

## Guidance - CIPFA Bulletin 06

### Application of the Good Governance Framework 2020/21

This guidance concerns the impact of the continuing Covid-19 pandemic on governance in local government bodies and the requirements of the Delivering Good Governance in Local Government Framework 2016 CIPFA and Solace (the Framework). It also takes into account the introduction of the CIPFA Financial Management Code 2019 (FM Code) during 2020/21.

The guidance is particularly relevant for the annual review of the system of internal control and publication of the Annual Governance Statement (AGS) that are requirements under the regulations issued by the national governments of the UK<sup>1</sup>.

### Local Codes of Governance and Changes to Governance Arrangements

The Framework recommends that local government bodies and the entities that they are accountable for should develop and maintain a local code of governance. This should set out how local arrangements put the principles of good governance in the Framework into practice. The local code is not mandated by Regulations and not all local government bodies have adopted a local code.

The impact of Covid-19 means that there might be more changes than usual to the governance arrangements of an organisation.

- For those bodies that do not have an up to date local code the annual review of governance, they will need to first identify changes to governance since the last annual review before assessing the effectiveness of arrangements.
- For those bodies that have a local code, but have not yet updated it in 2020/21, they should be aware that it may no longer be an accurate reflection of how their governance has operated in 2020/21 and that some updates will need to be made as a result of the annual review.
- Where the local code is up to date, it should be a resource that identifies how governance is operating during the current year, including changes made to adapt to the impact of Covid-19.

Where changes have been made to ensure that the organisation can meet the Principles of the FM Code, then appropriate updates should be made to the local code for current and future years.

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<sup>1</sup> Regulation 6(1)(a) of the Accounts and Audit Regulations 2015, Regulation 4(2) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, Regulation 5(2) of the Local Authority Accounts (Scotland) Regulations 2014 and Regulation 5(2) of the Accounts and Audit (Wales) Regulations 2014 require an authority to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published statement of accounts (England) (as a part of the annual accounts (Scotland)). Regulation 6(1)(b) of the Accounts and Audit Regulations 2015, Regulation 4(4) of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 and Regulation 5(4) of the Local Authority Accounts (Scotland) Regulations 2014 require that for a local authority in England, Northern Ireland and Scotland, the statement is an annual governance statement

## Annual Reviews of the System of Internal Control

The annual review is a requirement under each of the Regulations issued by the national governments of the UK. The purpose of the review is for the body to consider the effectiveness of its system. The review then provides the evidence to support the Annual Governance Statement, as set out in the 'Framework'.

The impact of the Covid-19 pandemic should be taken into account when conducting the annual review for 2020/21, both identifying changes that have resulted from the pandemic and identifying the impact on effectiveness of arrangements in practice. For example, an authority's usual arrangements for stakeholder engagement may have been adapted in the year, with face to face meetings and consultation activities likely to have been replaced by other methods. An assessment of the effectiveness of those arrangements against the Framework principles would then be made.

The approach to the review should be risk-based. Specific requests for assurance should be targeted at those areas where existing assurance is not available and where there is significant risk of change or reduced effectiveness. Where a comprehensive assurance framework is in place and has been operating throughout the year, the annual review will be the completion of this ongoing monitoring rather than a one-off review.

Some of the usual sources of assurance may be more limited than in previous years. In particular, the Head of Internal Audit's annual opinion on the adequacy and effectiveness of the framework of governance, risk management and control may have a limitation of scope. CIPFA has recently issued guidance<sup>2</sup> on these circumstances, where internal audit has been unable to undertake sufficient internal audit work to support the opinion.

Where the annual review is limited, this should be made clear to those relying on the review when considering and approving the Annual Governance Statement.

2020/21 is also a 'shadow' year for the implementation of the FM Code. As such, the annual review should include the outcome of any assessment that has been undertaken during the year of the extent to which the organisation's financial management arrangements comply with the FM Code. Compliance with the Code should be demonstrated in a manner proportionate to the circumstances of the Local Authority.

If an assessment has not been undertaken, then it will need to be included in the annual review process.

## The Financial Management Code and Covid-19

A key goal of the FM Code is to improve the financial resilience of organisations by embedding enhanced standards of financial management. Inevitably, the impact of Covid-19 has tested that financial resilience in 2020/21 and will continue to do so in coming years. For this reason, the implementation of the Code in the shadow year remains a critical task. There are clear links between the FM Code and the Governance Framework, particularly with its focus on achieving sustainable outcomes.

For these reasons, the Annual Governance Statement for 2020/21 should include the overall conclusion of an assessment of the organisation's compliance with the principles of the FM Code. Where there are outstanding matters or areas for improvement, these should be included in the action plan.

The following points should be used to ensure actions meet the requirements of the Code:

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<sup>2</sup> [Guidance for Head of Internal Audit Annual Opinions 2020/21](#)

- Use existing reports and documentation where possible. A significant amount of the Code is part of your current activity.
- Make it proportional. Focus on any key gaps and risk areas that have been identified. For example, the medium and long-term planning elements of the Code will be recognisably challenging this year with the one year spending review, but scenario planning will remain important.
- Consult the leadership team and engage them in the principles of the Code. The Code makes it clear that FM is an organisational responsibility.

Be clear about any limitations that there are, recognising the wider public sector context. It is important that appropriate goals are set, and these can be included in the action plan.

## Considering the Impact of Covid-19 on Governance Arrangements

Local government bodies will all have had to adapt their governance arrangements during 2020/21 as a result of the impact of Covid-19. Broadly these changes are likely to include:

- Adaptations to reflect new ways of working and emergency arrangements
- Changes to 'business as usual' activities, including cessation or reduced frequency or scale of activities
- Longer-term changes to priorities, programmes, strategies and plans as a result of the impact of the pandemic on the organisation and the local area.

Inevitably some changes will have been made as a reaction to events and there is likely to be ongoing uncertainty over the longer term impact. The AGS may need to reflect a greater level of fluctuation than usual.

## Planning for the Annual Governance Statement

The current timetables for completion of the draft accounts and AGS for 2020/21 are set out in the regulations listed on page 1<sup>3</sup>. The amendment regulations made changes to the 2019/20 accounts and AGS timetable for one year only.<sup>4</sup>

CIPFA will update its guidance if changes to the timetables for the 2020/21 financial year are made by the Ministry of Housing Communities and Local Government or the relevant devolved government.

Local government bodies are reminded that the AGS is expected to be up to date at the time of publication, so they should account for significant events that affect their assessment of their governance arrangements that might occur from April 2021 onwards. The AGS provides assurance on whether governance

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<sup>3</sup> In Wales the timetable was amended by [The Accounts and Audit \(Wales\) \(Amendment\) Regulations 2018](#)

<sup>4</sup> [The Accounts and Audit \(Coronavirus\) \(Amendment\) Regulations 2020](#)  
[The Local Government \(Accounts and Audit\) \(Coronavirus\) \(Amendment\) Regulations \(Northern Ireland\) 2020](#)

[Local Government Finance Circular 10/2020, Scottish Government](#)  
 Letter to Directors of Finance, Preparation and Publication of Statutory Financial Accounts for 2019-20, Welsh Government

arrangements continue to be regarded as fit for purpose, so significant events could affect this judgement or could reveal that arrangements that had been believed to be satisfactory were actually flawed.

## Content of the Annual Governance Statement

In addition to the normal content of the AGS, as detailed in the Framework, local government bodies should make specific comment about the impact of the Covid-19 pandemic on its governance arrangements. CIPFA does not specify how this assessment is presented but the AGS should be clear where significant changes have been made. It should also be clear, in the conclusion or opinion, whether the arrangements remain fit for purpose. The action plan should identify significant governance issues, whether they are new challenges or actions needed to restore governance arrangements that might have lapsed during the year.

As already identified, the action plan should also include changes needed to address gaps or limitations in compliance with the FM Code.

To assist authorities in 2020/21, CIPFA has prepared a summary that incorporates the essential elements of an Annual Governance Statement. This is set out in Appendix A. However, there is not a mandatory format and authorities are free to develop more innovative presentation that communicates the same key messages.

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## Appendix A

### Summary of Key Areas of the Annual Governance Statement for use in 2020/21

#### Executive Summary

- Acknowledge the responsibility for governance, including commitment to the principles of good governance as identified in Delivering Good Governance in Local Government Framework 2016.
- Make a commitment to address governance issues and keep arrangements under review
- Overall opinion on the level of assurance the arrangements can provide and whether they remain fit for purpose
- Summary of the significant governance issues identified
- Signatures of Chief Executive and leading member/ PCC/chief constable as appropriate

#### Identification of key governance arrangements

- Brief description of governance arrangements and identification of where detailed information can be found, usually the local code of governance. (If the organisation does not have a current local code that sets out its local arrangements in accordance with the principles of governance then a longer section may be required to explain key governance arrangements).
- Explanation of how the organisation has responded to the Covid-19 pandemic and the significant adaptations to its governance arrangements.

#### Evaluation of the Effectiveness of Governance

- Brief outline of the assurance process underpinning the evaluation of effectiveness. If the head of internal audit annual opinion includes a limitation of scope this must be identified in the AGS. This section should include a reference to how the assessment of compliance with the FM Code has been carried out.
- An assessment of the effectiveness of your governance arrangements in supporting the achievement of sustainable outcomes and fulfilling each of the principles of good governance. This should include the conclusions of the evaluation of compliance with the FM Code.
- Identification of significant governance issues. These might be new obligations required of the organisation, new challenges arising from the impact of the pandemic, restoration of business as usual activities or some other issue.

#### Accountability and Action Plans

- Account for actions taken in 2020/21 to address significant issues identified in previous year's AGS

- Include an action plan to address the significant governance issues. This should include any actions needed to ensure compliance with the FM Code. Where the action plan is lengthy the published AGS may include a summary action plan with more comprehensive details available in a publicly available document.