



# **Corporate Governance Panel**

## **Chairman's Annual Report**

**for the year ending 30 September 2013**

Pathfinder House  
St Mary's Street  
Huntingdon  
PE29 3TN

This page is intentionally left blank

## **INTRODUCTION BY THE CHAIRMAN OF THE CORPORATE GOVERNANCE PANEL**

*This is my third annual report to Council on the work of the Corporate Governance Panel.*

*As you will be aware, my two previous reports have been delivered through a personal address, with a short supporting paper being published on the Council's intranet. I, along with the rest of the Panel, believe that it is now more appropriate that a formal written report is submitted for the Council's consideration.*

*This report therefore provides a summary of the key issues considered by the Panel during the year ending September 2013.*

*Whilst the Council's financial statements are prepared for the year ending March, the key assurance that the Panel provides to the Council is via the Annual Governance Statement. This Statement has to reflect the governance position of the Council as at the date it was approved, which was September 2013.*

*I would like to thank all the Members who served on the Panel during the year and those Officers who have supported the work of the Panel.*

*Councillor Eric Butler,  
Chairman, Corporate Governance Panel  
October 2013*

This page is intentionally left blank

## **TERMS OF REFERENCE**

The Panel's terms of reference require it to discharge the functions of the Council in relation to the corporate governance of the Council.

The terms of reference in place for the year ending September 2013 are attached at Appendix A and cover the following areas:

- Reviewing the Council's constitution and Code of Corporate Governance
- Approving the annual governance statement and statement of accounts
- Considering the effectiveness of risk management arrangements
- Internal and external audit activities, including annual reports and the external auditors 'charged with governance' report
- Anti-fraud and whistleblowing arrangements
- Feedback and complaints

Terms of reference are reviewed annually by the Panel and amendments are being submitted to the November 2013 Council meeting for consideration and approval.

Since its formation in 2004 the Panel has met four times a year. Due to the increasing workload of the Panel, the Panel agreed during the year that it would meet six times in each municipal year.

## **EFFECTIVENESS**

An effective Corporate Governance Panel can bring many benefits, including:

- raising greater awareness of the need for internal control and the implementation of agreed audit recommendations;
- increasing public confidence in the objectivity and fairness of financial and other reporting;
- reinforcing the importance and independence of internal and external audit and other similar review process; and
- providing additional assurance through a process of independent and objective review.

The Panel's work activities have been designed so that they not only provide assurance to the Council and meet the terms of reference, but also allow for the Panel to make a positive contribution towards maintaining good governance practices across the Council.

A brief outline of the business conducted by the Panel is listed below.

<b>DECEMBER 2012</b>	<b>MARCH 2013</b>	<b>MAY 2013</b>	<b>JULY 2013</b>	<b>SEPTEMBER 2013</b>
Consider External Auditors 2011/12 ISA 260 report	Note progress on issues from 2011/12 AGS	Note outcome of effectiveness review of Overview & Scrutiny Panels	Public engagement: filming/recording at Council meetings	Approve the 2012/13 annual governance statement
Considered External Auditors Annual Audit Letters for 2010/11 and 2011/12	Approve changes to Constitution. Endorse employee consultation arrangements		Consider Internal Audit annual report and opinion, Year June 2013	Consider External Auditors 2012/13 'report to those charged with governance' and action plans
Review delivery of Internal Audit plan	Review External Audit plan for 2012/13 and 2011/12 grant certification		Note internal audit review of appointment of professional advisors	Approve the 2012/13 statement of accounts
Approve expansion of benefit fraud teams work into non welfare areas	Note the progress in introducing external audit recommendations		Approve changes to regulation of investigatory powers polices	Approve changes to the Code of Procurement and within other internal control processes.
	Approve Internal Audit plan 2013/14 and Internal Audit Charter			Review the risk register and management of risks
	Review the risk register and management of risks			
<b>Review annual reports</b>				
<ul style="list-style-type: none"> <li>• Corporate Business Continuity</li> <li>• Benefit Fraud Investigation Team &amp; whistleblowing</li> <li>• Risk management strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Council's Single Equality Scheme &amp; Equality Impact Assessment</li> <li>• Accounting policies</li> </ul>	<ul style="list-style-type: none"> <li>• Effectiveness of the internal audit service</li> </ul>	<ul style="list-style-type: none"> <li>• Complaints and decisions of Local Government Ombudsman</li> </ul>	<ul style="list-style-type: none"> <li>• Effectiveness review of the Corporate Governance Panel</li> </ul>

## HOW EFFECTIVE IS THE PANEL?

The Panel regularly undertakes a formal review of its own effectiveness. The last review was completed in September 2013. The Panel concluded that they were generally acting effectively and fulfilling their terms of reference. The following opportunities to further improve effectiveness were identified:

- The Panel should have the opportunity to meet informally with internal and/or external audit;
- The Internal Audit Manager to explain to the Panel the terminology associated with individual/annual audit assurance opinions and risk register control assurance statements;
- Internal audit reports should be circulated to Panel members quarterly; and
- Members of the Panel should complete a skills assessment to identify training needs.

Whilst the self assessment reviews are rigorous and thorough, an externally led assessment has the potential to challenge and question working practices. The Panel has considered commissioning an external review for 2014. Informal market testing indicated that the cost of such a review would be in the region of £5,000. The Panel did not consider that such an investment could be warranted at this time and agreed that the self assessment process would continue.

Whilst the earlier table details the areas considered by the Panel, the significant issues of note are summarised in the following paragraphs.

### **Reviewing the overall governance of the Council and approving the statutory annual governance statement**

The Panel continued to take a pro-active role in reviewing the Code of Corporate Governance. A number of informal meetings were held between the Panel and Officer's at which the evidence that supports the Code's key aims and principles was reviewed and challenged. This approach is in line with best practice and ensures that any significant issues for inclusion in the annual governance statement are agreed with the Panel before the first draft of the statement is prepared.

Guidance<sup>1</sup> issued in December 2012 removed the requirement for the annual governance statement to be prepared in a standard format. The guidance suggested that the statement should be a more meaningful document for both Members of the Council and the public. Panel took advantage of this change and prepared a statement that was at a higher level, strategic and written in an open and more readable style. The external auditor has commented that the "the style [of the statement] has been amended in the current year, which in our opinion provides a more comprehensive and concise review of governance for its users".

In support of this more open approach, Panel also decided that, for the first time, the evidence that supports the Code of Corporate Governance should be published on the Council's internet pages.

The Panel also noted the progress that had been made in delivering five of the six significant governance issues identified in the 2011/12 annual governance statement. Work is continuing on the one remaining item – the review of pay systems, and consequently this item has been included as a significant issue in the 2012/13 statement.

---

<sup>1</sup> CIPFA/SOLACE: Delivering Good Governance in Local Government Framework: Addendum

## **Annual Financial Statements**

Due to the delays in completing the external audit of the 2010/11 and 2011/12 financial statements, the annual external audit and inspection letters were not received by the Panel until December 2012. Panel were informed of the action taken to implement the external auditors recommendations arising from the 2010/11 and 2011/12 audit of the financial statements and the significant progress achieved to improve the process for the production for the 2012/13 financial statements.

The 2012/13 financial statements were externally audited and approved prior to the statutory deadline of 30 September 2013. The external auditors issued both an unqualified value for money and financial statement opinion.

The Panel also considered the work that the external auditor performed upon grant claims. Panel were concerned about the additional costs incurred as a result of non-consequential errors in the claims submitted and asked the Assistant Director (Finance and Resources) to write to the Department of Communities and Local Government, the Department of Works and Pensions and the Audit Commission, to express their concerns over the cost to the authority of auditing benefit claims and requesting that the criteria for taking a second sample be adjusted to only require this if the errors in the previous round of sampling are significant. The response received to that letter, effectively says that no changes to the grant claim process are being considered.

In March 2013 the Panel approved changes to accounting policies.

## **Public Sector Internal Audit Standards**

New internal audit standards came into effect in April 2013 for all public sector organisations.

The Standards did not require major changes to be made to internal audits day to day operations. They did however place greater 'functional' reporting responsibilities upon the Panel. In the past the Panel received a number of reports that contained information about internal audit on an 'information basis' only, these now need to be approved formerly by the Panel, for example:

- Approving the internal audit charter
- Approving the risk based internal audit plan.
- Approving the internal audit budget and resource plan.
- Decisions regarding the appointment and removal of the Internal Audit Manager and their remuneration.

The Panel also approved a new Internal Audit Charter which included a definition of internal auditing and sets out internal audits role and responsibilities.

One of the key assurance providers to the Panel is the internal audit service. The Internal Audit Manager undertook, and reported the results of a self assessment against the new Standards to the Panel in May 2013. Whilst the service was found to generally conform with the Standards there were a number of areas where opportunities for improvement were identified. Action plans to deal with these areas were agreed.



## **Internal audit plan and annual opinion**

The Panel approved the internal audit work plan for 2013/14 in March 2013.

In July 2013 the Panel received the Internal Audit Manager's annual report and opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes. He concluded that the Council's internal control environment and systems of internal control as at June 2013 provided 'limited' assurance over key business processes and financial systems, a downturn on the previous classification of 'adequate'.

The Panel were disappointed that a number of audited systems resulted in audit reports being issued that included either 'no' or 'limited' assurance opinions. Having taken on board these concerns, the Managing Director has introduced a process whereby the relevant Head of Service has to explain what action is being taken to improve controls and raise the overall level of assurance. It is expected that this process will also ensure that agreed internal audit actions are introduced on time.

The Panel also expressed concern about the continued lack of compliance with the Code of Procurement in some service areas. The Panel asked for regular updates from the Chief Officers' Management Team on compliance with the Code and that regular training on the Code and the Employee's Code of Conduct be provided to Officers. The Panel also approved a number of changes to the Code of Procurement, to further improve control. These changes are to be considered by the Council in November 2013.

## **Countering fraud and the work of the Corporate Fraud Team**

In June 2012 the Panel received a report that detailed the potential fraud being committed against the Council as per estimated figures provided by the National Fraud Authority. The Panel were also informed that the Single Fraud Investigation Service (SFIS), led by the Dept for Work and Pensions, was likely to be operational during 2015. The Panel established a sub-group to assist in their understanding of fraud risk and its implications.

The sub-group reported back to the Panel in December 2012. The Panel agreed that the opportunity should be taken to investigate fraud in non-welfare areas so that the impact of the SFIS from 2015 onwards, upon both welfare and non-welfare fraud investigations, could be determined.

The sub-group continues to meet and a report is due to be presented to the Panel in September 2014 outlining non-welfare fraud and proposals for the fraud service from 2015 onwards.

The Corporate Fraud Team has, since 2010, been using data held by the Council to assist in the identification of fraud and error and the recovery of debts. Since 2010 over 200 discrepancies have been identified from the use of these data-warehousing techniques and over £250,000 in financial fraud and error has been identified and 22 social housing properties recovered. Debt collection rates on historic debt have risen from 22% to 38% per annum.

In early 2013 the Council received funding from both the Local Government Association and the Department for Communities and Local Government to establish a County wide fraud-hub based upon the data-warehousing principles. This initiative

has been supported by the Panel and has already uncovered additional fraud and error.

In December 2012, the Panel reviewed the Council's whistleblowing policy and guidance to ensure it remains fit for purpose.

### **Reviewing the Constitution**

The Panel is responsible for reviewing proposed changes to the Constitution and taking forward formal recommendations to the Council.

Proposals were considered in March 2013 on:

- changes to the employee consultation procedures;
- various issues regarding conduct of meeting, voting at meeting and substitute appointments;
- the delegation of employment matters to the Head of Paid Service; and
- changes to the Code of Financial Management and Code of Procurement

In July 2013, following the issuing of guidance<sup>2</sup> by the DCLG in the previous month, the Panel considered variations to the constitution in relation to photography, broadcasting or recording of meetings.

### **The management of risk**

The Panel currently has responsibility within its terms of reference for approving the risk management strategy. The strategy was reviewed and approved in December 2012. The Panel considers that robust risk management policies are in place and that they were performing efficiently and so support both the annual governance and statutory reporting processes.

The strategy includes a definition of the Council's risk appetite. With the likelihood that new service initiatives/developments will be introduced across all service areas to deal with the current financial pressures, the Panel consider that the setting of the risk appetite and overall risk strategy should become the responsibility of the Cabinet. A recommendation along these lines is to be discussed at the November 2013 Council.

The Panel also received reports in March and September 2013 that detailed the changes to the risk register in the previous six month periods and the level of assurance that management were providing on the operation of controls that mitigated inherent risks.

### **Feedback and Complaints**

In July 2013 the Panel considered a report that summarised both internal **complaints** and a summary of complaints that had been determined by the Local Government Ombudsman in 2012/13. The Panel noted that nine complaints had been determined by the Ombudsman during the period, with no evidence of maladministration being found in eight of the nine cases.

---

<sup>2</sup> Your Council's Cabinet – going to meetings, see how it works – a guide for local people.

The areas referred to above deal with the core business of the Panel. A number of reports and other issues were also considered during the year that had a direct impact upon governance systems and processes across the Council. These included:

**Corporate business continuity plan** and the associated business continuity management systems. Panel has asked that they receive an annual update report on this area.

The delivery of the **corporate guide to managing projects**. The guidance in place is out of date and needs to be reviewed and re-launched. The Panel are aware that effective project management is key to delivering projects that are on time and within budget and which provide effective solutions.

An update on progress with the achievement of the Council's **Single Equality Scheme** and the findings from the Equality Impact Assessment conducted during 2012.

Approving changes to the **Regulation of Investigatory Powers** Act 2000 policy and procedure statements that deal with covert surveillance and communications. Amendments to the policy and procedure are generally only required to reflect legislative changes. The Panel therefore delegated to the Head of Legal and Democratic Services authorisation to make any future amendments to the policies after consultation with the Chairman of the Corporate Governance Panel.

Due to the benefits that the Panel felt that they had gained from conducting regular reviews of their own effectiveness, they requested that **effectiveness reviews** of all other Panels and Committees be undertaken. The first such review was completed on the three **Overview & Scrutiny Panels** in May 2013. The Panel noted that the three Panels were generally acting effectively. A number of changes were introduced as a result of the review, the most noticeable being the amended reporting format.

## FUTURE DEVELOPMENTS

The Panel wish to continue to build upon the solid governance processes and procedures that are in place across the Council. Developments that are being planned include:

- Introducing an employee handbook that will incorporate the current employees code of conduct and a new code of ethics;
- Introducing an assurance framework to improve the information gathering process for the annual governance statement;
- Fraud e-learning course to be made available to all employees;
- An effectiveness review of the Licensing and Protection Panel and supporting committees; and
- Commissioning an independent external review/assessment of the internal audit service against the new internal audit standards.

This page is intentionally left blank

**Corporate Governance Panel**

**Terms of Reference  
as approved by Council 25 April 2012**

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

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 internal audit's terms of reference and strategy
  - commenting on internal audit plans and receiving reports on progress in delivery;

**EXTERNAL AUDIT**

7. Receiving and considering external audit reports

**FINAL ACCOUNTS**

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

**COMPLAINTS AND FEEDBACK**

9. 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 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.

#### **RESOURCES**

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