaluate assurances and identify gaps in control/assurances	The authority has made adequate arrangements to identify, receive and evaluate reports from the defined internal and external assurance providers to identify areas of weakness in controls
6	Action plan to address weaknesses and ensure continuous improvement of the system of corporate governance	There is a robust mechanism to ensure that an appropriate action plan is agreed to address identified control weaknesses and is implemented and monitored
7	Annual Governance Statement	An Annual Governance Statement has been drafted in accordance with the statutory requirements and timetable set out in the Accounts and Audit Regulations 2003, as revised by the Accounts and Audit (Amendment) (England) regulations 2006, and is in accordance with CIPFA guidance.
8	Report to cabinet/executive committee	An annual report to the authority (or delegated committee) on the Annual Governance Statement is presented, in accordance with the CIPFA pro forma