Improving the Annual Governance Statement – response to the generic issues raised by the Grant Thornton report

Grant Thornton's report to the Audit Committee on 12 July was based on their review of AGS's across the country which identified a number of generic issues which they feel detracts from the potential value of the AGS. Their report identified 4 main issues. Set out below is a response to each designed to add value to East Herts AGS and the way in which it is developed and presented.

1. "The AGS is static and lacks focus"

Response:

Generally, the part of the statement which narrates the governance arrangements will not change much from year to year. For the future this description of arrangements might be a document which could be appended to the Constitution. The AGS would then simply refer to this statement as the reference point for the AGS with the AGS more focussed on how the review has been undertaken and the outcomes.

Section 8 in the Constitution:

"Summary of Governance Arrangements"

This statement is a general summary and explanation of the Council's policies, processes and procedures to ensure good governance of all the Council's activities. The arrangements are subject to ongoing review - the outcome of which will be incorporated in an Annual Governance Statement to accompany each year's financial statements. The Council's Constitution in parts 1 to 7 takes precedence over any statement in this summary"

The annual governance statement could then focus on the review undertaken in year and the outcomes.

This presentation would also respond to an issue about a perceived excessive length of the statement raised by a member.

- **" a year end rather than year round exercise"**

Response:

The action plan is reviewed in year and responses are made to governance issues on an ongoing basis but these issues and responses are not logged until the AGS is drafted.

As part of the risk management section of the health check we might include tracked issues (and responses) as they arise.

Governance issues can arise from :

- Reports proposing significant changes to the way we work – outsourcing, partnerships, delegations
- Minutes of meetings where governance issues are raised
- External audit reporting
- Internal audit reporting
- Peer reviews
- Complaints
- Service failures to customers
- Major incident reports
- Identified breaches of controls and regulations
- Disciplinary and other HR issues

Governance Issue	Significance	Where identified or reported	Response / action plan	Responsible Officer

- **"not updated to reflect significant issues arising between the draft accounts and audit opinion"**

Response:

Existing arrangements provide for this to happen

- **"Written and presented by Internal Audit"**

Response:

The initial draft is created by the Monitoring Officer, S151 Officer and Risk Manager previously Head of Internal Audit . Different officers present the statement to different audiences. With internal audit now provided by the Herts SIAS complete separation from audit is achieved.

- **"amended incrementally each year to document new control weaknesses and follow up last years issues, rather than fundamentally reviewed with council's strategic objectives and vision in mind"**

Response:

The absence of significant change to governance arrangements is not evidence of any lack of fundamental review.

The Council regularly reviews its Constitution, its Financial and Procurement Regulations and these have been subject to a number of significant changes. As part of annual service planning the strategic objectives are similarly reviewed. However, strategic objectives should not change too frequently so it might be expected that these would hold good between elections given our 4 yearly cycle. Similarly, the Executive arrangements, structures and delegations set out in the Constitution are regularly reviewed but if performing would be expected to have a good degree of stability.

- **"not challenged by officers, members and auditors on the value it adds to governance arrangements"**

Response:

The AGS has triggered debate in all forums both on fundamental issues and points of detail. For example this year about the government's proposals to amend arrangements for audit committees and whether these would improve or detract from governance.

The separation of narrative from review may create a better focus for challenge.

2. "The overall purpose of the governance statement is rarely articulated"

Response:

The opening pages of the existing statement make reference to the purpose but this can be expanded from the statutory reference to more of a statement of intent.

Although the review may be backward looking there is a need to anticipate events which could cause arrangements to be amended

- **"what is the level of assurance we are trying to achieve?**

Response:

Articulation of a level of assurance is challenging. The AGS refers to reasonable not absolute assurances but we do not say what "reasonable" might be.

A draft statement for inclusion in the AGS is:

"Reasonable means that we acknowledge and accept that there will be occasional service failures because the cost of arrangements to avoid all service failures (through for example multiple checks and fail safe procedures) is not affordable. The assurances we seek aim to ensure there is a 95% or better probability there will be no widespread service failures (impacting on 5% or more of customers at any one time) prolonged service failures (continuing for more than 5 days) or critical failures where there is potential serious injury to customers, employees or suppliers/contractors. The governance arrangements are primarily concerned with issues within our control – decision making, processes and procedures, service design, management of suppliers etc and it is in these areas that the definition of reasonableness primarily applies.

However, governance also involves the way we prepare to respond to and mitigate the impact of potential external events including natural disasters. Whilst the same definition applies here the governance arrangements acknowledge that some external events might disrupt services beyond the limits set out above. In its risk management reporting the Council will seek to set out the nature of such risks."

- **"will these processes and controls provide sufficient assurances"**

Response:

Against the broad definition of reasonableness the view expressed by all reviewers has been "yes". Against a more defined statement of "reasonableness" the answer must be "don't know" until that definition is agreed and tested.

3. "Assurances obtained from governance processes are very rarely articulated."

Response:

The Council's health check reporting arrangements provide assurance to the Executive, Scrutiny Committees and ultimately to Council about performance, finance and risk management issues highlighting potential variance from plans.

The Audit Committee receives reports from all audits as they are completed and monitors the follow up of recommendations.

At officer level CMT receive corporate monitoring data and through team meetings and one to one meetings there are checks in the system to identify governance issues as they arise.

However, we do not attempt to describe the assurance produced in quantitative or qualitative terms. This is an area where good practice from elsewhere might be followed up with the assistance of Grant Thornton.

- **"what assurances have these processes really given and to whom, have we achieved the level of assurance we need?"**

Response:

We do not capture a statement on the level of assurance achieved other than the negative statements where issues are logged. Examples of good practice can be reviewed.

4. "Significant weaknesses are often vague"

Response:

The format used to set out the "issues" raised can be expanded to say more about the weakness and to make a separate comment about why this is seen as a significant issue.

- **"it is often unclear whether weaknesses are significant in the context of achievement of the council's vision and strategic objectives"**

Response:

We have tended to record a mix of issues of varying significance. For the future we can publish only the most significant for monitoring by the Audit Committee with a supplementary list for monitoring by CMT. The Audit Committee might determine those issues it wishes to monitor.

- **" it is difficult to understand which part of the framework identified the weakness and what this means for the wider governance process."**

The proposed logging of issues will address this point

- **"significant weaknesses identified in year and follow up action on prior year issues are often vaguely articulated and action planning rarely meets the SMART test"**

Response

The tabular format used to identify issues has led to issues being set out in headline only fashion. By focussing on fewer issues in the AGS there will be scope to be clearer on the nature of the issue, why it is regarded as significant and set out actions with SMARTer targets.