Corporate Governance Panel

Chairman's Annual Report to Council

for the year ending 30 September 2014

Draft for comment

Huntingdonshire
D I S T R I C T   C O U N C I L

Introduction by the Chairman of the Corporate Governance Panel

This is the fourth annual report on the work of the Corporate Governance Panel and the first one that I have presented as Chairman of the Panel.

The report is intended to demonstrate to the Districts resident's and other stakeholders the importance of good governance and the contribution the Panel makes to achieving that aim. The Panel's meetings are open to the public and its reports are available on the Council's webpages and I welcome the public's attendance at our meetings.

The report provides an overview of the key issues considered by the Panel during the year ending September 2014. The Panel is of the view that the Council's governance and internal control procedures are generally sound – however everything is not perfect – it is acknowledged that there is room for improvement.

The external auditor, after completing their audit of the 2012/13 Statement of Accounts, issued their Annual Report to the Panel in September 2013. They remarked upon a perceived lack of a 'culture of compliance' in the areas of project management, procurement and contracting. The Panel were aware of control failings in these areas and the external auditors statement re-emphasised to the Panel the need for change. I am glad to be able to report that improvements have been made, although not as quickly as the Panel would have liked.

The Internal Audit & Risk Manager in his annual report, stated that it was his opinion that the Council's internal control environment and systems of internal control as at 31 March 2014 provide limited assurance over key business processes and adequate assurance over financial systems.

Whilst the Council's Annual Financial Report (AFR) is 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 at the date when the AFR is approved, which was September 2014.

Changes are being proposed by the Government that will bring forward the approval date from September to July, for the 2017/18 AFR. The Panel will adjust their work schedule to comply with this change, if it is introduced.

I would like to thank all the Members who served on the Panel during the year and those Officers who have supported its work, particularly Mr Colin Meadowcroft (Head of Legal and Democratic Services) and Mr Steve Couper (Assistant Director (Finance & Resources)) who both left the Authority during the year. They both ably supported the work of the Panel since it was formed in 2004.

Councillor Greg Harlock,
Chairman, Corporate Governance Panel
September 2014

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 2014 are included at the end of this report. They 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 auditor's 'charged with governance' report
- Anti-fraud and whistleblowing arrangements
- Feedback and complaints

The Terms of Reference are reviewed annually by the Panel during their own 'effectiveness review' which this year was completed in August 2014.

CIPFA[1] issued revised audit committee guidance in December 2013[2]. The Panel took the opportunity during the effectiveness review to compare their Terms of Reference against those contained within the CIPFA guidance. A number of changes are being proposed and amendments will be submitted to the December 2014 Council meeting for consideration and approval.

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 the Panel to make a positive contribution towards maintaining good governance practices across the Council.

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[1] The Chartered Institute of Public Finance & Accountancy
[2] Audit Committees, Practical Guidance for Local Authorities and Police

The Panel met six times during the reporting period.
A brief outline of the main business conducted by the Panel is listed in the table below and on the following pages.

November 2013	January 2014	March 2014	May 2014	July 2014	September 2014
Approved changes to the whistleblowing policy & procedure	Approved the Fraud Prosecution Policy	Noted the measures introduced to support Officer compliance with the Code of Procurement	Considered the outcome of the external peer review of the internal audit service	Discussed with the Managing Director how she intended to improve key control compliance	Approved the 2013/14 annual governance statement
Considered the internal audit review of the job evaluation and pay review process	Noted the outcomes from the 2012 National Fraud Initiative	Reviewed external audit plan for 2013/14	Considered the internal audit annual report and opinion, for the year to March 2014	Approved the 2014/15 internal audit plan	Considered the External Auditors 2013/14 'report to those charged with governance' and action plan
Noted the initiative taken by the Managing Director to 'improve the culture of compliance' by setting up six Officer govern-ance groups	Reviewed delivery of the 2013/14 internal audit plan and issues of concern identified	Noted new audit committee guidance issued by CIPFA	Noted the progress made on introducing issues contained in the 2012/13 annual governance statement	Reviewed the outcome of the effectiveness review of the Licensing Committee/Licensing & Protection Panel	Approved the 2013/14 statement of accounts
	Noted the progress in introducing agreed external audit recommendations	Reviewed the risk register and management of risks	Reviewed external audit 2012/13 grant certification	Noted the Office of Surveillance Commissioner report on the Council's management of covert surveillance activities	Reviewed the risk register and management of risks
	Noted a report on the terminology used in internal audit reports and opinions	Reviewed the employee handbook			
Review annual reports					
• Corporate Business Continuity	• Corporate Fraud Team activity 2012/13 • Whistleblowing concerns received	• Approved changes to accounting policies	• Corporate Fraud Team activity 2013/14		

How effective is the Panel?

The Panel, at the conclusion of their own effectiveness review, considered themselves to be acting effectively and fulfilling their Terms of Reference. The following opportunities to further improve effectiveness were identified:

- The Panel is to develop a work plan so that it can proactively seek assurance upon areas of concern.
- The continued poor performance with the introduction of agreed internal audit actions remains a matter of concern. A report detailing the progress that is being made with the introduction of agreed audit actions is to be presented to each Panel meeting.
- Members of the Panel will be requested to complete a skills assessment to identify training needs.
- The scheduling of Panel meetings is to be reviewed with a view to the Panel meeting two weeks prior to Council. This will allow any recommendations made (on Constitutional or other significant governance issues) by the Panel to be considered by Council in a timely manner.

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

The overall governance of the Council

Review of the Code of Corporate Governance and the evidence that supports how the Council is delivering against it.	The Panel continue to take a pro-active role. The information and evidence statements prepared by Officers that show how the Council is performing against its key governance aims and principles are robustly challenged. This approach is in line with best practice and ensures that any significant issues for inclusion in the Annual Governance Statement are discussed and agreed with the Panel before the first draft of the Statement is prepared.
Approving the Annual Governance Statement on behalf of the Council.	The 2013 Annual Governance Statement (AGS) was radically different in content and design than that of previous years. The 2014 AGS has been written in a similar style.
	The approach the Panel took in writing a Statement that is at a high level, strategic and in an open and readable style has been recognised by CIPFA. The Internal Audit & Risk Manager was invited to two of their training events to outline the approach the Panel takes to preparing the AGS.
	The Panel believe that it is important that our stakeholders understand the Council's governance structures and have introduced into the 2014 AGS a 'timeline' that provides brief details of significant governance changes that have been made during the year.

Significant governance issues included in the 2013/14 Annual Governance Statement:

~ *Explain the Council vision*

~ *Develop the performance 'golden thread'**

~ *Review partnership commitments**

~ *Comply with procurement rules*

In noting the progress that had been made in delivering the six significant governance issues identified in the 2012/13 AGS, the Panel noted that two* of the six issues had not been fully addressed. As they remained outstanding they have been included in the 2013/14 Statement.

Following concerns that the Panel had with Officer's non-compliance with the Code of Procurement, they recommended to the Council in November 2013 a number of changes to the Code of Procurement to enforce Officer compliance.

In March 2014 the Procurement Manager updated the Panel on the measures that had been taken and were planned to be taken to reinforce the message to Officer's that they must comply with the Code of Procurement. Whilst there have been no major non-compliance issues identified during the year, the Panel consider that reinforcing compliance with the Code of Procurement should remain a significant governance issue for 2013/14.

Approving the Annual Financial Report 2013/14

Unqualified financial statement and value for money opinion issued by the external auditor.
(This paragraph may be subject to change).

The 2013/14 financial report was externally audited and approved prior to the statutory deadline of 30 September 2014. The external auditors issued both an unqualified value for money and financial statement opinion.

Panel are concerned that they don't have sufficient opportunity to review and challenge the annual financial report.

Changes introduced by the Accounts & Audit Regulations 2011 removed the statutory requirement for the Panel to approve the financial statements prior to them being externally audited. Both the 2012/13 and 2013/14 'financial accounts' were therefore not presented to the Panel until its September meeting and only a matter of days before the statutory deadline for their approval. This gave the Panel little time to discharge their terms of reference responsibilities.

The Panel has requested the Responsible Financial Officer to provide it with an Annual Report to evidence the arrangements that are in place across the Council to support the achievement of Value for Money (VfM).

The Council has a responsibility to deliver its services economically, efficiently and effectively. It does not have a specific framework/strategy that outlines how this will be achieved. A lot of information on how VfM is being delivered is available, but not collated or reviewed by Members. Providing a formal report to the Panel (and possibly other Member forums) will allow the Panel to form a

view as to the effectiveness of the arrangements for ensuring VfM is being achieved.

Internal audit plan and annual opinion

The annual opinion of the Internal Audit & Risk Manager as at 31 March 2014 was that the Council's internal control environment and systems of internal control as at 31 March 2014 provided *limited assurance* over key business processes and *adequate assurance* over financial systems.

The Panel were disappointed that for the second consecutive year, a limited opinion was given over key business processes.

At the time they considered the annual audit report (May 2014) Panel noted that little progress had been made in the areas of project management (a PM toolkit was launched in June 2014) and within overall establishment control and that nine "limited" and one "little" assurance audit reports had been issued.

The Panel are concerned that the Facing the Future programme and the need to drive out savings and efficiencies may lead to increasing numbers of internal audit reports being issued that are in the 'limited' or 'little' categories.

Consistently poor performance in introducing on time, agreed audit actions.

Panel have continued to express concern and disappointment at the low number of agreed audit actions that were introduced on time and called for improved management control and oversight to reduce the number of internal audit reviews with poor assurance opinions. The Managing Director attended the July 2014 Panel meeting to specifically deal with both of these points. She assured the Panel that a culture of compliance was being promoted throughout the authority. The implementation of agreed audit actions would be a priority for the Management Team

The Panel have considered how they could exert influence over the area of audit actions, and have decided to consider at each future meeting, commencing November 2014, the current performance achieved.

The Internal Audit Service were subject to an external, independent peer review in March 2014. The review concluded that Internal Audit is effective in delivering:
~ *credible assurance*
~ *improved management of risks*

The Internal Audit Service are required by Regulation to review how effectively they work each year. After considering the 2011 review the Panel requested that an external peer review of the service be conducted.

Identifying a person to undertake the peer review has been challenging. The cost of using the professional bodies or accountancy

~ improved corporate governance arrangements and

~ support to the achievement of corporate objectives.

(Commissioning an independent review of internal audit was identified as a development issue in last year's report).

firms were too high. In September 2012, Mr Richard Gaughran, the Head of the Welland Internal Audit Consortium agreed to undertake the review at no cost to the Council. Due to other commitments, Mr Gaughran was not able to undertake the review until March 2014. In the intervening years, the Internal Audit & Risk Manager continued to undertake a self-assessment review.

The Panel are pleased with the outcome of the review; which showed that the internal audit service is effective.

Approving the internal audit work plan

The Panel approved the internal audit plan for 2013/14 in July 2014, some 4 months into the current financial year. The Panel agreed to this delay due to the impact of the senior management re-structure and the uncertainty surrounding proposals for the sharing of a number of services. The audit plan that was approved included these areas.

Countering fraud and the work of the Corporate Fraud Team

The Panel's fraud working group has continued to meet and gained a fuller understanding of the fraud risks faced by the authority and the action that is being taken to counter them.

The fraud sub-group has continued to meet regularly.

In May 2014 the Panel considered the 2013/14 annual report of the corporate fraud team. This showed that during the year the team had received 1,070 allegations of fraud, investigated 330 cases and identified fraud with a value of £444,000. It prosecuted 28 of the most serious cases and a further 34 individuals were cautioned or fined. It also worked with registered social landlords to recover 11 social housing properties that were being used unlawfully.

Developing data warehousing and localised data matching that resulted in over £300,000 of new homes bonus being identified and claimed.

Amongst District Council's the Corporate Fraud Team is leading the way in the use of data warehousing and data matching. An initiative that is wholeheartedly supported by the Panel.

During 2013/14 a one off data matching exercise was undertaken that resulted in a large number of potential frauds or discrepancies being identified across a number of service areas. The most noticeable of these, in terms of financial rewards, was the identification of 34 long term empty properties that were in occupation raising over £300,000 in new home bonus

The Corporate Fraud Team won the innovation category in the National Fraud Authority, Fighting Fraud Awards 2013.

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. The innovative work that is being undertaken was recognised through the Fighting Fraud Awards.

The Audit Commission have also included, within their 2013 'Protecting the Public Purse' report, the work that the fraud team have undertaken on tenancy fraud and data-matching as an example of good practice.

Investigating the creation of a shared fraud service

Due to the successful and innovative work that the fraud team has carried out, it has been approached be a number of neighbouring authorities to create a shared fraud service. Again the fraud working group has been kept informed of these developments and been consulted regularly about how such a service would operate and its impact upon the authority.

Updating the whistleblowing policy and guidance.

In December 2012, the Panel reviewed the Council's whistleblowing policy and guidance to ensure it remained fit for purpose. Changes were made to reflect legislative changes arisen from the Enterprise and Regulatory Reform Act 2013. A 'protected disclosure' is now recognised by the Council as one that is made 'in the public interest'.

Fraud e-learning course to be made available to all employees.

(Launching the fraud course was identified as a development issue in last year's report).

A fraud and corruption awareness e-learning course devised by the National Fraud Authority and Deloitte's was uploaded onto the Council's e-Learning system.

The e-learning course will help to raise staff awareness of fraud risks and gives advice on how to identify and report suspected incidences of fraud.

Reviewing the Constitution

The November 2013 Council meeting adopted the recommendations of the Panel and introduced a number of changes to the Code of Procurement to reduce the

The Panel is responsible for proposing to Council, changes to the Council's Constitution.

In previous years Panel have undertaken a review of the Constitution towards the end of

opportunity for contractors to influence the tendering process.

each financial year so allowing changes to be considered by Council and adopted from the start of the municipal year. During the year to September 2014, four reviews have been undertaken of various aspects of the Constitution. The Panel wish to revert to an annual review, only having to recommend changes to Council in exceptional circumstances.

One such exceptional case arose in November 2013 when Panel considered that urgent changes to the Code of Procurement were required to reduce the opportunity for contractors to influence the tendering process.

The Panel, also made a number of recommendations to the Council in respect to the Constitution. These included:

- Removing independent co-opted members of the public from the Overview & Scrutiny Panels and introducing 'one-off' experts to assist with specific reviews.
- Allowing photography, broadcasting or recording of public meetings.
- Changes to improve the management of Council meetings and the Members Allowances Scheme.
- Transferring the following functions from the Panel to the Standards Committee: Determining and monitoring compliance with the Council's feedback procedure and compensation payments; and Considering the reports of the Local Government Ombudsman.

Removal of the Employee Code of Conduct from the Constitution and introducing an Employee Handbook.

(Introducing the employee handbook was identified as a development issue in last year's report).

One of the major initiatives progressed by the Panel in recent years has seen the introduction of an Employee Handbook.

The Handbook, which is not a part of the Constitution, contains a code of ethics based around the Seven Principles of Public Life (the Nolan Principles) and describes the standards, attitudes and behaviours expected from all employees.

The Managing Director is responsible for keeping the Handbook up-to-date and ensuring that all employees receive a copy and understand its contents. The Employment Panel have taken over the responsibility for the oversight of the Handbook's contents.

The management of risk

Cabinet have taken over responsibility for the approval of the risk management strategy. The Panel are to continue to concentrate on ensuring there are effective arrangements for the management of risk.

During the year, the Council agreed that responsibility for approving the Council's risk management strategy should move away from the Panel and become the responsibility of the Cabinet. The Cabinet approved the risk management strategy in July 2014 and appointed a Member risk management champion.

The Panel received reports in March and September 2014 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. This information supports both the annual governance and statutory reporting processes.

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. The most significant of these were:

Considering the outcome of the **effectiveness review** of the **Licensing Committee** and **Licensing & Protection Panel**. The Panel noted that both the Committee and Panel were generally acting effectively.

Introduction of an Officer led Governance Board and supporting Working Groups. Responding to the external auditor's statement about the perceived lack of a 'culture of compliance', the Managing Director informed the Panel in November 2013, that six governance groups were to be set up, reporting directly to a Governance Board. These groups would be responsible for raising awareness of the importance of good governance across the Council, in the areas of:

Risk	Project Management
Customers	Culture and Compliance
Finance	Procurement

With regard to the progress of the new Governance Boards, Members were assured that they and the Overview and Scrutiny Panels would be kept informed of their progress.

Future Developments

The Panel wish to continue to build upon the solid governance processes and procedures that are in place across the Council. In addition to the opportunities for improvement that are listed earlier in the report, there are other developments planned.

Introducing an assurance framework to improve the information gathering process for the annual governance statement.

Undertake an effectiveness review of the S106 Agreement Advisory Group.

Corporate Governance Panel
Terms of Reference approved by Council 30 April 2014

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

The Panel supports the Council and Managing Director by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements. It provides this support by:

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.

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 charter;
   • approving 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, statement of accounts, and considering any matters arising from the audit.

FRAUD AND CORRUPTION
9. Reviewing and monitoring the policy, procedure and arrangements for investigating disclosures under the Public Interests Disclosure Act 1998 (whistleblowing).
10. Monitoring the Anti-Fraud and Corruption Strategy and receive annual updates on countering fraud.

ANNUAL REPORT
11. Reviewing and monitoring the policy, procedure and arrangements for 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:
12. Request relevant Executive Councillors, Panel Chairmen, Managing Directors, and Heads of Service to attend Panel meetings in order to assist the Panel in reaching its conclusions.
13. Within budgetary constraints request information or advice from third parties to assist the Panel in reaching its conclusions.