DAO (DFP) 10/12
30 October 2012

Dear Accounting Officer

REQUIREMENT TO COMPLETE A GOVERNANCE STATEMENT

Purpose

1. To advise that Departments are required to prepare a Governance Statement in place of a Statement on Internal Control (SIC) from the financial year 2012-13 onwards. DFP’s intention to move from the SIC to the Governance Statement was first set out in DAO (DFP) 03/12 in February of this year.

Background

2. DAO (DFP) 03/12 included a draft Annex on the Governance Statement. This will now be officially incorporated as Annex 3.1 to Managing Public Money NI (MPMNI) and in future can be found on the AFMD website. Annex 3.1 should be taken as the formal guidance for use in preparing Governance Statements for 2012-13.

3. It should be noted that a few amendments have been made to Annex 3.1 from the draft Annex 3.1 issued at the start of this year. While most changes are relatively minor your attention is drawn to:-

DF1/12/610460
The requirements at Box A3.1A

- to include information about the quality of data used by the board, and why the board finds it acceptable.
- to provide, subject to a public interest test, details of any ministerial directions given.

4. You should prepare the statement as it reflects your organisation’s governance, risk management and internal control arrangements and how they operate in practice. The statement should reflect the organisation’s governance procedures and systems and be a natural product of the control framework. It should not be a process designed solely for the annual report and accounts, nor should it simply replicate material in the previous year.

5. The aim of greater disclosure is to demonstrate how well an organisation is managing the risks associated with the achievement of its aims and objectives, both in the current year and looking forward. Where there are weaknesses, the emphasis should be on how these are being addressed. Where there have been reports published on the organisation during the year, the emphasis should be on reflecting the assurance these provide in helping to achieve effective operation of controls.

**NIAO Review**

6. As part of the audit process the Northern Ireland Audit Office (NIAO) will consider whether the Governance Statement has been prepared in accordance with DFP guidance, is it consistent with the auditors’ knowledge of the entity and are the associated management and independent assurances that support the statement evidence based.
7. As with the previous Statements on Internal Control, the NIAO does not provide, and does not plan to provide, an opinion on the Governance Statement, but may report where the Statement is inconsistent with the financial statements and any evidence collected during the audit or where there is a failure to comply with or explain departures from the Corporate Governance Code or any other authoritative guidance.

**Applicability**

8. The requirement to complete a Governance Statement as set out in Annex 3.1 for the 2012-13 accounting period, and onwards, applies to departments, agencies and other arm’s length bodies who comply with MPMNI and the Financial Reporting Manual (FReM).

**Update and amendments**

9. The move to a Governance Statement has already been reflected in FReM and a forthcoming update of MPMNI will incorporate this change in due course. Where other related guidance refers to Statements on Internal Control / SICs these should now be read as if the guidance was referring to Governance Statements.

10. The following guidance relating to the completion of SICs is however now withdrawn with immediate effect -

- DAO (DFP) 25/03 - Statement on Internal Control;
- DAO (DFP) 09/08 - Statement on Internal Control (SIC) – Assurance on Information Risk;
- DAO (DFP) 02/10 - Statement on Internal Control 2009-10 and associated attachment NAO – SIC: A Guide for Audit Committees; and
- DAO (DFP) 03/12 - Introduction of the Governance Statement for the 2012-13 Accounting Period.
11. This DAO does not apply to North South Bodies who should continue to follow DAO (DFP) 04/09.

Enquiries

12. Any enquiries on this letter should be addressed to Alison Caldwell (Alison.caldwell@dfpni.gov.uk) telephone 02891 858249 (extension 68249).

Yours sincerely

[SIGNED]

FIONA HAMILL
Treasury Officer of Accounts

cc: Finance Directors
    Alison Caldwell
    Julie Sewell
A.3.1 THE GOVERNANCE STATEMENT

It is fundamental to each accounting officer’s responsibilities to manage and control the resources used in his or her organisation. The governance statement, a key feature of the organisation’s annual report and accounts, manifests how these duties have been carried out in the course of the year. It should encompass discussion of both corporate governance and risk management matters.

Purpose

A.3.1.1 Each accounting officer (AO) delegates responsibilities within his or her organisation so as to control its business and meet the standards set out in Box 3.1 (see chapter 3). The systems used to do this should give adequate insight into the business of the organisation and its use of resources to allow the AO to make informed decisions about progress against business plans and if necessary steer performance back on track. In doing this the AO is usually supported by a board.

A.3.1.2 These responsibilities are central to the AO’s duties. To carry them out the AO needs to develop a keen sense of the risks and opportunities the organisation faces. In the light of the board’s assessment of the organisation’s appetite for risk, the AO needs to decide how to respond to the evolving perceived risks.

A.3.1.3 The governance statement, for which the AO takes personal responsibility, brings together all these judgements about use of public resources as part of the annual report and accounts. It should give the reader a clear understanding of the dynamics and control structure of the business. Essentially, it records the stewardship of the organisation. Supplementing the accounts, it should provide a sense of the organisation’s vulnerabilities and resilience to challenges.

Preparing the governance statement

A.3.1.4 The governance statement is published in each organisation’s annual report and accounts. It should be assembled from work through the year to gain assurance about performance and insight into the organisation’s risk profile, its responses to the identified and emerging risks and its success in tackling them.

A.3.1.5 There is no set template for the governance statement.

A.3.1.6 The AO and the board have a number of inputs into this process:

- 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;
• 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;

• 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;

• material from any arm’s length bodies (ALBs) connected with the organisation which may shed light on the performance of the organisation or its board.

A.3.1.7 It is important that the governance statement covers the material factors affecting the organisation in the round, not neglecting the more serious (if remote) risks, emerging technology and other cutting edge developments. It should also mention any protective security concerns in suitably careful terms¹, with details reported to the external auditor.

Content of governance statement

A.3.1.8 With the board’s support, it is for the AO to decide how to:

• organise the governance statement;

• take account of input from within the organisation and from the board and its committees;

• where relevant, integrate information about the organisation’s ALBs.

A.3.1.9 Box A.3.1A summarises subjects that should always be covered.

A.3.1.10 All the items in this box are important. The risk assessment is critical. This is where the AO, supported by the board, should discuss how the organisation’s risk management and internal control mechanism work, and why they were chosen to deliver reasonable assurance about prevention, deterrent or other appropriate action to manage the actual and potential problems (or opportunities) facing the organisation. Avoiding lengthy description of process, it should assess the evidence about the effectiveness in practice of the risk management processes in place. In doing so it should face frankly up to any revealed deficiencies as risks have materialised.

¹ As set out in the Security Policy Framework
Box A3.1A 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 committee;
- an account of corporate governance, including the board’s assessment of its compliance with the Corporate Governance Code, with explanations of any departures;
- information about the quality of the data used by the board, and why the board finds it acceptable;
- a record of any ministerial directions given, subject to a public interest test;
- 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 summary of any significant lapses of protective security (eg data losses).

A.3.1.11 In putting together the governance statement, the AO needs to take a view on the extent to which items are significant enough to the welfare of the organisation as a whole to be worth recording. There are no hard and fast rules about this. Some factors to take into account are suggested in Box A.3.1B.

Box A3.1B Deciding what to include in the governance statement

- might the issue prejudice achievement of the business plan? – or other priorities?
- could the issue undermine the integrity or reputation of the organisation?
- what view does the board’s audit committee take on the point?
- what advice or opinions have internal audit and/or external audit given?
- could delivery of the standards expected of the AO (Box 3.1) be at risk?
- might the issue make it harder to resist fraud or other misuse of resources?
- does the issue put a significant programme or project at risk?
- could the issue divert resources from another significant aspect of the business?
- could the issue have a material impact on the accounts?
- might national security or data integrity be put at risk?
External audit

A.3.1.12 The organisation's external auditor will review the governance statement for its consistency with the audited financial statement. The external auditor may report on:

- any inconsistency between evidence collected in the course of the audit and the discussion of the governance statement; and/or;
- any failure to meet the requirement to comply with or explain departures from the Corporate Governance Code or any other authoritative guidance.