

To: Audit and Risk Committee

For meeting on: 18 September 2014

Agenda item: 7

Report by: Philippa Harding, Board Secretary

Report on: Annual Governance Statement and Governance Review

BACKGROUND:

1. This paper provides information about the Annual Governance Statement (AGS) that Monitor is required to include in its 2014/15 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.
2. 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.
3. *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

4. *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 2013/14 AGS

5. Monitor has always been transparent in its reporting on risk and governance in its annual report and accounts. Monitor's governance disclosure in 2013/14 highlighted the manner in which the organisation had consolidated the changes to its governance framework in November 2012 and adopted the following structure:
 - a) Monitor's governance framework:
 - i) Our Board;
 - ii) Board composition;

- iii) The non-executive directors;
 - iv) Deputy Chair and Senior Independent Director; and
 - v) Chairman and Chief Executive.
- b) How the Board operates:
- i) Rules of Procedure, Matters Reserved to the Board, Scheme of Delegation and Code of Ethical Practice;
 - ii) Information required for the Board to operate; and
 - iii) Secretary to the Board.
- c) Board effectiveness:
- i) Board meetings and attendance;
 - ii) Induction;
 - iii) Performance evaluation; and
 - iv) Compliance with corporate governance codes of good practice;
- d) Conflicts of interest
- e) Board committees:
- i) Audit and Risk Committee;
 - ii) Nominations Committee;
 - iii) Remuneration Committee;
 - iv) Technology Assurance Committee;
- f) Executive committees:
- i) Executive Committee, Provider Regulation Executive, Provider Appraisal Executive, Pricing Executive, Co-operation and Competition Executive;
 - ii) Executive Committee meetings and attendance; and
 - iii) External directorships for Executive Committee members.
- g) Relationships with stakeholders:
- i) Stakeholder engagement; and
 - ii) Monitor's website.
- h) Monitor's duties as a regulator:
- i) Duty to review regulatory burdens;
 - ii) impact assessments;
 - iii) Macpherson recommendations on quality assurance of models; and
 - iv) Harris recommendations on assurance regarding statutory arrangements.
- i) Monitor's system of internal control:
- i) Purpose of the system of internal control;
 - ii) Risk and control framework;
 - iii) Principal risks facing Monitor during 2013/14 as identified by the business plan (and what Monitor did to manage these)
 - iv) Monitor's capacity to handle risk; and
 - v) How the effectiveness of Monitor's system of internal control has been reviewed and the outcome of this review.

6. 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 2014/15

7. It is proposed that the 2014/15 AGS should not differ significantly in structure from that of previous years. As in previous years the preparation of the AGS should be clearly linked to an annual corporate governance review.
8. The Committee is asked to confirm that it is content with the proposed approach to the AGS and Monitor's annual corporate governance review.

Philippa Harding
Board Secretary

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.