

Annual Governance Statement: adding real value?

Spring 2011

Overview

Local authorities have been required to produce an Annual Governance Statement (AGS) since 2007/08. The AGS replaced the Statement on Internal Control as local government needed a holistic assurance rather than a narrow financial and control basis. The AGS produced by local authorities appears in the published annual accounts and is normally signed by the Chief Executive and leader of the Council. CIPFA/SOLACE have prescribed a framework for the AGS which requires authorities to document the scope, purpose and responsibility of the Governance Framework as well as reporting on its effectiveness and documenting any significant control weaknesses, and actions taken to mitigate them.

The AGS – still in development?

We have significant experience of the AGS and its development and our research has involved review of a number of 2009/10 AGSs across the country. It is our view that most authorities are still in the “compliance” phase of their development, and their main focus is ensuring compliance with the specified CIPFA/SOLACE framework. Many of the statements we review lack much local flavour or perspective and are often anodyne and bland. Conversely, others contain excessive commentary on local process, making it difficult to draw out the key messages. Most tellingly it is often difficult to understand why governance failings recorded in the document are deemed significant.

What are the main issues?

- **The AGS is static and lack status** – Our experience shows that in preparing the AGS authorities primarily concerned with “ticking the boxes” ready for member/audit review. The AGS is all too often:
 - a year end rather than year round exercise
 - not updated to reflect significant issues arising between the draft accounts and audit opinion
 - written and presented by internal audit
 - amended incrementally each year to document new control weaknesses and follow up last year’s issues, rather than fundamentally reviewed with the council’s strategic objectives and vision in mind
 - not challenged by officers, members and auditors on the value it adds to governance arrangements.
- **The overall purpose of the governance framework is rarely articulated** - The AGS is often a description of a long list of processes the Council has put in place to achieve sound governance. The AGS rarely addresses some basic questions such as: *What is the level of assurance we are trying to achieve? Will these processes and controls provide sufficient assurance?*

- **Assurances obtained from governance processes are very rarely articulated?** - Our experience shows that few AGS explicitly link the assurances actually obtained in the current year from the processes described. The better AGS have documented assurances obtained from external audit and inspection, and in some cases from internal audit. We have found very few examples where assurances obtained from internal governance procedures are documented or evidenced. Readers are unclear over: *What assurances have these processes actually given and to whom? Have we achieved the level of assurance we need?*
- **Significant weaknesses are often vague** - The majority but not all authorities include significant weaknesses at the end of the AGS. However:
 - it is often unclear whether weaknesses recorded are significant in the context of achievement of the council’s vision and strategic objectives
 - it is difficult to understand which part of the framework identified the weaknesses and what this means for the wider governance processes
 - “significant weaknesses” identified in year and follow up of action on prior year issues are often vaguely articulated and action planning rarely meets the ‘SMART’ test.

What needs to be done?

To add real value we believe the AGS should:

- Have greater status within the council’s management and reporting processes as the key document that records the planned and obtained assurances over achievement of the vision and strategic objectives
- Be owned from the top, used to plan and monitor internal and external assurance gathering throughout the year
- Be fundamentally reviewed each year so that it clearly includes what is significant and excludes what is not
- Have only significant weaknesses recorded with SMART action planning
- Provide a robust, transparent and honest assessment of the governance framework for the year.

Who should I contact?

The Grant Thornton Governance Institute will continue to issue briefing notes in the interests of wider awareness, and we intend to hold a variety of other promotional and thought-development events. For further information:

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