

**To:** Audit and Risk Committee

**For meeting on:** 20 November 2013

**Agenda item:** 9

**Report by:** Philippa Harding, Board Secretary

**Report for:** Decision

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**TITLE:** Annual Governance Statement and Governance Review

**Summary:**

This paper provides information about the Annual Governance Statement (AGS) that Monitor is required to include in its 2013/14 Annual Report and Accounts. It proposes the approach to be taken with regard to the drafting of the AGS and how this should relate to Monitor's annual corporate governance review.

**Recommendation:**

The Committee is asked to confirm that it is content with the proposed approach to the AGS and Monitor's annual corporate governance review

**Public Sector Equality Duty:**

*Monitor has a duty under the Equality Act 2010 to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between people from different groups. In relation to the issues set out in this paper, consideration has been given to the impact that the recommendations might have on these requirements and on the nine protected groups identified by the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion and belief, gender and sexual orientation).*

*It is anticipated that the recommendations of this paper are not likely to have any particular impact upon the requirements of or the protected groups identified by the Equality Act.*

**Exempt information:**

*None of this report is exempt under the Freedom of Information Act 2000.*

## BACKGROUND

1. There is no set template for drawing up the AGS. It is for the Accounting Officer of an organisation, with the Board's support, to decide the statement's coverage and emphasis. Full guidance on how to compile the AGS has been included in *Managing Public Money*. Essentially, the AGS should outline how the Accounting Officer has discharged his responsibility to manage and control the organisation's resources during the course of the year. It should give a clear indication of the organisation's dynamics and its control structure, as well as giving a sense of the risks faced by the organisation and its resilience to challenges.
2. *Managing Public Money* states that the following subjects should always be covered by the AGS:
  - a) the governance framework of the organisation, including information about the board's committee structure, its attendance records, and the coverage of its work;
  - b) the board's performance, including its assessment of its own effectiveness;
  - c) highlights of board committee reports, notably by the audit and nomination committees;
  - d) an account of corporate governance, including the board's assessment of its compliance with the Corporate Governance Code, with explanations of any departures;
  - e) information about the quality of the data used by the board, and why the board finds it acceptable;
  - f) 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)

## PREPARATION OF THE AGS

3. *Managing Public Money* identifies inputs from the Accounting Officer and the board into the AGS process which include the following that are relevant to Monitor:
  - a) the board's annual review of its own processes and practices, informed by the views of its audit committee on the organisation's assurance arrangements;
  - b) insight into the organisation's performance from internal audit, including an audit opinion on the quality of the systems of governance, management and risk control;
  - c) 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; including:
    - bottom-up information and assessments to generate a full appreciation of performance and risks as they are perceived from within the organisation;

- end-to-end assessments of processes, since it is possible to neglect interdependent and compounded risks if only the components are considered;
- a high level overview of the organisation's business so that systemic risks can be considered in the round;
- any evidence from internal control failures or poor risk management; and
- potentially, information from whistleblowers.

## **MONITOR'S 2012/13 AGS**

4. Monitor has always been transparent in its reporting on risk and governance in its annual report and accounts. Monitor's governance disclosure in 2012/13 focussed on the changes to its governance framework on 1 November 2012 and adopted the following structure:

- a) Board composition and role;
- b) Role of the Chair and Chief Executive and division of responsibilities between the two;
- c) Role of the non-executive directors (independence and terms of appointment), the Deputy Chairman and Senior Independent Director;
- d) How the Board operates;
- e) Reserved and delegated authorities;
- f) Information and advice available to the Board;
- g) Levels of attendance at Board meetings;
- h) Information about Board effectiveness (induction, performance evaluation, governance reviews);
- i) Details of Board Committee membership, the duties of each Committee and the key issues considered during the year (including the audit plan considered by the Audit and Risk Committee);
- j) Information about Executive Committees that exist and attendance at these;
- k) Information about stakeholder engagement;
- l) Monitor's compliance with the NHS Foundation Trust Code of Governance and the UK Corporate Governance Code;
- m) Monitor's system of internal control and its risk and control framework;
- n) The principal risks faced by Monitor (as set out in the 2012/13 business plan);
- o) Monitor's capacity to handle risk; and
- p) Information about how the effectiveness of Monitor's system of internal control has been reviewed and the outcome of this review.

5. In order to draft the AGS, a review of corporate governance was conducted that focussed upon the following objectives:

Objective 1 – establish that effective corporate governance arrangements are embedded across the organisation;

Objective 2 – identify principal risks to achievement of objectives;

Objective 3 – identify and evaluate key controls to manage principal risks; and

Objective 4 - obtain assurance on the effectiveness of key controls.

#### **MONITOR'S AGS FOR 2013/14**

6. It is proposed that the 2013/14 AGS should not differ significantly in structure from that of 2012/13. It will focus upon how Monitor has been embedding its new governance frameworks and managing the risks associated with taking on its new functions on 1 April 2013.
7. As in previous years the preparation of the AGS should be clearly linked to an annual corporate governance review. At least a self assessment of the Board's effectiveness will have taken place by 1 April 2014 and a self assessment of the effectiveness of the Audit and Risk Committee will contribute to this.

**Philippa Harding**  
**Board Secretary**