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Public Finance & Accountancy

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Delivering Good Governance in Local Government: Framework

Addendum, covering the annual review of governance and the
annual governance statement

Draft for consultation January 2025

For application to annual governance statements for 2025/26 onwards

Applicability and status of the addendum

Local authorities are accountable to the public and other stakeholders for ensuring they have a sound system of governance. They are required to prepare and publish an annual governance statement (AGS) in accordance with statutory regulations of the appropriate national government¹.

The statement should be consistent with the principles of good governance set out in [Delivering Good Governance in Local Government: Framework](#) (Governance Framework) (CIPFA and Solace, 2016). The statement includes the result of a review of the effectiveness of its system of internal control and provides assurance on whether the authority's governance arrangements are fit for purpose.

This addendum is the first update of the guidance since 2016 and replaces Chapter 7 of the Framework publication. The 2016 publication and the seven principles of good governance remain unchanged.

Authorities should ensure that the AGS for 2025/26 onwards comply with this guidance, and they are encouraged to consider it for 2024/25.

The guidance applies to all principal local government bodies², including:

- county councils
- district, borough and city councils
- metropolitan and unitary councils
- the Greater London Authority and functional bodies
- combined authorities, combined county authorities, city regions, devolved structures
- Scottish councils and other local government bodies under section 106 of the Local Government (Scotland) Act 1973
- the City of London Corporation
- fire authorities in England and Wales
- police and crime commissioners, and police, fire and crime commissioners
- chief constables in England and Wales
- national park authorities
- passenger transport executives.

¹ The Accounts and Audit Regulations 2015, the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, the Local Authority Accounts (Scotland) Regulations 2014 and the Accounts and Audit (Wales) Regulations 2014.

² The appropriate regulations define the relevant authorities.

Audience

The addendum is important for elected representatives, senior management and all those involved in the annual review of governance and preparation of an annual governance statement (AGS). It is also relevant for the auditors of the authority.

Key roles	Responsibilities
<p>Elected representatives, including councillors and fire authority members</p> <p>Police and crime commissioners (PCC)</p> <p>Chief constables</p>	<p>Overall responsibility for the governance of the local authority and for the fulfilment of accountabilities to the public and stakeholders.</p> <p>Approval of the governance arrangements of the authority, either directly or through delegations, including the Constitution and local code of governance.</p> <p>In a local authority the AGS must be approved by a body charged with governance (full council) or delegated to an appropriate committee, such as an audit committee. The AGS must then be signed by a leading member, alongside the chief executive. (In Scotland the leader of the council must sign the AGS.)</p> <p>In policing, the appropriate corporation sole (PCC and chief constable) must approve and sign the AGS.</p> <p>Following publication, elected representatives have oversight of and accountability for agreed actions to improve governance.</p>
Chief executive (head of paid service), chief financial officer (section 151 or section 95) and monitoring officer	<p>Statutory officers with specific governance responsibilities.</p> <p>Typically the annual review and preparation of the AGS is overseen by one of them.</p> <p>The chief executive must sign the AGS.</p>
Other senior management	Responsible with the statutory officers to put in place the appropriate arrangements for governance and providing assurance on its effectiveness in their service areas.
Other officers with governance roles	Co-ordination of the annual review and drafting of the AGS in support of the statutory officers and other governance leadership responsibilities
Head of internal audit	<p>Provides an annual conclusion on governance, risk management and internal control as part of internal audit standards, which informs the review.</p> <p>Provides additional assurance to senior management and elected representatives on the adequacy of the review of effectiveness.</p> <p>The head of internal audit should not draft the AGS.</p>

Introduction

The last few years have tested the governance of many authorities. Pressures on financial resources, innovative approaches to the delivery of services and increased commercialisation, as well as the COVID-19 pandemic, have meant those charged with governance and leadership teams have had to make difficult decisions. The quality of governance arrangements is of paramount importance to enable authorities to make decisions with high-quality information, and with a good understanding of risk. Robust and trusted decisions are built from engagement with communities and stakeholders and with a focus on the public interest. In addition, they need confidence that their governance supports the effective implementation of those decisions, and they have sufficient assurance to inform their understanding. Ensuring adequate capacity, capability and leadership are fundamental together with a focus on longer-term planning rather than short-term fixes. In short, all seven principles of the Governance Framework must be fit-for-purpose.

Delivering Good Governance in Local Government (CIPFA and Solace, 2016)



Unfortunately, governance has not been fit for purpose in all authorities. The governance reviews following Section 114 reports and reports in the public interest, or other interventions, have highlighted governance weaknesses as well financial concerns. Although not present in every case, the following have been noted:

- poor understanding of risk or inadequate management of risks

- weaknesses in internal controls
- weak oversight and challenge from those charged with governance
- dysfunctional relationships between senior officers and members
- reduced capacity and/or capability in critical areas
- poor data quality and reliable information to support decision making
- limited oversight of arm's length arrangements such as trading companies and joint ventures through a failure to put in place appropriate governance, risk and control arrangements
- a lack of transparency and/or openness to external challenge.

Some authorities have not demonstrated self-awareness where their governance is not fit for purpose. When authorities are unable or unwilling to recognise and acknowledge weaknesses, accountability to the public is not fulfilled. Some authorities have failed to take the early action that might have minimised or avoided more serious service or financial problems.

Purpose

It is in this context that this update to the Delivering Good Governance in Local Government: Framework (CIPFA and Solace) should be adopted. It provides the opportunity for all those with a responsibility for good governance to reconnect with the principles they and their organisation should be striving to meet. Preparing an AGS is an opportunity to undertake a rigorous annual assessment of their governance and consider whether it truly is fit for purpose. The review should take into account not just current demands but also anticipated challenges. The unexpected can and will happen, and authorities cannot be ready to meet every eventuality, but each organisation should have sufficient resilience to flex and adapt.

In the years ahead authorities must continue to meet significant challenges, for example:

- service and financial pressures in areas such as social care and housing
- economic events impacting on funding and income generation
- new legislation
- devolution or structural change
- climate change and net zero
- use of artificial intelligence in the authority's systems and processes.

Meeting these challenges is necessary to maintain the trust of the public in the authority. This means local authorities must be resilient and sustainable in their governance.

The review of governance

Authorities should review the effectiveness of their governance each year, to fulfil the requirements of the regulations applicable to their authority and the Code of Practice on Local Authority Accounting in the United Kingdom.

The benchmark against which the review should be undertaken is the seven principles of good governance, as set out in the Governance Framework.

This guidance covers the following:

- description of an authority's governance arrangements in the local code of governance
- conducting the annual review
- content of the annual governance statement
- publication and accountability.

The local code of governance

CIPFA and Solace recommend that authorities adopt a local code of governance which sets out their governance arrangements, showing how governance principles are put into practice at their authority. The code should:

- clearly align to the principles in Delivering Good Governance in Local Government: Framework
- be up to date and reviewed regularly to ensure it takes account of changes in the authority and its environment
- identify what arrangements the authority has put in place to achieve each principle, so it is specific to the authority
- include values and behaviours as well as processes
- include how it is reviewed and updated.

Where an authority does not have a local code, then the annual review will need to first identify the arrangements it has put in place to meet the governance principles.

Core arrangements for the local code

The local code, or other description of governance arrangements, should include details of your arrangements that address areas that are core to good governance. A more comprehensive code will provide stronger evidence of alignment to good governance principles, and CIPFA and Solace would recommend this approach. The annual governance statement will need to provide assurance that the following core arrangements are in place and operating effectively.

Principle A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law

- Arrangements to ensure ethical conduct for both members and officers, including codes of conduct, management of conflicts of interest, declarations of gift and hospitality, training and evaluation. Where appropriate, include how codes of ethics for the sector are implemented and supported.

Sector requirements include the Code of Practice for Ethical Policing and the Police Code of Ethics, and the Core Code of Ethics for Fire and Rescue Services – England.

- Arrangements covering the ethical behaviour of external service providers.
- Arrangements to support whistleblowing.
- How compliance with laws and regulations and internal policies and procedures is ensured and arrangements to ensure expenditure is lawful.
- How breaches of ethical arrangements, laws, regulations and procedures are addressed and learning adopted.
- How all those in governance roles and senior managers demonstrate their leadership of an ethical culture.

Principle B. Ensuring openness and comprehensive stakeholder engagement

- How the authority ensures that decisions are made in the public interest and the rationale for decisions is recorded.
- How the authority achieves expected standards of openness and transparency.
- The arrangements for consultation and engagement with citizens, service users and stakeholders and how these inform decision-making.
- The ways that the authority communicates with the community and stakeholders.

Principle C. Defining outcomes in terms of sustainable economic, social and environmental benefits

- How the authority establishes its vision, target outcomes, and associated long-term plans to deliver sustainable outcomes.
- Its decision-making arrangements and how it ensures consideration and demonstration of value for money/best value.
- Arrangements to achieve fair access to services.
- The authority's strategic approach to commissioning across the entity and its partnerships and collaborations.

Principle D. Determining the interventions necessary to optimise the achievement of the intended outcomes

- The arrangements for medium- and short-term service planning, supported by projects and programmes, to ensure alignment to the vision and objectives.
- How budgets and resource strategies align to delivery of objectives.
- How the authority approaches value for money and best value.
- The authority's performance management arrangements to ensure continued alignment to its objectives.
- Arrangements for the achievement of social value in commissioning, procurement and contracting.

Principle E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

- Member and officer protocols and clarity over roles and responsibilities, including schemes of delegation.
- Arrangements to apply the Code of Practice on Good Governance for Local Authority Statutory Officers.
- How financial management roles align with:
 - CIPFA [Financial Management Code](#) (FM Code)
 - [CIPFA Statement on the Role of the Chief Financial Officer in Local Government](#) (2015), [The Role of the CFO in Combined Authorities](#) (2024) or [The Role of Chief Financial Officers in Policing](#) (2021), as appropriate.
- The arrangements in place for the discharge of the monitoring officer function.
- The arrangements in place for the discharge of the head of paid service function.
- Induction and development programmes to meet the needs of members and senior officers in relation to their strategic roles.
- Workforce planning and organisational development.
- Learning and development and health and wellbeing.

Principle F. Managing risks and performance through robust internal control and strong public financial management

- Risk management policy, strategy and arrangements for review.
- How financial management arrangements align with the FM Code.
- Internal control arrangements including:
 - cyber and information security arrangements
 - information governance
 - asset management
 - procurement and contract management.
- Assurance frameworks across the three lines. The framework should set out how the leadership team obtains its assurance, including from management, risk and compliance arrangements, and internal audit.
- Internal audit arrangements consistent with the Global Internal Audit Standards in the UK public sector and the CIPFA Code of Practice on the Governance of Internal Audit.
- Arrangements for formal overview and scrutiny (as applicable) and internal challenge.
- Undertaking the core functions of an audit committee, as identified in [Audit Committees: Practical Guidance for Local Authorities and Police](#) (CIPFA, 2022).
- Counter fraud and anti-corruption developed and maintained in accordance with the [Code of Practice on Managing the Risk of Fraud and Corruption](#) (CIPFA, 2014).

- Governance, risk and control arrangements across partnerships, collaborations and arm's length bodies.
- Internal governance and assurance standard (fire services only).

Principle G. Implementing good practices in transparency, reporting and audit to deliver effective accountability

- Arrangements for the timely response and support to the work of external audit, internal audit and other inspection or regulatory action.
- Approach to welcoming external challenge and implementing recommendations.
- How learning and improvement are actioned.
- How transparency and accountability are maintained across collaborations and arm's length bodies, such as trading companies and joint ventures.
- Accountability to the public and stakeholders is supported by clear assurance and ensures core areas are covered to enable better accountability in practice.

The local code should be a public document or webpage, easily identifiable on the authority's website. It should be a useful reference for both officers, elected representatives and the public to understand how governance works and the authority's commitment to good governance.

Within the local government sector there will be aspects specific to some bodies but not all, for example the operation of the Force Management Statement and the Code of Ethics in police bodies.

While the preparation of a local code is strongly recommended, it is not a requirement of the regulations. Where an authority does not publish a local code, it will need to explain the elements set out above in its AGS.

Conducting the annual review

The annual review is a requirement of the regulations of the national governments. It is an opportunity to take stock of governance, ensuring that the published AGS and associated improvement actions are based on robust evidence. Authorities should establish processes to gather assurance throughout the year, and not only at the year-end.

Scope of the annual review

- Authorities should assess how effectively their arrangements meet the principles of good governance **in practice**. The identification of those arrangements in the local code facilitates the review.
- The review should consider if and how its governance arrangements support the achievement of the authority's purpose and objectives – its outcomes.
- The review should consider whether the authority's governance arrangements, including all the core arrangements listed above, are operating effectively. It should identify any areas for improvement.

Gaining assurance for the annual review

- Authorities should approach the review in a way that will provide the required assurance in an efficient and effective manner. Each authority will have existing sources of assurance that make up its assurance framework:
 - the head of internal audit's annual conclusion on governance, risk management and internal control
 - assurances from the statutory officers and other senior managers
 - assurance from members, for example annual reports from committee chairs
 - performance and data reports that demonstrate how well the authority has met its objectives and managed its resources; benchmarking data may help the assessment
 - evidence of the management of risks from the risk management framework
 - accreditations or independent assessments against control frameworks or standards
 - best value self-assessments (using guidance applicable for the authority)
 - the findings of external assessments, from external audit, inspectorates, other regulators, peer reviews and any other commissioned reviews
 - force management statements (police forces only)
 - annual statement of assurance and self-assessment against the Internal Governance and Assurance Standard (fire services in England only).
- The review should include a range of perspectives. The authority's assurance framework should provide different sources of assurance across the three lines: management (first line), risk and compliance functions (second line) and internal audit (third line). It should also engage both senior managers and elected members to ensure wider engagement and ownership.
- Where the assurance framework does not provide sufficient assurance, apply a risk-based approach to target where further work is required.

The review should consider the financial year to which the AGS relates. The regulations require the AGS to follow the same timetable as the financial statements and it relates to the same financial year. As well as looking backwards, the review must also look ahead to the risks and challenges the authority is facing.

Evaluating the results of the annual review

- The review should be an open and honest assessment. By testing and challenging its own governance arrangements, the authority will gain more robust assurance and add value to the accountability it can deliver. For example:
 - checking consistency of understanding and interpretations across the authority
 - testing whether assumptions are valid
 - identifying gaps in the assurance framework
 - stress testing/scenario planning for anticipated risks
 - building understanding of governance.

As well as considering the financial year to which the AGS relates, the evaluation must also look ahead. Effectiveness means not only that the arrangements were sufficient to meet the challenges of that year, but also that the authority has built in sufficient governance resilience for the current and future years.

- Many authorities have found it helpful to have a governance group comprising key officers with key roles such as the monitoring officer, section 151 officer, head of internal audit and risk management lead. The review should assess the evidence of effectiveness and identify weaknesses or other areas where further improvements can be made. A corporate review and ownership will support a robust conclusion on whether arrangements are fit for purpose.
- The results of the assessment should be reviewed by the leadership team and the audit committee before the final approval in accordance with the requirements of the appropriate regulations.

Content of the AGS

To be meaningful as an accountability report the AGS should be both deep, covering a comprehensive view of governance, and also brief. It should not include extensive description of the different aspects of the authority's governance arrangements, as these should normally be available in the local code. Where the authority has not developed a local code, it will need to set out all the minimum arrangements the local code should cover in the AGS.

There is no standard template for the AGS as it should derive from the results of assessment. It should contain the following elements, but presentation is flexible:

Executive summary

The summary should pull out the key messages of the AGS.

Summary of key conclusions.

An overall opinion on whether governance is fit for purpose. An authority's governance arrangements are fit for purpose when its governance arrangements, including core areas identified in this guidance, are operating effectively, and support the achievement of the authority's outcomes.

- Confirm whether the overall operation of governance arrangements was fit for purpose in the year of review.

Governance outlook and commitment to ensure that governance will be fit for purpose.

Significant changes or areas of improvement the authority will be actioning in the forthcoming year.

Signatures

Date of approval

Our assessment of effectiveness

A statement of how the review of effectiveness was conducted and the results, including reference to:

- Whether arrangements are adequately aligned to support the authority's delivery of planned outcomes and meet its responsibilities for value for money/best value.
- Whether arrangements are in place and operating effectively, to support and deliver each of the principles of good governance.

- Explicit assurance that each of the core arrangements for the local code are operating effectively. (They do not need to be individually listed where they are in place and effective if they are clearly identifiable in a publicly available local code.)
 - Where any of the core arrangements are not in place, explain how your alternative arrangements achieve the same goal or include them as an area for improvement.
 - Where any core or alternative arrangements are not operating effectively, include them as an area for improvement.
- The results of external assurance providers and internal audit's annual conclusion.
- An explanation of how the overall opinion has been agreed.

Where our governance needs to improve

Identification of those areas of governance requiring improvement and how these are being addressed.

- Identify where there are significant gaps in governance arrangements such as where core arrangements are not operating effectively.
- Significant governance failures that occurred during the year and action taken.
- Areas where governance arrangements could be easier to understand and comply with.
- Action plans to address these in the coming year and beyond where necessary. The AGS action plan should be meaningful but brief. It would be expected that more detailed implementation plans will be used to manage and monitor progress. Include a reference to how the action plans will be monitored.

How we have improved our governance arrangements in (*insert the year*)

- How the governance issues identified in the previous year's statement have been addressed and whether further work is required.
- Other significant steps to improve governance.

Forward look on governance

- An opportunity to identify where governance needs to change or develop to meet the future needs of the authority. Possible examples could be:
 - establishment of new collaborative arrangements
 - new legislation requiring changes to governance structures
 - significant risks for the authority that will change or challenge governance in future years. (Risks should be linked to governance. There will be other risks, some of which may already be set out in the narrative report already.) This is not intended to be a complete list of all the risks on the authority's risk register.

Role of external auditors

Before final approval and publication, the AGS will be reviewed by the authority's external auditor in accordance with the Code of Audit Practice issued by the appropriate national audit body. The auditor will consider if the AGS has been prepared in accordance with the Governance Framework and is consistent with the auditor's knowledge of the authority.

Approval

The annual governance statement should be approved at a meeting of the authority or delegated committee (in Scotland, the authority or a committee with a remit including audit or governance), as required by regulations.

In policing, approval will be from the police and crime commissioner and chief constable as corporations sole.

Where approval is delegated to a committee, such as the audit committee, steps should still be taken to engage with the full authority, as the body ultimately charged with governance. For example, the AGS should be shared with all elected members together with a report from the audit committee on their review. This will help all elected representatives to have sight of the conclusions and agreed actions.

Publication

The timetable for publication is set out in regulations, with deadlines amended from time to time. The timetable is the same as that of the financial statements and in Scotland the AGS is required to be a component of the annual accounts. Where it is necessary to publish the financial statements before the completion of the audit, (for example under the backstop arrangements in England) the AGS should still be published on the website with an explanatory note, in accordance with the dates specified by regulations.

Accountability: presentation and communication of the AGS

The AGS supports the authority's accountability to the public, stakeholders and government. Easy access and communication of its purpose and role are important elements of accountability. Where the AGS is published within the financial statements, further steps should be taken to improve access. Suggested examples of good practice:

- Creating a webpage on governance with plain English explanations of what governance is and why it is important.
- Including the AGS on a governance webpage, alongside other materials such as a local code.
- Use of diagrams or other design features to improve understanding.
- Ensuring the AGS is identifiable on the authority's website. For example, would a search for 'governance' or 'annual governance statement' on the website bring up the latest AGS?
- There should remain a clear link back to the financial statements to ensure the regulations are satisfied.

As well as an important external accountability report, the AGS is informative for staff and elected members. Their actions all contribute to the governance culture of the authority and are key to implementing robust arrangements and improvements. The authority should plan internal communications to share key messages and show staff and members how they contribute to the implementation of the action plan and support good governance.

Members of the reference group

Chair – Paul Hanson, Chief Executive North Tyneside MBC

Secretariat

CIPFA

Diana Melville, Governance Advisor

Naomi Whitmore, Public Finance Advisor

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Observers

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Stakeholders

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Kate Havard, Audit Wales

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Hannah Doney, CFO, Watford Borough Council