

**REVIEW OF THE EFFECTIVENESS OF THE
CORPORATE GOVERNANCE PANEL
(Report by the Head of Financial Services)**

1. INTRODUCTION

- 1.1 In September 2008 the Panel undertook a review with the aim of identifying any opportunities for enhancing its effectiveness. A number of areas for improvement were identified and progress on these areas reported to the Panel in September 2009.
- 1.2 It was agreed that the next review would be conducted prior to the approval of the 2011 Corporate Governance Statement.

2. CONDUCT OF THE REVIEW

- 2.1 A set of questions/issues covering the Panel's responsibilities, as determined by its terms of reference, were developed by the Audit & Risk Manager and circulated in advance. They were based upon Cipfa and the National Audit Office good practice documentation supplemented by current best practice within the private sectors.
- 2.2 Whilst the questions individually covered all areas within the terms of reference, Panel were also asked to consider how their responses dealt with the following wider questions.
- a. Does the Panel review the completeness, reliability and integrity of the assurances provided to support the Annual Governance Statement?
 - b. Is the Panel suitably independent and objective, and does each member have a good understanding of the role of the Panel and the objectives, priorities and risks facing the Council?
 - c. Do Panel Members have, or have at their disposal, an appropriate mix of skills to enable it to perform its functions?
 - d. Is the scope of the Panel's work suitably defined and does it encompass all its assurance needs?
 - e. Does the Panel ensure it has effective communication with Council, the Cabinet, the S151 Officer, the Internal Audit & Risk Manager, the External Auditor and other stakeholders?
- 2.3 Four Members of the Panel attended a workshop on 5 September to undertake the effectiveness review. They were supported by the Head of Financial Services, the Audit & Risk Manager and the Policy &

Strategic Services Manager. Also in attendance was Mr C McLaughlin, a Director of PriceWaterhouseCoopers who are the Council's external auditors.

3. OUTCOME OF THE REVIEW

- 3.1 Five new Members, out of a total of seven, were appointed to the Panel in May following the District Elections. Their knowledge and understanding of corporate governance issues differed widely. Consequently there was a good debate and robust discussion on a number of the questions/issues.
- 3.2 The list of questions and the conclusions reached following the review are shown in Annex A.
- 3.3 The Members present, who were all new to the Panel, felt they needed more experience of the working of the panel before they would be able to take a considered view on a number of areas including the items in paragraph 2.2 above. It was agreed that a further workshop be arranged before the March Panel meeting to address the unanswered questions.
- 3.4 However, based upon the information provided by officers and their current knowledge, Members generally felt the Panel was acting effectively and fulfilling its terms of reference. They did identify a number of areas where changes might be beneficial and asked Officers to prepare an action plan (Annex B) to address these issues.
- 3.5 Members felt that a review of Panel effectiveness should be conducted on an annual basis and Annex B includes a proposal for carrying this out.

4. RECOMMENDATIONS

- 4.1 It is recommended that the Panel:
 - confirm that Annex A is a fair assessment of its effectiveness;
 - consider and approve the action plan (Annex B);

ACCESS TO INFORMATION ACT 1985

Self assessment review papers

CIPFA publication – Audit Committees: Practical Guidance for Local Authorities

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Questions considered and conclusions reached

	Issue	Panel's Response
	Terms of Reference	
1	Have the Panel's terms of reference (ToR) been approved by the Council?	Yes – Council established and approved the ToR for the Panel on 21 July 2004.
2	Are the ToR reviewed annually by the Panel and the Council to ensure they align with good practice?	<p>The Panels ToR were last reviewed by the Democratic Structure Review Group and considered by the Panel in April 2009. Changes to the ToR were approved by Council in June 2009.</p> <p>Panel have reviewed the ToR and consider that there is duplication in items 11 [feedback], 13 [whistleblowing] & parts of 18 ['Raising Concerns at Work' and feedback]. Panel are proposing that item 18 be amended to “monitor the Anti-Fraud & Corruption Strategy and receive annual updates on counter fraud work”.</p> <p>In addition they wish to see item 2 : to be more explicit about the Panel's responsibility for risk management 7: be amended to cover all external audit reports 10:“approving the Council Tax base” to be re-considered as a responsibility of the Panel.</p>
3	Do the ToR follow the CIPFA model?	<p>Yes – The ToR have been compared to the CIPFA model.</p> <p>[The CIPFA model is very specific on internal audit reporting requirements. Custom & practice has been for the Internal Audit & Risk Manager to deliver these requirements in the annual/interim internal audit reports].</p>
4	Are the Panel content that their responsibilities and the making or endorsing of decisions are appropriate and do not cause any conflict of interests.	To be considered again prior to March 2012 Panel meeting.
5	Do the terms of reference include oversight of the risk management process?	Yes.

	Issue	Panel's Response
6	Is the Panel currently working within its terms of reference?	Yes. All matters that are contained in the ToR are reported to and overseen by it.
7	Is the Panel satisfied that it has sufficient authority and resources to fulfill its terms of reference and perform its role effectively and independently?	To be considered again prior to March 2012 Panel meeting.
	Issue	Panel's Response
8	Should the ToR allow the Panel to: <ul style="list-style-type: none"> co-opt individuals who would provide specialist skills that members do not have?; procure specialist advice to support them in relation to particular pieces of Panel business? 	To be considered again prior to March 2012 Panel meeting.
	Risk Management	
9	Does the Panel review the risk register at least annually?	<p>No. Panel do not receive a full copy of the register. A summary of the inherent and residual risk for both Corporate and Operational risks is presented to the Panel twice yearly. A full .pdf copy of the register, is posted to the risk management intranet pages each month.</p> <p>This item is to be considered again once risk management reports have been received and risk management responsibilities within terms of reference clarified.</p>
10	Does the Panel monitor how risk is assessed?	Yes. The risk management strategy is approved by the Panel and reviewed annually.
11	Does a Member of the Panel contribute to the risk management group?	Yes. The Executive Councillor for Resources and Customer Services whose portfolio includes risk and corporate governance is a member of the Panel.
12	How does the Panel satisfy itself that the risk management ethos is being embedded into all areas of the Council?	To be considered again prior to March 2012 Panel meeting following consideration of terms of reference changes.
	Corporate Governance	
13	Does the Panel have responsibility for review and approval of the corporate governance statement?; and Does it consider the statement separately from the accounts?	<p>Yes – September</p> <p>Yes.</p>

	Issue	Panel's Response
14	Does the Panel consider the findings of: the annual review of the effectiveness of the corporate governance arrangements? and; the review of the effectiveness of the system of internal audit?	Yes - September Yes – in September, always prior to considering the governance statement
15	Have issues that are being raised in the statement been considered by the Panel prior to the statement being presented to them?	Briefly discussed at 5 September meeting. Full copy of background supporting document sent to Panel members. From 2012 onwards. all Panel members will be invited to attend the discussion of the statement before it is formally presented to the Panel.
16	How do you satisfy yourself that the systems of governance are embedded and have operated effectively throughout the reporting period?	The Audit & Risk Manager presents a half year and annual report that includes his opinion on the internal control environment and systems of internal control. Progress against achieving the action plan agreed from the previous governance statement is also presented to the Panel. The Panel also receive reports, at various times of the year on whistle-blowing and counter fraud, complaints and issues dealt with by the Ombudsman. A member of the Panel also attends the risk management group. All allow for concerns regarding the systems of governance to be highlighted to the Panel.
17	Does the Panel consider that the system of reporting gives early warning of control failures and emerging risks?	To be considered again prior to March 2012 Panel meeting following consideration of terms of reference changes.
18	Do you feel that the all Members' of the Council are aware of the Panel, the work that it does and the importance of good governance?	No. The Panel does not promote its own work or highlight the benefits that good governance can bring to the Council. Panel agreed that a written report be presented to Council, timed to support the Annual Governance Statement.
	Internal Audit Process	
19	Does the Panel review the strategic audit approach?	Yes – The Internal Audit Strategy for the period 2010/13 was approved by the Panel in June 2010.

	Issue	Panel's Response
20	Does the Panel consider the scope of the internal audit plan and the available resources at its disposal that will allow it to address significant risks with the Council?	Yes – The plan has always been presented to and discussed by the Panel prior to its acceptance by the Managing Director Resources (formerly the Director of Commerce & Technology). The Panel are also invited to make suggestions regarding risk and problem areas that audit could address in the short and long term. Email for 10/11 audit plan sent 18 April 2011.
21	Is the Panel made aware of the role of risk management in the preparation of the annual audit plan and satisfied that the audit plan is derived from a proper risk assessment?	Yes – the annual plan report contains information in respect of the risk register and its role in strategic and annual planning.
22	Is the work of internal audit reviewed regularly?	Yes – reports are submitted twice a year, which include information on: delivery of agreed audit plan (including reports completed and assurance provided); implementation of agreed actions; customer feedback; view of external audit; service's own performance targets.
23	Does the Internal Audit & Risk Manager personally present their annual report to the Panel?	Yes. To the September meeting prior to consideration of the governance statement.
24	Are the Panel satisfied with the level of information provided to them in support of the annual internal audit opinion?	To be considered again prior to March 2012 Panel meeting.
25	Are the Panel satisfied that the annual review of the effectiveness of the system of internal audit is conducted thoroughly and the report it receives an accurate reflection of the reviews findings?	A report is submitted by the Managing Director – Resources outlining the work that has been conducted as part of the review – those involved, and if appropriate, an action plan. Views of external audit are also included in the report and external audit attend Panel at which the report is discussed.
26	How do you satisfy yourself that the Internal Audit & Risk Manager is able to operate freely across all areas of the Council, are not subject to any undue pressure, or attempts to restrict the scope of their work or the access to people and documents?	The Internal Audit & Risk Manager attends all CGP meetings and is able to express his views openly and honestly. He is also able to meet with the Chairman of the Panel to discuss any matters or concerns arising from internal audit work
27	Are summaries of end of audit quality questionnaires from managers reviewed?	No – information is summarised in the reports that are presented. The Panel consider this is satisfactory as it allows for trends to be identified. The results of the Head of Financial Services annual survey that refer to internal audit are also

	Issue	Panel's Response
		reported.
28	Do formal terms of reference exist defining internal audit's responsibilities, objectives, authority and reporting lines?	Yes – The Terms of Reference were approved by the Panel in June 2010. The Internal Audit & Risk Manager reviews this document annually. Minor changes are required to reflect the Accounts & Audit Regulations 2011 and the Cipfa "Statement on the Role of the Head of Internal Audit in Public Sector Organisations".
29	Is the Panel aware of any restrictions placed on the work of internal audit and satisfied that the internal auditors operate free of any operating responsibility that could impair their objectivity?	No restrictions apply on the work/coverage of the internal audit service. Terms of reference approved by Panel explain that the Audit & Risk Manager is responsible for the delivery of internal audit, insurance and risk management. Directly employed internal audit staff do not review insurance or risk management related areas.
30	Is the Panel satisfied that internal audit reports to the appropriate member of the senior management team?	Yes - Internal Audit reports to the Managing Director – Resources (formerly the Director of Commerce & Technology).
31	Is the Panel satisfied that <ul style="list-style-type: none"> the work of internal audit is properly planned, completed, supervised and reviewed? there are adequate quality assurance procedures in place? 	Yes – via the annual review of effectiveness and the conclusions of the peer review and external audit.
32	Is the Panel content that internal audit reports are issued on a timely basis?	Yes – this is one of the performance indicators reported to the Panel by the Internal Audit Manager.
33	Is the Panel satisfied that the judgements made by the internal auditors are appropriate given the evidence arising from their audit work?	Yes – customer feedback is consistently high, which indicates satisfaction with the approach taken by internal audit regardless of the findings that are being reported.
	External Audit Process	
34	Are reports on the work of <ul style="list-style-type: none"> external audit and other inspection agencies presented to the Panel? 	Yes. Audit Plan, Internal Control issues (if applicable), Annual Audit Letter, Financial Statement and Value for Money conclusion. Other inspection agencies reports are not routinely referred to the Panel although if they are significant enough to warrant assurance being able to be taken in respect of governance or risk management, they are included in the

	Issue	Panel's Response
		annual review of the system of internal audit report.
35	Does the Panel have the opportunity to comment upon the risks that are identified in the external audit plan?	Yes – when it is presented to the Panel.
36	Does the Panel know what aspects of the Council's operation the external auditors consider to be of high risk; and are these commented upon?	High risk areas are listed in the audit plan which was reported to Panel in March 2011. For 2010/11 the items identified are revenue recognition, fraud, IFRS reporting and property, plant and equipment. There was some discussion about these areas at the Panel effectiveness review meeting.
37	Is the Panel satisfied that external audit will be addressing these issues?	Yes. The audit letter will make reference to this work and its findings.
38	How do you know that the work of internal and external audit is properly coordinated?	Panel considered the external auditors response: regular meetings with internal audit, sharing of audit reports and discussion of significant issues of concern, audit planning to avoid duplication of work.
39	Is the Panel satisfied that the external auditors were not put under any undue pressure to either amend their audit plan or any of their findings?	The external auditors attend every meeting of the Panel and present their own reports. The Panel are satisfied that the external auditors would make whatever comments they felt were necessary if they have been subject to any undue pressure of any kind with regard to the work they have undertaken. The external audit is able to meet privately with the Panel.
40	Is the Panel aware of any revisions to the external audit plan due to deficiencies in internal control or accounting records?	No revisions have been made.
41	Is the Panel satisfied that the external auditors have no concerns about management's commitment to an effective control environment or operating style?	Yes. The external auditor made clear that they would report any concerns to the Panel.
Financial management is Adequate & Effective		
42	Is the Panels role on the consideration and/or approval of the annual accounts clearly defined?	Yes.
43	Does the Panel review and note the annual accounts before the external auditors start work on them?	Yes. At the June meeting.

	Issue	Panel's Response
44	<p>Does the Panel consider, prior to the accounts being approved by the Managing Director (Resources), a range of issues to ensure they feel confident that the accounts have been produced accurately and in compliance with the relevant guidelines, e.g.,</p> <ul style="list-style-type: none"> • the suitability of accounting policies and treatments • that there has been a due process in preparing the accounts and that the process is robust • whether the accounts have been subject to sufficient review by management • changes in accounting treatment • the reasonableness of accounting estimates • the adequacy of notes to the accounts 	<p>Officers' guide the Panel through the annual accounts at the June Panel meeting allowing them to question any aspect of the accounts prior to the external audit commencing.</p> <p>The Panel also have the opportunity to raise questions on the accounts when the external auditor reports to the Panel in September on the outcome of his audit.</p>
45	Does the Panel receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit work?	Yes
46	Do the Panel feel that they have sufficient understanding of management's procedures for preparing the annual accounts?	Yes. The process is considered to be robust.
47	Does the Panel have a mechanism to keep it aware of topical legal and regulatory issues, or best practice developments (e.g. through circulars and training)?	It was agreed that a standing item be included on the Panel agenda listing reports expected to be tabled at the next meeting, allowing Panel to decide what, if any, training or information they wished to receive over those report areas.
	Complaints Process	
48	Does the Panel receive information on complaints and seek assurance that systems have been reviewed and/or amended when complaints have been upheld?	Yes – an annual report is submitted, detailing complaints received, service areas, type of complaint.
49	Does the Panel received information on matters referred to the Ombudsman?	Yes – information is included in the annual complaints report. Financial settlements in excess of £1000 are reported to and approved by the Panel.

	Issue	Panel's Response
	Fraud Awareness	
50	Does the Panel take a role in overseeing: <ul style="list-style-type: none"> • anti-fraud arrangements?; and • whistle-blowing strategies? 	Yes. Panel approved the Anti Fraud & Corruption Strategy. It also receives annual reports that consider amendments to the strategy and whistle-blowing allegations received.
51	Does the Panel believe that the arrangements that have been introduced for receiving and dealing with whistleblowing are satisfactory?	Yes.
52	Is the Panel aware of the work being done to counter fraud and assured that sufficient resources are available?	Yes. Reports on this area are presented to the Panel (generally) in December.
53	Are breaches of the Council's Codes reported to the Panel at the appropriate time?	Yes, via the Audit & Risk Managers reports. The Panel is aware that serious breaches may not be able to be reported until disciplinary or similar investigations have been concluded.
54	Does the Panel know if a Code of Conduct is distributed to employees?	Yes.
	Membership	
55	Has the membership of the Panel been formally agreed and a quorum set?	Yes, within the Constitution. 7 members of the Council (to include the executive councillors whose portfolios include finance and corporate governance). A minimum of 3 members are required to allow the Panel to meet.
56	Are Panel members clear as to their role and responsibilities and how they support the Council?	To be considered again prior to March 2012 Panel meeting.
57	Is the Chairman and Vice-Chairman free of executive or scrutiny functions?	No. The Chairman sits on the Overview & Scrutiny Panel (Economic Well-Being). The Vice-Chairman sits on the Overview & Scrutiny Panel (Environmental Well-Being). This is not considered to be a concern.
58	Is the Panel satisfied that its membership demonstrates independence?; and that its decisions are not influenced by political considerations?	The Panel feel that the background of the current members and their roles within the Council is conducive to good debate and review of the issues that are presented before it.
59	Is the Panel satisfied that its members have the necessary skills and experience to do its job? Have all Panel members' skills and experiences been assessed and training given for identified gaps? Is there an induction course for new	There is no induction course for new Panel members. Panel members have a wide range of skills and wish to consider this matter again prior to the March 2012 Panel meeting.

	Issue	Panel's Response
	Panel members?	
	Meetings	
60	Does the Panel meet regularly, and do meetings coincide with key dates in the financial reporting and audit cycle?	Yes – March, June, Sept & December. Four meetings are considered sufficient to consider Panel business.
61	Are meetings free and open without political influences being displayed?	Yes.
62	Does the Chairman of the Panel have the right to request private meetings with the external or internal auditor?	There is a unwritten understanding that such meetings would be held if considered necessary.
63	Do the reports presented to the Panel contain sufficient details to allow decisions to be reached promptly?	Yes. The Panel would challenge Officers if reports were not sufficiently detailed.
64	Is the Panel satisfied that: <ul style="list-style-type: none"> papers are circulated in good time: and that minutes are received as soon as possible after the meeting? 	Yes. Minutes for all meetings are published on the same day that the agenda for the next meeting is published..
65	Can the Panel access other committees and/or invite Executive Members or Senior Officers to their meetings to participate in discussions and provide information to them, as and when necessary?	Yes. Panel are able to invite others to attend.
66	Has the Panel considered how it integrates with other committees that may have responsibility for risk management and internal control?	To be considered again prior to March 2012 Panel meeting.
67	Is the Panel satisfied that all its recommendations (whether relating to reports received or otherwise) are actioned appropriately?	Yes.
68	Does the Panel follow up any recommendations for improving its own effectiveness?	Any action plan prepared from this review will be reported to the Panel at six monthly intervals until completed.
69	Is the Panel satisfied that officers are acting on and monitoring actions taken to implement agreed actions, whether from internal audit, external audit or other reporting bodies?	Information is presented regularly to the Panel on the internal audit actions. Panel are not currently informed of progress made to introduce external audit/other reporting bodies agreed actions. This information will be reported to Panel in future.
70	Is the Panel content that it has access to proper technical and professional advice when necessary?	Yes.

	Issue	Panel's Response
71	Is the Panel satisfied that, where appropriate, representatives from Service departments attend meetings to introduce and discuss reports and answer questions?	Yes.
72	Does the Director of Commerce & Technology (S151 Officer) or Head of Financial Services attend all meetings?	Yes.

Proposed action plan

Ref	Issue	Panel's Response	Proposed Action	To be Implemented by
2	Do the terms of reference follow the CIPFA model?	The Panels ToR were last reviewed by the Democratic Structure Review Group and considered by the Panel in April 2009. Changes to the ToR were approved by Council in June 2009.	<p>Panel have reviewed the ToR and consider that there is duplication in items 11 [feedback], 13 [whistleblowing] & parts of 18 ['Raising Concerns at Work' and feedback]. Panel are proposing that item 18 be amended to "monitor the Anti-Fraud & Corruption Strategy and receive annual updates on counter fraud work".</p> <p>In addition they wish to see item 2 : to be more explicit about the Panel's responsibility for risk management</p> <p>7: be amended to cover all external audit reports</p> <p>10: "approving the Council Tax base" to be re-considered as a responsibility of the Panel.</p>	May 2012
15	Have issues that are being raised in the statement been considered by the Panel prior to the statement being presented to them?	Whilst the full statement itself is not considered by the Panel before formal presentation, a number of reports highlighting governance issues are received by the Panel over the course of the preceding year.	From 2012 onwards. all Panel members will be invited to attend the discussion of the statement before it is formally presented to the Panel.	Prior to Sept 2012 Panel meeting.

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18	Do you feel that the all Members' of the Council are aware of the Panel, the work that it does and the importance of good governance?	No.	A written report be presented to Council, timed to support the Annual Governance Statement.	1 st Council meeting after Sept 2011 Panel.
25	Are the Panel satisfied that the annual review of the effectiveness of the system of internal audit is conducted thoroughly and the report it receives an accurate reflection of the reviews findings?	Yes – although the Panel felt that a more regular review of their own effectiveness should be completed.	Commencing in 2012, the Chairman of the Panel and full Panel will alternatively undertake the review of effectiveness of the Panel. The 2012 review will be undertaken by the Chairman of the Panel.	August 2012 and annually.
47	Does the Panel have a mechanism to keep it aware of topical legal and regulatory issues, or best practice developments (e.g. through circulars and training)?	Panel relied upon Officer's to inform them of changes.	A standing item be included on the Panel agenda listing reports expected to be tabled at the next meeting, allowing Panel to decide what, if any, training or information they wished to receive over those report areas.	Sept 2011
69	Is the Panel satisfied that officers are acting on and monitoring actions taken to implement agreed actions, whether from internal audit, external audit or other reporting bodies?	Information is presented regularly to the Panel on the internal audit actions. Panel are not currently informed of progress made to introduce external audit/other reporting bodies agreed actions.	Implementation of agreed external audit/other reporting bodies actions will be reported to Panel in future.	Sept 2011

As outlined in paragraph 3.3, the following issues will be reconsidered by the Panel prior to the March 2012 Panel meeting.

4	Are the Panel content that their responsibilities and the making or endorsing of decisions are appropriate and do not cause any conflict of interests.	7	Is the Panel satisfied that it has sufficient authority and resources to fulfil its terms of reference and perform its role effectively and independently?	8	Should the ToR allow the Panel to: <ul style="list-style-type: none"> • co-opt individuals who would provide specialist skills that members do not have?; • procure specialist advice to support them in relation to particular pieces of Panel business?
9	Does the Panel review the risk register at least annually?	12	How does the Panel satisfy itself that the risk management ethos is being embedded into all areas of the Council?	17	Does the Panel consider that the system of reporting gives early warning of control failures and emerging risks?
24	Are the Panel satisfied with the level of information provided to them in support of the annual internal audit opinion?	56	Are Panel members clear as to their role and responsibilities and how they support the Council?	59	Is the Panel satisfied that its members have the necessary skills and experience to do its job? Have all Panel members' skills and experiences been assessed and training given for identified gaps? Is there an induction course for new Panel members?
66	Has the Panel considered how it integrates with other committees that may have responsibility for risk management and internal control?				