

## HUNTINGDONSHIRE DISTRICT COUNCIL

MINUTES of the meeting of the CORPORATE GOVERNANCE COMMITTEE held in Civic Suite 0.1A, Pathfinder House, St Mary's Street, Huntingdon PE29 3TN on Wednesday, 22 March 2017.

PRESENT: Councillor M Francis – Chairman.

Councillors Mrs S Conboy, T Hayward, P Kadewere, Mrs R E Mathews, R J West and D M Tysoe.

APOLOGIES: Apologies for absence from the meeting were submitted on behalf of Councillors K M Baker, E R Butler, D B Dew, Mrs L A Duffy and Mrs A Donaldson.

#### **4. MELANIE SAGE**

The Chairman reported to the Committee upon the safe arrival of Democratic Services Officer Melanie Sage's baby girl and Members asked that their best wishes and congratulations be conveyed to her.

#### **5. MINUTES**

The Minutes of the meeting of the Corporate Governance Committee held on 25th January 2017 were approved as a correct record and signed by the Chairman.

#### **6. MEMBERS' INTERESTS**

No declarations were received.

#### **7. CORPORATE GOVERNANCE PANEL PROGRESS REPORT**

The Committee received and noted a report on progress (a copy of which is appended in the Minute Book) detailing progress of decisions and action taken at previous meetings. In so doing, Councillor T Hayward drew Members attention to the decisions on 'Implementation of Audit Actions' and 'Skills, Knowledge and Effectiveness Review', which it had been suggested should be deleted from future lists. Members agreed that these actions continued to be ongoing and should remain on the progress report.

#### **8. GRANT CERTIFICATION 2015/16**

Consideration was given to a report by the Benefits Development and Support Team Manager (a copy of which is appended in the Minute Book) to which was attached the External Auditor's Annual Certification Report 2015/16 produced by Ernst and Young following its audit of Housing Benefit grant.

Members were reminded that the District Council administered the Housing Benefits Scheme and claimed a subsidy on behalf of the Department of Work and Pensions (DWP). In 2015/16 the Council

received £35.4m of Housing Benefit grant and was subject to external audit.

Members were informed that if an error was identified the audit instructions required that additional testing was undertaken. Several minor errors were identified during the audit but there being no materiality on external audit grant certification work for the Department of Works and Pensions, these had not resulted in an increase to the charges. The errors identified amounted to £205 in the context of the total benefits budget of £35m with 7,300 cases, so it was suggested that they were minimal.

The Benefits Development and Support Team Manager assured Members that given the complexity of the legislation surrounding Housing Benefits regular checks were undertaken throughout the year and training sessions held for all staff. It was further noted that the fee charged for testing by the auditors had reduced by £5k compared with charges in the previous year.

The Chairman and Members of the Committee commended the Benefits Development and Support Team Manager and her Team on the accomplishment of such a minimal number of errors identified within the scope of the wider budget for Housing Benefits and were reassured by the level of training that was undertaken throughout the year.

In response to a question by Councillor D M Tysoe on individual targets for avoidance of errors by officers, it was explained that Officers were given targets and if any errors were identified these would be corrected and checked for any trends arising.

Arising from concerns raised by Members on the certification guidance and low level of testing of samples, Mr N Harris, Executive Director, Ernst and Young, stated that there were restrictions in the methodology imposed by their regulator and the DWP but there was provision to extend the testing further should a number of errors arise. Furthermore the Benefits Development and Support Team Manager advised Members that there was extensive checking undertaken prior to the submission of the claim.

A question was raised by Councillor P Kadewere on how Officer and applicant errors were treated. The Benefits Development and Support Team Manager explained the process for reclaiming any errors in overpayment. Whereupon it was,

**RESOLVED**

that the Committee noted the contents of the External Auditor's Annual Certification Report 2015/16.

## **9. CODE OF PROCUREMENT**

By way of a report from the Procurement Manager (a copy of which is appended in the Minute Book) the Committee was presented with the outcome of a review of the Code of Procurement. The Code was reviewed on an annual basis to ensure it reflected current legislation and the changing needs of the Council.

Attention was drawn to four significant changes to the Code, specifically formalising the rules of disposal, harmonisation of tender thresholds to £100k in line with the partner authorities of South Cambridgeshire District Council and Cambridge City Council, amending the threshold limit for single quotes approved by Heads of Service and implementing changes to collect income tax and national insurance through Pay-As-You-Earn for consultants and contractors in accordance with the Finance Bill 2017.

Arising from questions by Members on the specific proposed changes, the Procurement Manager explained that frameworks existed for specific work streams to enable contracts to be retained for a specific period of time and it was further explained that the Council and partner authorities had benefited from obtaining a reduction in some areas as a result of aggregating demand. Members also noted the procedure for awarding tenders and, in the context of supporting SMEs, the Procurement Manager reported that he had run training sessions providing advice on how to bid and where to obtain information on contracts to be let.

Having supported the proposed changes and in noting that a procedure template would be produced for Heads of Service to complete on single quote approvals and details presented quarterly to the Committee, it was

#### RECOMMENDED

that the Council adopt the changes to the Code of Procurement, as outlined in Appendix 2 to the report now submitted.

### **10. THE CODE OF CONDUCT AND THE REGISTER OF DISCLOSABLE PECUNIARY INTERESTS**

By means of a report by the Members' Support Assistant (a copy of which is appended in the Minute Book) the Committee was updated on the adoption of a Code of Conduct by Town and Parish Councils and on the receipt and publication of register of interests forms on behalf of District and Town and Parish Councillors.

Members were informed that, of the 71 Town and Parish Councils, 44 had their full Register published on the Council's website, which comprised the Disclosable Pecuniary Interests (DPI) forms of all Councillors, with 27 parishes holding vacancies.

In terms of individual DPIs, 608 out of a total of 650 had been received from Parish Councillors, two were outstanding and 40 were vacancies. The forms of all District Councillors had been published on the Council's website.

In response to questions, Members were advised by the Elections and Democratic Services Manager that Town and Parish Clerks were regularly reminded of the requirement to submit DPI forms and it was requested that an audit be undertaken of those parishes that had adopted their own version of the Code to ensure compliance.

RESOLVED

that the contents of the report be noted.

## **11. PROGRESS REPORT ON BUSINESS CONTINUITY PLANNING**

Further to Minute No. 38 of the meeting held on 7th December 2016 and by way of a report by the Corporate Team Manager (a copy of which is appended in the Minute Book) the Committee received an update on progress made regarding revisions to Business Continuity Planning processes at the Council. In so doing Members were advised that the revised Business Continuity Plan (BCP) had been completed in January 2017 and had been issued to Senior Management Team.

The Corporate Team Manager explained that the BCP had been reduced to a single organisational plan and references to lists of Officer names replaced by specific job roles. It was further noted that a test of the BCP would be undertaken and an audit would be carried out by Internal Audit in March/April 2017 prior to issuing an updated BCP in May 2017.

In noting the timescale for testing and audit of the BCP, the Committee

RESOLVED

that progress made on the revised Business Continuity Plan be noted.

## **12. EXTERNAL AUDIT PLAN 2016/17**

*(Mr Neil Harris, Hayley Clark and Sadaf Zahid of Ernst and Young, the Council's External Auditors, were in attendance for consideration of this item).*

The Panel received a report by the Head of Resources (a copy of which is appended in the Minute Book) to which was attached the Council's External Audit Plan 2016/17 produced by the External Auditors Ernst and Young. In introducing his Team to the Committee, Mr Harris explained how they had intended to complete the audit looking at the risks relevant to the financial statements and conclusion on arrangements to secure a value for money opinion.

Attention was drawn to the current assessment of financial risks, specifically the significant risks of fraud in revenue recognition and risk of management override, both not unique to the Council but driven by the Auditor's professional audit standards as issued by the National Audit Office. Furthermore Members noted the other financial risks in the presentation of financial statements, valuation of fixed assets and the pension liability. Mr Harris reported upon the materiality of the financial statements of £1.7m based upon 2% of gross revenue expenditure, with any uncorrected audit misstatements greater than £86,479 to be reported to the Council.

Members noted the indicative fee scale for the audit of the Council,

not taking into account any additional work that may be required, and the timetable detailing the key stages of the audit. Particular mention was made of the difficulties experienced by Ernst and Young last year with the delay in completion of the audit and requirement to reschedule the meeting of the Committee. Mr Harris reassured Members that he was keen not to repeat the same issue and had allocated appropriate resources to complete the work. As last year had also been the first year Ernst and Young had undertaken the audit of the Council, Mr Harris intimated that they had a clearer understanding of the business and there was not the requirement for detailed handover discussions to be undertaken with the previous External Auditors, PricewaterhouseCoopers.

Following commendation on the clarity of the report, Councillor Ms R E Mathews questioned the level of materiality, whereupon Mr Harris explained that this had been prescribed by the audit methodology and confirmed that anything identified below the £86k would be highlighted in the audit report.

In commending the report, Councillor Mrs S J Conboy indicated her concerns with the challenge of budget setting and Mr Harris explained that even if the value for money conclusion was not significant the audit would continue to look at the budget setting process and assumptions made for future years with any concerns raised with Officers and Members.

The Chairman referred to the Council's Commercial Investment Strategy and the fact that some local authorities were over extending themselves but he had been reassured that the Auditors had been reviewing progress. Whereupon Mr Harris suggested that the Council had been investing at the right pace and not exposing itself to any unnecessary risk, whilst commending its outlook in identifying other ways to remain sustainable.

The Chairman requested to meet privately with the External Auditors before the 2016/17 annual accounts were submitted to the Committee for approval and Mr Harris agreed that a meeting would be arranged. Whereupon, the Committee

#### RESOLVED

- (a) that the content of the External Audit Plan for 2016/17 be noted as set in Appendix 1 to the report now submitted; and
- (b) that the timetable and level of updates reported to the Committee during the audit process be noted.

### **13. EXTERNAL AUDITOR ISA 260 REPORT - IMPLEMENTATION OF RECOMMENDATIONS**

Consideration was given to a report by the Head of Resources (a copy of which is appended in the Minute Book), which provided an update of the findings and recommendations of the Annual Audit Letter that had been issued by the External Auditor. Members were reminded of the two control themes and observations that had been identified, specifically how the income bank accounts had not

reconciled with the relevant bank statements and failure to reconcile the valuation of the fixed assets with the Fixed Asset Register.

The Finance Manager explained that the reconciliations with the bank account statements had been completed in accordance with the target for completion, that was, within 30 days of the end of each month; however January had been delayed due to staff resourcing issues. Members noted that this would be completed by 24th March 2017. It was also noted that additional checks had been put in place in the closing of the accounts process for the year end to ensure robustness and avoidance of a similar error in the reconciliation.

RESOLVED

that the action taken to address the two identified control themes and observations as set out in the Annual Audit Letter be noted.

#### **14. ACCOUNTING POLICIES FOR ANNUAL FINANCIAL REPORT 2016/17**

Consideration was given to a report by the Finance Manager (a copy of which is appended in the Minute Book) on the outcome of the annual review of accounting policies applied by the authority when producing the Annual Financial Report 2016/17. Members were reminded that best practice required the Council regularly to review its adopted accounting policies to ensure that they remained appropriate and reflected any changes in accounting requirements.

The Committee were informed that four policies required amendment, two of which were considered significant. The two minor policies would not have any direct financial implications for the Council. The Minimum Revenue Provision (MRP) in respect of the Commercial Investment Strategy (CIS) had not impacted in the 2016/17 closure of accounts but the Finance Manager reported upon the new policy for 2017/18 to allow the financing of CIS expenditure with maturity loans. He advised Members that careful consideration would be given to selling any assets should there be a fall in the market. It was noted that this was regularly under review by the Treasury and Capital Management Group.

In supporting the principles of the MRP and the repayment of any loan finance supporting the investments, the Committee

RESOLVED

that the amendments to the accounting policies for 2016/17, as set out in Appendix 1 to the report now submitted, be approved.

#### **15. INTERNAL AUDIT SERVICE: INTERNAL ANNUAL PLAN**

The Panel considered a report by the Internal Audit and Risk Manager (a copy of which is appended in the Minute Book) detailing Internal Audit's planning process and Internal Audit Plan for 2017/18

as required by the Public Sector Internal Audit Standards.

Attention was drawn to the recent secondment of a member of the Audit Team to the Council's Transformation Programme for one year and Members noted the impact that this would have on delivering the Audit Plan by reducing the number of available audit days. The Committee were informed that BDO, the IT internal audit service provider, had agreed in principle to deliver 140 audit days during 2017/18 which would be funded from the current service budget.

In noting a proposed change to the audit planning process to ensure its flexibility and fluidity, Members were advised that the Internal Audit Plan might not be received at the March meeting of the Committee each year, rather updates would be received on a more frequent basis throughout the year.

In discussing the secondment of a member of the Audit Team to the Transformation Programme, the Internal Audit and Risk Manager committed to include in the Audit Plan the impact of the Programme on the Council and Members noted that this might have an impact on the planned reviews already contained in the Plan. An update would be provided to the Head of Resources and Chairman of the Committee and any future changes reported to the Committee. Councillor R West also indicated his disappointment that the successful Audit Team had been disrupted to allow for the secondment opportunity and the Corporate Team Manager outlined to Members the circumstances of the resource transfer following the launch of the Transformation event in November 2016 and requests for volunteers to assist the Programme.

Councillor T Hayward expressed his concern for existing staff resources being asked to undertake more work with fewer resources. The Internal Audit and Risk Manager advised the Committee that resourcing appeared to be impacting on internal control and it was possible that the overall level of assurance might be reduced from adequate assurance to limited assurance within his annual report, which would be presented to the Committee in May.

In noting that the identified resources would be sufficient to deliver the Audit Plan, the Committee

RESOLVED

that the Internal Audit Plan for 2017/18 be approved.

## **16. IMPLEMENTATION OF AUDIT ACTIONS**

Further to Minute No. 41 of the meeting of the Committee held on the 7th December 2016 and by way of a report by the Internal Audit and Risk Manager (a copy of which is appended in the Minute Book) in light of Members' concerns raised previously the Committee were presented with an update on the current position with regard to the implementation of agreed audit actions for the year ending 28th February 2017.

Attention was drawn to an analysis of agreed audit actions and the Chairman reminded Members of the directive from Senior

Management Team that all agreed internal audit actions should be introduced on time. With reference to the 14 overdue audit actions assigned to the Head of Digital and ICT, Members noted that these actions had been inherited by the new Head of Service who had commenced his role in January 2017. He would be working to complete these overdue actions and a reduction was anticipated by May 2017.

Arising from a request by Members, the analysis of audit actions had now included details of the period of time since an action became overdue. A further analysis was presented to the Committee detailing the extension of time that had been awarded to the 25 overdue audit actions. Discussion ensued on the various reasons as to why these audit actions had not been completed in the context of the actual size and scale of the audit action required.

Concern was expressed by Members at the number of overdue audit actions and perceived attitude of those Officers responsible for implementation/action. They also discussed the support that could be provided to assist with their completion. In so doing Councillor Mrs S J Conboy indicated her struggle as Member of the Committee with the principles contained in the report, in particular the cultural emphasis on the value of Internal Audit, which should be perceived as independent and treated with respect for its function. It was suggested that Officers should be accountable for the completion of audit actions and delivery should form part of the performance monitoring process. Comment also was made that the Committee needed assurance the Council was delivering as a business and that further details should be provided to Members to ensure that actions were implemented in a timely manner.

With this in mind it was suggested that the Chairman should meet with the Managing Director before the next meeting to present the concerns and frustration of the Committee and to convey Members' desire to provide assistance to manage risks and maintain their monitoring role. Whereupon, the Committee

#### RESOLVED

- (a) that the contents of the report be noted; and
- (b) that a meeting be arranged with the Chairman and Managing Director to present the views of the Committee with regard to the outstanding audit actions and progress be reviewed at a future meeting.

#### **17. PROGRESS ON ISSUES ARISING FROM THE 2015/16 ANNUAL GOVERNANCE STATEMENT**

By way of a report by the Internal Audit and Risk Manager (a copy of which is appended in the Minute Book) the Committee reviewed progress made to date in respect of the two key improvement areas identified in the 2015/16 Annual Governance Statement. Members were reminded of the two areas for improvement, specifically the requirement to improve debt management and the continued development of effective governance and reporting arrangements for shared services, and informed of the action taken in each area.



With regard to debt management, Members commended progress made but requested further detail on how the reduction of debt had been managed from £2.2m to £1.1m in the nine month period ending February 2017, specifically whether any of this debt had been written off.

In referring to the action taken in reporting arrangements for shared services, the Committee highlighted their concerns regarding the lack of detail and Members noted that reports had been presented to the Overview and Scrutiny Panels and the Cabinet on their performance, but very little information was available on the governance arrangements. It was further suggested that a mechanism needed to be available for issues to be referred back to the Overview and Scrutiny Panels and the Internal Audit and Risk Manager undertook to ensure issues highlighted from the Annual Governance Statement were brought to the attention of the relevant Overview and Scrutiny Panel.

#### RESOLVED

- (a) that progress made in introducing the key improvement areas arising from the 2015/16 Annual Governance Statement when undertaking the 2016/17 governance review be noted; and
- (b) that the Finance Manger be requested to provide further detail of how the outstanding debt had been managed to be circulated to all Members of the Committee.

#### **18. REVIEW OF THE EFFECTIVENESS OF THE CORPORATE GOVERNANCE COMMITTEE**

Consideration was given to a report by the Internal Audit and Risk Manager (a copy of which is appended in the Minute Book) summarising the outcome of a review of the effectiveness of the Corporate Governance Committee following an informal meeting held with Members on 25th January 2017. It was concluded that the Committee had sufficient resources to fulfil its terms of reference and performed its role effectively and independently. Members accepted that opportunities existed to improve the effectiveness of the Committee as summarised in the report now submitted, together with proposed amendments to the terms of reference of the Committee.

Members considered whether or not they wished to commission an external review of the Committee's effectiveness, at an estimated cost of £3k, which could be combined with a review of the Internal Audit service. If accepted, the work would be scheduled for completion by no later than March 2019. Members supported this proposal and concluded that as potential changes to the membership of the Committee might occur after May 2017 and whole Council elections would be held in May 2018 the timeframe of March 2019 was appropriate.

Arising from earlier discussion on the working relationship between the Committee and the Overview and Scrutiny Panels, the Committee

agreed that its work plan should not be expanded but, when appropriate, issues of concern not directly related to their own terms of reference should be passed to the relevant Overview and Scrutiny Panel for consideration with appropriate feedback to the Committee to assist in the preparation of the Annual Governance Statement.

Councillor T Hayward requested that consideration be given to encouraging the retention of the same Members on the Committee. It was explained that this was a Group decision on an annual basis dependent upon the political composition of the Council. There was no decision reached as to whether or not 'subject experts' should be introduced. Whereupon, the Committee

#### RESOLVED

- (a) that the opportunities identified to further improve Committee effectiveness as outlined in the report now submitted (Items 3-6) be approved;
- (b) that relevant issues of concern be referred to the Overview and Scrutiny Panels for consideration and appropriate feedback procedures introduced; and
- (c) that an external review of effectiveness of the Committee be commissioned to coincide with the review of the Internal Audit service due for completion by March 2019.

It was further

#### RECOMMENDED

that the Council approve the changes to the terms of reference of the Corporate Governance Committee as attached at Appendix 1 to the report now submitted.

Chairman