

**HUNTINGDONSHIRE DISTRICT COUNCIL**

<b>Title:</b>	Review of the Effectiveness of the Corporate Governance Panel
<b>Meeting/Date:</b>	Corporate Governance Panel – 26 September 2013
<b>Executive Portfolio:</b>	Resources: Councillor J A Gray
<b>Report by:</b>	Internal Audit Manager
<b>Ward(s) affected:</b>	All Wards

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**Executive Summary**

The Chairman & Vice-Chairman of the Panel undertook a review of the Panel's effectiveness on the 19 August 2103. They concluded that the Panel was generally acting effectively and fulfilling its terms of reference.

A number of opportunities to further improve the effectiveness of the Panel were identified and are listed below.

1. The approval of the risk management strategy is currently included in the Panel's terms of reference. It is considered to be an executive function and a responsibility of the Cabinet. The Panel should retain responsibility for ensuring that the risk management arrangements are effective.
2. A number of changes are required to the Panel's terms of reference (see Appendix 1) including:
  - a. Introducing a brief paragraph that details the scope of the Panel's work; and
  - b. Incorporating the functional reporting role of the Panel as required by the Public Sector Internal Audit Standards.
3. The Panel should have the opportunity to have informal meetings with internal and/or external audit and, in specific circumstances, with limited attendance from Council officers;
4. The Internal Audit Manager be asked to present a report to the Panel that explains the terminology associated with individual/annual audit assurance opinions and risk register control assurance statements; internal audit reports should be circulated to Panel members.
5. Members of the Panel complete a skills assessment to identify training needs. A formal induction training plan should be developed and delivered to Members within a reasonable timescale from their initial appointment.
6. The Panel, through the Chairman, should formally provide Council with an annual report on their work.

A proposed action plan to address the issues noted above is included at Appendix 2.

Panel have reviewed their effectiveness on five occasions since 2008. All the reviews have been facilitated by the Internal Audit Manager. As Internal Audit is now required to have an external assessment once every five years, Panel should consider whether they wish to introduce a similar assessment process and if so, the frequency of their own self-assessment reviews.

### ***Financial implications***

With the exception of the costs associated with an external assessment (indicative estimates suggest a minimum of £3,000) there are no other financial implications arising from the report.

### **Recommendations:**

It is recommended that the Panel:

1. Note the results of the outcome of the Chairman & Vice-Chairman's review of the effectiveness of the Panel;
2. Recommend to Council that the terms of reference of the Cabinet be amended to include the approval of the risk management strategy;
3. Recommend to Council the adoption of the Panels terms of reference as detailed in Appendix 1;
4. Note and endorse the opportunities that have been identified to further improve effectiveness as contained in the Executive Summary (points 3, 4, 5 and 6); and
5. Determine the frequency and format of future Panel effectiveness reviews.

## 1. BACKGROUND TO THE REPORT

- 1.1 Whilst it is not a statutory requirement, it is considered best practice (both in the public and private sectors) that the 'audit committee' review their own effectiveness. The Panel has undertaken such a review in five of the last six years. This report summarises the outcome of the Chairman and Vice-Chairman's review of the effectiveness of the Panel, undertaken on 19<sup>th</sup> August 2013.
- 1.2 The Internal Audit Manager reviewed the previous checklist of questions and issues that had been used to assess effectiveness to ensure they remained appropriate and covered all areas of the Panel's terms of reference.
- 1.3 The questions are based upon the Chartered Institute of Public Finance and Accountancy (CIPFA) and the National Audit Office good practice documentation supplemented by best practice within the private sector, including the revised audit committee guidance issued in September 2012 by the Financial Reporting Council in respect of UK listed companies. This year's review considered 74 questions.

## 2. OUTCOME OF THE REVIEW

- 2.1 The Chairman and Vice-Chairman are of the opinion that a checklist type approach to reviewing effectiveness is not able to assess some of the most important features of the relationship that exists between the Panel and those who support and report to it, namely:
- A frank, open working relationship
  - A high level of mutual respect
  - A willingness to share information freely
  - A readiness to listen to each other's views and discuss issues openly.

They consider that the four attributes listed above are present.

- 2.2 After completing their review, the Chairman and Vice-Chairman are of the view that the Panel was generally acting effectively and fulfilling its terms of reference
- 2.3 In conducting the review, a number of opportunities to further improve the effectiveness were identified. These are listed below.

<u>Issue</u>	<u>Chairman &amp; Vice-Chairman's view</u>
a. Does the Panel monitor how risk is assessed?	<p>The Panel receives sufficient information to allow it to review how risks are both assessed and managed. The Panel also approves the risk management strategy.</p> <p>The risk management strategy formalised 'risk appetite' in December 2011 and as such, it is now felt that approving the strategy (and risk appetite) should become the responsibility of the Cabinet.</p>

Issue	Chairman & Vice-Chairman's view
b. Are the terms of reference of the Panel still appropriate?	<p>The Terms of Reference need to be amended due to:</p> <p>The adoption of Public Sector Internal Audit Standards in April 2012.</p> <p>A requirement to introduce 'the scope' of the Panel's remit as well as its functional responsibilities to more clearly define Members roles and responsibilities.</p> <p>Panel are aware that the Executive may be proposing amendments to the remit of both the Panel and the Standards Committee. No firm proposals have been submitted however. In these circumstances, it is considered appropriate that the proposed terms of reference (Appendix 1) be adopted.</p>
c. Does the Panel understand the terminology associated with the assurance opinions that it receives from internal audit?	<p>This has not previously been explained. It would benefit the Panel if both the audit opinions and control assurance risk register opinions were explained together with how they link together.</p>
d. Is sufficient information provided to the Panel by the Internal Audit Manager to support the annual internal audit opinion?	<p>The annual internal audit report received by the Panel in July 2013 showed that a number of reports issued during the year had limited or little assurance opinions. No information had been supplied to the Panel to make them aware that such opinions had been issued. Whilst accepting that all internal audit reports can be viewed via the intranet, it was felt that it would increase transparency and be of benefit to Panel Members if finalised internal audit reports were circulated to the Panel informally. This would allow them to become aware of significant risk exposures and control issues as they arose as well as providing information to support their fuller understanding of the overall annual audit opinion. If audit reports were not to be provided, greater information on the findings arising from individual audits should be included in the annual internal audit report.</p>
e. Does the Panel consider, prior to the annual financial accounts being approved by the Chief Financial Officer, a range of issues to feel confident that they have been produced accurately and in compliance with the relevant guidelines?	<p>This question is no longer valid in its current form. There is no longer the statutory requirement for the accounts to be approved by the Panel, prior to audit. The first opportunity to question the Chief Financial Officer about the accounts process is when the accounts are presented to Panel for approval, after the external audit has been completed. It is suggested that the Panel meet the external auditor, informally and in private, prior to the meeting that will approve the accounts (see</p>

Issue	Chairman & Vice-Chairman's view
	<p>paragraph 2.4 below).. This will allow Panel to question the external auditor about the accounts process and accounts and enhance the scrutiny/questioning of Officers when the accounts are formally discussed.</p> <p>A similar meeting should be held with the Internal Audit Manager prior to the Panel considering the Internal Audit annual report.</p>
<p>f. Have all Panel Members' skills and experiences been assessed and training given for identified gaps?</p>	<p>It is accepted that governance is both wide ranging and has some specialist areas. Propose that a skills review (linked specifically to governance matters) is completed by Members to identify training requirements.</p>
<p>g. Is there an induction course for new Members?</p>	<p>There is no induction course; one should be developed. All Members of the Panel should attend, not just those who are newly appointed.</p>

2.4 It is accepted best practice that the Panel should have the opportunity to request informal discussions with internal and/or external audit. This may be in the absence of specified officers where the internal or external auditor advises that this would be appropriate.

There will often be occasions when managers will request informal meetings with all or some of the Panel to update, brief or discuss particular issues.

2.5 In November 2011 and 2012 the Chairman of the Panel provided to Council, a brief written summary that outlined the work the Panel had undertaken during the previous year. It is suggested that the submission of this report be formally recognised in the terms of the reference of the Panel.

2.6 The draft annual governance statement proposes that the Council prepares an annual report. Whilst appreciating that no decision had been reached on the content of the report or its relationship with the annual governance statement, the Chairman & Vice-Chairman felt that the report should be reviewed by the Panel before being approved by the Managing Director and/or Executive Leader.

**3. FUTURE PANEL REVIEWS**

3.1 In considering the four matters listed in paragraph 2.1 above, the options that were available to gain an independent view around these particular relationships issues was discussed.

3.2 An independent review of the internal audit service is required to be conducted at least once every five years, and it was thought that a similar independent review of the effectiveness of the Panel would be beneficial. This would allow the Panel to be challenged by an external assessor against good practice principles, the rigour of their own self-assessment reviews and identify the maturity of the Panel and the benefits it is delivering to the Council. An independent review may also reduce the frequency by which self-assessment reviews were required to be undertaken.

- 3.3 Informal discussions with private sector providers, indicate that the fee to be paid for an external assessment vary between £3,000 and £20,000. If the Panel consider that it is a corporate priority that there should be an independently led assessment, then an MTP bid would be required, due to the fees being too high to be met from existing budgets.

#### **4. TIMETABLE FOR IMPLEMENTATION**

- 4.1 Appendix 2 contains an action plan that details the actions noted in section 2 above and dates for implementation. A report will be presented to Panel in March 2014 outlining the progress that has been made.

#### **5. ACTIONS AGREED FROM THE 2012 REVIEW**

- 5.1 There were two actions agreed as a result of the 2012 review. Both have been introduced.

<u>Agreed Action</u>	<u>Action Taken</u>
The Panel was to receive a briefing on the overall process for preparing the annual accounts.	A briefing was provided prior to the September 2012 Panel meeting.
In order to keep the Panel members aware of topical legal and regulatory issues or best practice requirements, emails will be sent, as and when appropriate, on emerging governance related issued.	Emails have been sent, covering governance issues in the following areas: National counter fraud developments Public Sector Internal Audit Standards Cipfa Audit Committee update reports Grant Thornton local government governance review Code of Corporate Governance and preparing the annual governance statement.

#### **6. LIST OF APPENDICES INCLUDED**

- Appendix 1 – Proposed terms of reference  
Appendix 2 – Action plan

#### **BACKGROUND PAPERS**

Effectiveness of the Corporate Governance Panel, Views of the Panel Chairman and Vice-Chairman at 16 August 2013.

#### **CONTACT OFFICER**

David Harwood. Internal Audit Manager  
Tel No. 01480 388115

**Corporate Governance Panel  
Proposed Terms of Reference approved by Council 25 April 2012**

(Note. The additions are shown by the *italic text*, deleted text has been struck out).

To discharge the functions of the Council in relation to the Corporate Governance of the Council and to be the Council's "Audit" Committee.

*It will undertake these functions by supporting the Council and Managing Director through reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements across the following areas:*

~~These responsibilities include:~~

**GOVERNANCE**

1. Regularly reviewing the Council's Code of Corporate Governance and recommending any changes to the Council.
2. Ensuring that there are systems in place so that all decisions take appropriate account of any significant impact on the Council's system of corporate governance.
3. Approving the annual governance statement and reviewing the achievement of any outstanding improvements.
4. Considering proposals to change the Council's Constitutional arrangements and making appropriate recommendations to the Council.

**RISK MANAGEMENT**

5. Ensuring there are effective arrangements for the management of risk across the Council. ~~including approving the risk management strategy and risk appetite.~~

**INTERNAL AUDIT**

6. Ensuring there are effective arrangements for the system of internal audit of the Council including:
  - considering a regular review of its effectiveness
  - reviewing and approving *the internal audit's terms of reference and strategy charter*;
  - ~~approving~~ *commenting on* internal audit plans and receiving reports on progress in delivery;

**EXTERNAL AUDIT**

7. Receiving and considering external audit reports *including the adequacy of management response to issues identified.*

**FINAL ACCOUNTS**

8. Approving the *accounting policies*, Council's statement of accounts, and considering any matters arising from the *external* audit.

**COMPLAINTS AND FEEDBACK**

9. Determining the Council's customer feedback procedure, monitoring compliance with the procedure, compensatory payments to complainants and formulation of recommendations to the Cabinet or Council on any action to be taken as a consequence;

10. Considering reports by the Local Government Ombudsman, approval of compensatory payments to complainants and formulation of recommendations to the Cabinet or Council on any remedial action to be taken as a consequence.

### **FRAUD AND CORRUPTION**

11. Reviewing and monitoring the policy, ~~and procedure~~ *and arrangements for investigating* for disclosures of information under the Public Interests Disclosure Act 1989 (whistleblowing).
12. Monitoring the Anti-Fraud and Corruption Strategy and receive annual updates on countering fraud.

### **ANNUAL REPORT**

13. *Through the Chairman, the Panel will provide the Council with an annual report, timed to support finalisation of the financial statements and the Governance Statement, on how it has discharged its responsibilities.*

### **RESOURCES**

*The Panel may*

14. ~~may~~ Request relevant Executive Councillors, Panel Chairmen or Senior Officers ~~Managing Directors and Heads of Service~~ to attend Panel meetings in order to assist the Panel in reaching its conclusions.
15. Within budgetary constraints request information or advice from third parties to assist the Panel in reaching its conclusions.



	<b>Agreed actions</b>	<b>To be achieved by:</b>	<b>Responsible Officer:</b>	<b>To be introduced by:</b>
1	The approval of the risk management strategy should become a responsibility of the Cabinet.	Amending the terms of reference of the Corporate Governance Panel and Cabinet.	Head of Legal & Democratic Services	Council, November 2013
2	The Panel's terms of reference to be amended as set out in Appendix 1.	Submitting a report to Council.	Head of Legal & Democratic Services	Council, November 2013
3	The terminology associated with individual and annual audit assurance opinions and risk register control assurance statements to be explained.	Report to Corporate Governance Panel.	Internal Audit Manager	November 2103
4	Internal audit reports are circulated to Panel members.	Emailing reports to Members on a quarterly basis.	Internal Audit Manager	Immediately
5	Members of the Panel to complete a skills assessment to identify training needs.	Circulating to Panel a skills assessment questionnaire.	Internal Audit Manager	December 2013
6	A formal induction training plan should be developed. The training plan be delivered to Members within 3 months of their appointment to the Panel.	Developing a training plan that covers the areas outlined in the terms of reference.	Head of Legal & Democratic Services and Internal Audit Manager.	December 2013
7	The Panel to prepare a formal annual report.	Submitting the report to the Council meeting that receives the annual governance statement.	Head of Legal & Democratic Services and Internal Audit Manager	November 2013