
REPORT TO:	AUDIT SUB SOMMITTEE	AGENDA ITEM: 7
DATE OF MEETING:	12th DECEMBER 2007	CATEGORY: RECOMMENDED
REPORT FROM:	DIRECTOR OF CORPORATE SERVICES	OPEN
MEMBERS' CONTACT POINT:	KEVIN STACKHOUSE (595811)	DOC: u/ks/audit committee/annual governance statement
SUBJECT:	THE NEW ANNUAL GOVERNANCE STATEMENT	REF:
WARD (S) AFFECTED:	ALL	TERMS OF REFERENCE:

1.0 Recommendations

- 1.1 That the requirements of the new Governance Statement and the Council's approach to compliance, is considered and approved.

2.0 Purpose of Report

- 2.1 The requirement to produce and review on a regular basis, an annual governance statement is from 2007/08, a statutory obligation under the 2006 Account and Audit Regulations.
- 2.2 Under the Committee's terms of reference for monitoring the Council's arrangements for corporate governance, this report provides an overview of the new requirements. In addition, it outlines the proposed arrangements for complying with best practice in order to fulfil the statutory obligation.

3.0 Detail

Background

- 3.1 Governance is about how a local authority ensures that it does the right things, in the right way, for the right people in a timely, inclusive, open and accountable manner. As such, it comprises the systems, processes, culture and values by which it is directed and controlled and through which it accounts to, engages and leads its local community.
- 3.2 Governance concerns everybody and covers the whole authority. In recent years it has assumed a higher profile across the public services. This is due to greater expectations from stakeholders, together with a

need to avoid previous incidents of “scandals” around financial reporting, public conduct and accountability.

- 3.3 Currently, every local authority is required to produce annually, a Statement on Internal Control (SIC) and to keep it under regular review. In addition, it is considered best practice (but not statutory) to adopt and publish a local code of corporate governance. Effectively, this is now being made a statutory requirement from 2007/08.
- 3.4 To ensure that each authority meets the regulations, it will be required to publish an Annual Governance Statement (AGS). Effectively, this will be an annual report to stakeholders and will need to set out how an authority applies best practice and, based on regular review, any areas that may need strengthening.

The New Statement

- 3.5 The format of the AGS is based on 6 core principles. Each authority will need to set out and crucially, provide evidence of how each principle is met. If any gaps are identified, it will not necessarily be judged a bad thing. It is considered just as important that an authority can identify areas that need strengthening and is working on improvement.

The 6 Principles

- 3.6 These are based around the following:
- Corporate planning and priority setting
 - The role of officers and members including their relationship
 - Conduct and behaviour (of officers and members)
 - Decision making, scrutiny, monitoring and the management of risk
 - Developing organisational capacity and capability
 - Engaging with stakeholders, reporting and accountability
- 3.7 Each authority will need to demonstrate their performance against each of these principles and how far they comply with best practice in these areas.
- 3.8 Each principle is subsequently broken down into various characteristics – it has a corporate plan, it operates under a constitution, it has codes of conduct, it produces an annual report, etc, etc...
- 3.9 Putting all of these characteristics together, will demonstrate the adequacy or otherwise of a council’s corporate governance arrangements.
- 3.10 Advice and guidance has been provided by the Institute of Public Finance as an aid to the format of the AGS, how the principles should be met, together with illustrative evidence to support each characteristic.

- 3.11 However, it is for each authority to adapt its local conditions to satisfy the AGS requirements.

The Council's Position

- 3.12 The AGS is seen as natural progression on the current SIC. It is not intended to be a new burden on local authorities, only the bringing together in a formal document, many of the systems and processes already in existence.
- 3.13 South Derbyshire adopted a local code of corporate governance in 2005 based on best practice. This has been subject to a couple of reviews since then.
- 3.14 Generally, it is considered that the local code contains much of the evidence to demonstrate many of the characteristics required to meet the 6 principles. The Council's current SIC and work plan should also prove useful for the AGS.
- 3.15 Therefore, it is considered that the Council will be able to comply with the new requirements. However, clearly some work and review will be required to tailor the AGS, provide evidence for auditors and to keep it under review.

Ownership and Reporting

- 3.16 Under its terms of reference, it is proposed that this Committee oversee and monitor arrangements for complying with the new requirements. In addition, the AGS itself and future reviews will be reported to the Committee.
- 3.17 Due to the nature and role of governance, the compilation of the AGS and the review process will be co-ordinated by the Council's Senior Management Team.
- 3.18 It is also important to note that external review will focus on the degree of ownership and how much the principles of good corporate governance are embedded in an organisation. Therefore, the AGS, like the SIC, will need to be communicated across the organisation and senior officers will need to be consulted on its compilation and on any issues arising from it.

Timetable

- 3.19 The AGS will need to be formally published alongside the Council's annual financial statements by 30th June each year. There will no longer be a requirement to produce a separate SIC, although many of the characteristics of sound internal control will feature in the AGS.
- 3.20 It is proposed that the draft AGS is considered by this Committee prior to that date. Any work plan arising from the yearly statement will be subject to regular review by the Committee.

- 3.21 Similar to the timetable used previously for the SIC, it is intended to formally table the first AGS at the June 2008 meeting. However, as this is a new requirement for 2007/08, it is proposed to produce an earlier draft to see how far the Council's current arrangements meet the 6 principles. It is proposed to do this at the Committee's February 2008 meeting.

4.0 Financial Implications

- 4.1 None directly.

5.0 Corporate Implications

- 5.1 Corporate governance affects the whole authority and senior managers in particular should have an input into the compilation and review of the AGS.
- 5.2 The Statement itself will be signed by the Council's Leader and most senior officer (the Chief Executive). This emphasises that corporate governance goes to the heart of the leadership and management of the organisation.

6.0 Community Implications

- 6.1 The AGS is seen as a public assurance statement that a council has a sound system of corporate governance, designed to help deliver services in a proper, inclusive, open and accountable manner.

7.0 Background Papers

- The Accounts and Audit (Amendment) (England) Regulations 2006
(Published by the Department of Communities and Local Government)
- Circular 03/2006 – Defining Proper Practice
(Published by the Department of Communities and Local Government)
- The Annual Governance Statement and Rough Guide
(Published by the Chartered Institute of Public Finance)