



The Chartered Institute of
Public Finance & Accountancy

CIPFA Better Governance Forum

Audit Committee Update

– helping audit committees to be effective

Developing an Effective Annual Governance Statement

March 2020

Dear Audit Committee Member,

In January 2010 we published the first issue of Audit Committee Update. The main topic was the audit committee's role in reviewing the internal audit plan, together with a summary of resources and guidance relevant to the committee. Since then we have published a total of 30 issues. Some topics have appeared more than once. For example, we came back to the topic of the internal audit plan in 2014 following the introduction of the *Public Sector Internal Audit Standards*.

It is interesting to look back at the topics and the themes included in the 'recent developments' sections. There is the impact of legislation and guidance on the audit committee, principally the Local Audit and Accountability Act 2014; new standards, such as the *Public Sector Internal Audit Standards* (2017) and *Delivering Good Governance in Local Government: Framework* (2016); CIPFA's research and guidance on audit committees and the results of our surveys, and updated position statements in 2013 and 2018.

Throughout we have tried to take a practical approach. Audit committee members are busy and therefore a short briefing is needed. We've tried to include key questions or action points for topics to help put knowledge into practice, and we've also added some practice development topics around self-evaluation and the role of the chair.

For this compendium I have selected a few of the articles that represent the last 10 years. Even those first published a few years ago are still relevant today.

CIPFA believes that audit committees have a valuable role to play in supporting good governance, strong public financial management and effective internal and external audit. These briefings are one of the ways in which we provide direct support to audit committee members.

All our resources for audit committees are signposted on the [CIPFA website](#), including the *Position Statement on Audit Committees in Local Authorities and Police 2018*.

Best wishes

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CIPFA

Articles in this Compendium

Article	Date first published
Developing an Effective Annual Governance Statement	Issue 25, 2018

Developing an Effective Annual Governance Statement

CIPFA and Solace introduced a new governance framework, *Developing Good Governance in Local Government: Framework* (the Framework), in April 2016, 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 England, the [Accounts and Audit Regulations 2015](#)). 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 it 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
- be signed by the chief executive and leading member in a council. The police and crime commissioner (PCC) and chief constable should sign theirs.

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 and they are wide and varied. They 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 staff.

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?

Effectiveness of an 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 – where an organisation has an up-to-date local code that sets out their arrangements, then the AGS can make reference to that rather than repeat the detail
- 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 shouldn't we do?

There are a number of 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.

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