

Governance Statements: good practice observations from our audits

Introduced in 2011-12, Governance Statements are important public accountability documents. Departments, their executive agencies and arm's-length bodies must provide a Governance Statement in their annual report and accounts.

Governance Statements replace and build on the old Statement on Internal Control (SIC). Aiming to support better governance and drive more consistent, coherent and transparent reporting, the Governance Statement, for the first time, brings together in one place in the annual report and accounts all disclosures relating to governance, risk and control.

To address “the fungus of boiler-plate”, reporting has moved away from the template-based approach adopted for SICs. *Managing Public Money* encourages organisations to tailor their reporting to better reflect their own circumstances, whilst specifying “essential features” that should always be reported on (Box 1).

In 2012, we considered over 350 Governance Statements as part of our audits of government's accounts. Here we highlight the key messages and good practice we identified from our work. Organisations need to build on the foundations laid in year-one so that the intended benefits of Governance Statement reporting can be more fully and consistently realised. Organisations can use our good practice observations and “challenge questions” (Box 2) to help support better governance and drive more transparent reporting.

Key Messages From Our Work

Organisations materially complied with HM Treasury's requirements and the information presented was consistent with our wider knowledge of organisations.

There is a sense of evolution from the “old” SICs, but some organisations have made more progress than others. While some have reviewed and strengthened their approach to governance reporting, others have, essentially, re-badged the prior year SIC and “bolted-on” the new requirements.

Under *Clear line of sight*, group Governance Statements are helping to present a clearer picture of risk across government. Some organisations have identified a need to strengthen their group-risk escalation and assurance processes so that they can be confident that they are sighted on the right risks at the right time and can report transparently on them.

There was wide variation in the robustness of evidence underpinning Governance Statements and in how comprehensive and open the disclosures were about each “essential feature”. Statements were often process-heavy, providing less insight into outcomes achieved or the risks faced.

Organisations have adopted a range of approaches to Governance Statement preparation and reporting. Organisations generally welcomed the more flexible reporting approach, but some expressed uncertainty as to whether they had “got it right”.

Corporate Governance Code Compliance

Departments disclosed few departures from *Corporate governance in central government departments: Code of good practice (the Code)*. Disclosed departures commonly related to Nominations and Governance Committee arrangements and board composition.

Some non-departmental bodies were unsure how the Code applied to them. A statement confirming compliance to the extent that it is relevant and meaningful should be made.

Better Governance Statements Are:

- concise and transparent. They help the reader “see the wood for the trees” by sign-posting key messages and avoiding long-winded process descriptions;
- comprehensive, tailored to organisational circumstances, focussed on outcomes – not on process, and include open and honest risk disclosures;
- drafted by a suitably senior member of staff with a strategic understanding of the organisation;
- underpinned by robust evidence and assurance and not treated as a one-off annual exercise;
- driven by the early engagement of the Accounting Officer and Board and subject to robust scrutiny and challenge by the Audit Committee and Non-Executive Members, with ample opportunity provided for debate.

Box 1

Essential features of the Governance Statement

- the governance framework of the organisation, including information about the Board's committee structure, its attendance records, and the coverage of its work;
- the Board's performance, including its assessment of its own effectiveness;
- highlights of Board committee reports, notably by the Audit and Nomination committees;
- an account of corporate governance, including the Board's assessment of its compliance with the *Corporate governance in central government departments: Code of good practice*, with explanations of any departures;
- information about the quality of the data used by the Board, and why the Board finds it acceptable;
- where relevant (for certain central government departments), an account of how resources made available to certain locally governed organisations are distributed and how the department gains assurance about their satisfactory use; and
- a risk assessment, including the organisation's risk profile, and how it is managed, including, subject to a public interest test:
 - any newly identified risk;
 - a record of any ministerial directions given; and,
 - a summary of any significant lapses of protective security (e.g. data losses).

Box 2

Challenge Questions

The Accounting Officer, Board and Audit Committee can use these questions to help inform their review of the Governance Statement (the Statement).

- How do we have assurance that the process for producing the Statement is adequate, covers all areas of our operations and has been followed?
- To what extent does the Statement comply with HM Treasury's requirements and include all the "essential features" (Box 1)?
- How clearly does the Statement give an understanding of the control structure and stewardship of our organisation, and a sense of its risks, vulnerabilities and resilience to challenges?
- What evidence have management presented to support the Statement and are we satisfied it is robust?
- How do we have assurance that all relevant matters are disclosed, including material issues from arm's-length bodies? How have any governance matters we have raised been dealt with?
- How has compliance with *the Code* been assessed and have all departures been explained and disclosed? What evidence underpins this assessment and are we satisfied it is robust?
- What involvement has internal audit or any other internal oversight body had in reviewing and/or challenging assurance statements and other evidence provided by management?
- How have we assured ourselves that management has responded appropriately to all observations on the draft Statement made by the internal and external auditors?

Other NAO Guidance

We have produced a number of publications to help support those involved in the preparation or scrutiny of Governance Statements.

Fact Sheet: Governance Statements

www.nao.org.uk/governance-statements

Corporate governance in central government departments: Code of good practice 2011: Compliance Checklist

www.nao.org.uk/support_to_boards

The messages in our previous guides to the Statement on Internal Control also remain appropriate to the arrangements and processes supporting the production of the Governance Statement.

A Good Practice Guide to the Statement on Internal Control

www.nao.org.uk/governance-statements

Statement on Internal Control: A guide for Audit Committees

www.nao.org.uk/governance-statements

Other Useful Guidance

Managing Public Money (HM Treasury), Annex 3.1, The Governance Statement: www.hm-treasury.gov.uk/d/mpm_annex3.1.pdf

Corporate governance in central government departments: Code of good practice 2011: www.hm-treasury.gov.uk/d/corporate_governance_good_practice_july2011.pdf

Assurance Frameworks: www.hm-treasury.gov.uk/d/psr_governance_risk_assurance_frameworks_191212.pdf

This fact sheet is available to download at www.nao.org.uk/governance-statements

For further information contact your usual NAO team or the NAO's Financial Management and Reporting team: Z5-FMGP@nao.gsi.gov.uk