

# **Annual Governance Statement - briefing note**

**District of Easington**

**Audit 2007-2008**

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Local Government Act 1999 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

### **Status of our reports**

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to members/non-executive directors or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any member/director or officer in their individual capacity; or
- any third party.

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# Contents

Introduction	4
The CIPFA/SOLACE framework: A summary	4
Annual Governance Statement- Auditor's Role	6

## Introduction

- 1 In June 2007 CIPFA in conjunction with the Society of Local Authority Chief Executives (SOLACE) published Delivering Good Governance in Local Government: Framework. This framework, and the accompanying guidance notes, replaces the previous CIPFA/SOLACE framework, Corporate Governance in Local Government – A Keystone for Community Governance: Framework, which was published in 2001.
- 2 The revised framework will also provide support for the new requirement on councils, from this year, to prepare an Annual Governance Statement. This subsumes the previous requirement to provide an annual Statement of Internal Control (the SIC).
- 3 The framework applies to all local government bodies and is directly relevant to a number of use of resources Key Enquiry (KLOEs), especially the three internal control KLOEs.

## The CIPFA/SOLACE framework: A summary

- 4 There have been significant reforms to local governance since the first CIPFA/SOLACE governance framework was published in 2001, including the introduction of the executive and scrutiny functions, which were designed to improve local accountability and engagement. Furthermore, with the introduction of the requirement for local authorities to prepare a SIC, there was general confusion about the relationship between that document and the governance statement, identified by the governance framework as best practice. A revision to the framework was, therefore, timely.
- 5 The framework reflects the Commission's own definition of corporate governance as:

*'... about how local government bodies ensure that they are doing the right things, in the right way, for the right people, in a timely, open, honest and accountable manner.*

*It comprises the systems and processes, and cultures and values, by which local government bodies are directed and controlled and through which they account to, engage with and, where appropriate, lead their communities."*

- 6 The revised framework builds on recent developments in corporate governance in both the public and the private sector and, in particular, the Good Governance Standard for Public Services drawn up by the Independent Commission on Good Governance in Public Services established by CIPFA and the Office for Public Management in partnership with the Joseph Rowntree Foundation. The six core principles from the Good Governance Standard have been adapted in the CIPFA/SOLACE framework for the local government context as follows.

- 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 risks.
  - Developing the capacity and capability of members and officers to be effective.
  - Engaging with local people and other stakeholders to ensure robust public accountability.
- 7 Councils are encouraged to test their structures against these principles by:
- reviewing their existing governance arrangements against the framework;
  - developing and maintaining an up-to-date local code of governance, including arrangements for ensuring its ongoing application and effectiveness; and
  - preparing a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period.
- 8 This final point represents perhaps the most significant development in the new framework. From 2007/08 onwards, the preparation of an annual governance statement will meet the requirement set out in the Accounts and Audit Regulations for the production of a statement on internal control (SIC) in accordance with proper practices.
- 9 The governance statement covers all significant corporate systems, processes and controls, spanning the whole range of an authority's activities, including in particular those designed to ensure that:
- the authority's policies are implemented in practice;
  - high-quality services are delivered efficiently and effectively;
  - the authority's values and ethical standards are met;
  - laws and regulations are complied with;
  - required processes are adhered to;
  - financial statements and other published performance information are accurate and reliable; and
  - human, financial, environmental and other resources are managed efficiently and effectively.

- 10 It therefore covers all the areas previously covered by the SIC. However, it also covers performance issues – good governance is a precondition for delivering good services and poor service performance reflects a failure of governance. To reflect the corporate nature of the statement, approval and ownership needs to be at a corporate level and should be confirmed by the most senior officer (chief executive or equivalent) and the most senior member (leader or equivalent) signing the statement on behalf of the authority.
- 11 A pro forma governance statement, the format of which is similar to that of a SIC, is provided in the framework. The framework also provides guidance on the attributes of an effective governance framework. Further guidance for authorities on the arrangements they should put in place to obtain the necessary assurances they need to prepare the governance statement is available in CIPFA's Financial Advisory Network's The Annual Governance Statement– Rough Guide for Practitioners, published in 2007.
- 12 The Accounts and Audit Regulations require that the governance statement is included with the authority's statement of accounts. However, it is the Audit Commission's view that, given the strong corporate focus of the governance statement described above, the most appropriate place for publishing the statement is the annual report, where the authority prepares one. If the authority does not prepare an annual report, it should be encouraged to publish the governance statement as a stand-alone review. In either case, an abbreviated version could then be included with the accounts to meet the requirements of Regulation 4(4).

## **Annual Governance Statement- Auditor's Role**

- 13 The auditor's review of the annual governance statement will be directed at:
  - considering the completeness of the disclosures in the governance statement and whether it complies with proper practice as specified by CIPFA; and
  - identifying any inconsistencies between the disclosures and the information that the auditors are aware of from their work on the financial statements, their use of resources assessments and other work.
- 14 There is no requirement to issue an audit opinion on the governance statement. Where auditors form the view that the governance statement does not accurately reflect the position of the audited body, they should encourage the body to amend the disclosures accordingly. Where auditors are unable to secure the necessary amendments, they may wish to consider the addition of an 'Other Matter' paragraph to the auditors' report after the audit opinion on the financial statements.