

Cyngor Sir CEREDIGION County Council

REPORT TO: Governance and Audit Committee

DATE: 16th of July 2024

LOCATION: Remotely via Video Conference

TITLE: Role of the Governance and Audit Committee in relation to Annual Governance Statement

PURPOSE OF REPORT: For information and approval

Background

On 24.1.24 Members will recall receiving, the Welsh Government statutory and non-statutory guidance issued under section 38 of the Local Government Act 2000, as amended by section 45 of the Local Government and Elections (Wales) Act 2021- Statutory and non-statutory guidance on democracy within principal councils | GOV.WALES. Appendix 1. June 2023 edition.

The Guidance contained statutory guidance on the Governance and Audit Committee (section 14). The Guidance addressed the risk management, internal control, performance assessment and corporate governance arrangements of the authority (page 124).

The Guidance stated:

“14.23 - The governance and audit committee will need to report on the adequacy of the authority’s risk management and internal control arrangements, and comment on their effectiveness,” but was silent on the Annual Governance Statement.

On 14th March 2024, Members received updated Guidance issued in August 2023 (highlighted in yellow on **Appendix 2**) Part 4 Governance & Scrutiny (pages 143- 151). An amendment has been made in that an additional paragraph has been added into the August 2023 version relating to the Annual Governance Statement which now reads as follows:

‘An Annual Governance Statement is a document that sets out a councils arrangements for decision-making and governance. The AGS is the product of a review of council governance carried out by senior officers. There is no obligation on Welsh councils to prepare an Annual Governance Statement. As there is no legal obligation to produce an Annual Governance Statement, Welsh Government is not providing statutory guidance on this matter. However, councils will note the presence of the local governance accounting standards. Councils could consider how the AGS can be used as a tool for broader corporate improvement; it can be used to evaluate strengths and weakness in the governance framework and, as part of an annual action plan, take forward changes accordingly.’

The Committee agreed to:

(i) note the contents of this report, and the parts of the Guidance relevant to the Governance & Audit Committee, in particular the additional text concerning the Annual Governance Statement.

(ii) To note that a report on the:

- Impact/effect of the additional WG Guidance text;
- content/focus; and
- the role of the GAC in relation to the Annual Governance Statement

would be considered and reported back to the Committee.

Current position

The purpose of this report is to consider:

- the impact/effect of the additional WG Guidance text
- content/focus,
- the role of the GAC in relation to the Annual Governance Statement

Members will note that the Guidance states that whilst there is no obligation on Welsh councils to prepare an Annual Governance Statement, it can be used:

- as a tool for corporate improvement;
- to evaluate strengths and weaknesses in the governance framework; and
- as part of an annual action plan

Legislation

Accounts and Audit (Wales) Regulations 2014

The [The Accounts and Audit \(Wales\) Regulations 2014 \(legislation.gov.uk\)](http://legislation.gov.uk) regulation 5 it states:

- (2) The relevant body must conduct a review at least once in a year of the effectiveness of its system of internal control.
- (3) The findings of the review referred to in paragraph (2) must be considered—
 - (a) in the case of a larger relevant body, by the members of the body meeting as a whole or by a committee, and ...
- (4) Following the review, the body or committee must approve a statement on internal control prepared in accordance with proper practices.
- (5) The relevant body must ensure that the statement referred to in paragraph (4) accompanies—
 - (a) any statement of accounts which it is obliged to prepare in accordance with regulation 8; or
 - (b) any accounting statement which it is obliged to prepared in accordance with regulation 14.

There is a requirement, therefore, to produce an annual statement on internal control.

CIPFA

The CIPFA Delivering Good Governance framework 2016 states:

[CIPFA – delivering good governance framework 2016.pdf](#)

“THE ANNUAL GOVERNANCE STATEMENT”

- 7.1 Local authorities are **required** to prepare an annual governance statement (see Chapter two) in order to report publicly on the extent to which they comply with their own code of governance, which in turn is consistent with the good governance principles in this Framework. This includes how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.
- 7.2 The annual governance statement is a valuable means of communication. It enables an authority to explain to the community, service users, tax payers and other stakeholders its governance arrangements and how the controls it has in place manage risks of failure in delivering its outcomes. It should reflect an individual authority’s particular features and challenges.
- 7.3 The annual governance statement should provide a meaningful but brief communication regarding the review of governance that has taken place, including the role of the governance structures involved (such as the authority, the audit and other committees). It should be high level, strategic and written in an open and readable style.
- 7.4 The annual governance statement should be focused on outcomes and value for money and relate to the authority’s vision for the area. It should provide an assessment of the effectiveness of the authority’s governance arrangements in supporting the planned outcomes – not simply a description of them. Key elements of an authority’s governance arrangements are summarised in the next section.
- 7.5 The annual governance statement should include: an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority’s code of governance „ reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the executive, the audit committee, internal audit and others as appropriate an opinion on the level of assurance that the governance arrangements can provide and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework an agreed action plan showing actions taken, or proposed, to deal with significant governance issues „ reference to how issues raised in the previous year’s annual governance statement have been resolved a conclusion – a commitment to monitoring implementation as part of the next annual review.
- 7.6 The annual governance statement should be signed by the leading member (or equivalent) and chief executive (or equivalent) on behalf of the authority.
- 7.7 The annual governance statement should be approved at a meeting of the authority or delegated committee (in Scotland, the authority or a committee with a remit including audit or governance)
- 7.8 Local authorities are **required** to include the annual governance statement with their statement of accounts. As the annual governance statement provides a commentary on all aspects of the authority’s performance, it is appropriate for it to be published, either in full or as a summary, in the annual report, where one is published. It is important that it is kept up to date at the time of publication.

The CIPFA model states that Local authorities are **required** to prepare an annual governance statement (see Chapter two) in order to report publicly on the extent to which they comply with their own code of governance and include the annual governance statement with their statement of accounts.

Governance and Audit Committee's Role in the Annual Governance Statement

The Governance and Audit Committee are involved in the whole annual governance review process and producing the statement. The Governance and Audit Committee provide assurance by:

- Reviewing annual governance at the Governance Framework review workshop;
- Producing the Governance and Audit Committee Chair's Annual Report; and
- Undertaking an annual Governance and Audit Committee Self-Assessment.

The Committee and Council officers meet annually to conduct a Governance Framework Review Workshop to review actions identified in the previous year's statement. Sections within the review document are scored based on existing governance processes in place and any progress made to complete the previously identified actions. Following the Governance Framework review workshop, information from the workshop is fed into the Annual Governance Statement and the draft (and any further updates) is shared with GAC in every meeting. The final draft goes with the Statement of Accounts to GAC and then to Council for full approval.

The Statutory and non-statutory guidance on democracy within principal councils Guidance states that the Governance and Audit Committee's functions are:

- review and scrutinise the authority's financial affairs;
- make reports and recommendations in relation to the authority's financial affairs;
- review and assess the risk management, internal control, performance assessment and corporate governance arrangements of the authority;
- make reports and recommendations to the authority on the adequacy and effectiveness of those arrangements;
- review the financial statements prepared by the authority

The role of GAC is to "review and assess the risk management, internal control, performance assessment and corporate governance arrangements of the authority", as set out in the Statutory and non-statutory guidance on democracy within principal councils.

Summary

Whilst there is no obligation on Welsh councils to prepare an Annual Governance Statement, it can be used:

- as a tool for corporate improvement;
- to evaluate strengths and weaknesses in the governance framework; and
- as part of an annual action plan

It is required under Section 5 of the Accounts and Audit (Wales) Regulations 2014 as an annual statement on internal control.

Under the CIPFA model Local authorities are **required** to prepare an annual governance statement in order to report publicly on the extent to which they comply with their own code of governance and include the annual governance statement with their statement of accounts.

Conclusion

The Annual Governance Statement therefore still has a clear purpose in assessing the Council's annual good governance practices.

The current process is considered to be working well to provide assurance to the Committee and Council.

RECOMMENDATION(S):

The Committee is requested to:

1) Note the contents of the report

2) Recommend that the Council retains the Annual Governance Statement as:

- i. an annual statement on internal control,
- ii. a tool for reviewing its governance arrangements,
- iii. for broader corporate improvement, to evaluate strengths and weaknesses in the governance framework and, as part of an annual action plan, take forward agreed changes accordingly.
- iv. to report publicly on the extent to which the Council complies with its Governance Framework.

REASON FOR RECOMMENDATION(S):

To ensure that the Council' internal control arrangements are fit for purpose.

Appendices: Appendix 1- Statutory and non-statutory guidance on democracy within principal councils - June 2023

Appendix 2 - Revised Statutory and non-statutory Guidance on democracy within Principal Councils - August 2023

Head of Service: Elin Prysor, Corporate Lead Officer – Legal & Governance Services / Monitoring Officer

Reporting Officer: Katy Sinnett-Jones – Governance Officer

Date: 13.05.2024