

Governance Statements

HM Treasury has announced that for financial year 2011-12 and onwards, the annual Statement on Internal Control will be replaced by a requirement for departments, their executive agencies and arm's-length bodies to produce a Governance Statement in their annual report and accounts. By uniting disclosures formerly required to be made in the Statement on Internal Control with other existing requirements to publish a comprehensive explanation of organisational governance, the Governance Statement brings together in one place all disclosures about matters relating to an organisation's governance, risk and control.

This Fact Sheet provides a summary of the guidance contained in *Managing Public Money*¹, on the purpose, preparation, content and external audit arrangements of the Governance Statement. It is essential that those involved in the preparation of Governance Statements refer to the detailed guidance in *Managing Public Money* so that they can assure themselves that they have complied fully with requirements.

Managing Public Money can be found at:
http://hm-treasury.gov.uk/psr_mpm_index.htm

Annex 3.1, The Governance Statement can be found at:
http://www.hm-treasury.gov.uk/d/mpm_annex3.1.pdf

Purpose of the Governance Statement

The Accounting Officer is personally responsible for the Governance Statement, which outlines how he or she has discharged his or her responsibility to manage and control the organisation's resources during the course of the year. As set out in *Managing Public Money*, the Governance Statement should give the reader a clear understanding of the dynamics of the organisation and its control structure, recording the stewardship of the organisation, providing a sense of how vulnerable the organisation's performance is or might be; and of how successfully the organisation has coped with the challenges it faces.

Form and content of the Governance Statement

With the board's support, it is for the Accounting Officer to decide on the specific form and content of the Governance Statement. This approach aims to promote disclosure that is tailored to the individual circumstances of the organisation. Whilst there is no set template, *Managing Public Money* provides guidance on the preparation of the Governance Statement and sets out essential features (see Box 1) that should always be covered. *Managing Public Money* emphasises that the risk assessment element is critical and that the Governance Statement should assess the evidence about the effectiveness in practice of the risk management process in place, with a candid consideration of any revealed deficiencies. Lengthy process descriptions should be avoided and it is important that the Governance Statement does not miss out the more serious, albeit remote, risks.

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 Code*, with explanations of any departures; 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 lapses of data security, other than trivial ones.

Preparation of the Governance Statement

The introduction of the Governance Statement provides an opportunity for the Accounting Officer and the board to review their approach to governance reporting. With the board's support, it is for the Accounting Officer to determine how to take account of input from within the organisation and from the board and its committees. The Governance Statement should be assembled from work through the year to gain assurance about the organisation's performance and risk profile, its responses to the identified and emerging risks and its success in tackling them. Board members, with the support of the Audit Committee where appropriate, should evaluate the quality of the systems of internal control and governance, assess the risks facing the organisation, and advise on any significant omissions from the statement which may necessitate further disclosure. Further details, taken from *Managing Public Money*, are shown in **Box 2**.

Box 2

Inputs from the Accounting Officer and the board into the Governance Statement process include:

- the board's annual review of its own processes and practices;
 - insight into the organisation's performance from internal audit;
 - feedback from the delegation chain(s) within the organisation about its business, its use of resources, its responses to risks, the extent to which in year budgets and other targets have been met, and any other internal accountability mechanisms; and
 - material from any arm's-length bodies connected with the organisation which may shed light on the performance of the organisation or its board.
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External audit of the Governance Statement

The role of the external auditor in relation to the Governance Statement will remain much the same as it was with the Statement on Internal Control. Namely, the external auditor will review the Governance Statement for consistency with the audited financial statements and may report on any inconsistency with the findings of their audit or their knowledge of the business.

The external auditor may report any failure to comply with or explain any departures from the Corporate Governance Code http://www.hm-treasury.gov.uk/d/corporate_governance_good_practice_july2011.pdf or other authoritative guidance.

How can the NAO help?

The NAO is keen to ensure that the challenge and support offered by non-executive board members to management is maintained throughout this change in reporting requirements. We have previously produced a number of publications outlining good practice and behaviours relevant to the production of the Statement on Internal Control. The messages in these publications remain appropriate to the arrangements and processes supporting the production of the Governance Statement.

These publications and links to where you can find them on our website are included below:



A Good Practice Guide to the Statement on Internal Control

<http://www.nao.org.uk/audit-of-financial-statements>



Statement on Internal Control: A guide for Audit Committees

http://www.nao.org.uk/audit_committees

Our role

The National Audit Office exists to provide independent opinion and evidence to assist Parliament in holding the Government to account.

We can only do this effectively if we retain our ability to comment objectively and independently on what government does, and we cannot therefore act as an adviser on specific decisions the Government takes. We can, however, reasonably and helpfully point out what we understand to be principles of good practice in particular areas.

For further information please contact the NAO's Financial Management and Reporting team:
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