

**HUNTINGDONSHIRE DISTRICT COUNCIL**

<b>Title:</b>	<b>Review of the Effectiveness of the Corporate Governance Panel</b>
<b>Meeting/Date:</b>	<b>Corporate Governance Panel – 25 September 2014</b>
<b>Executive Portfolio:</b>	<b>Resources: Councillor J A Gray</b>
<b>Report by:</b>	<b>Internal Audit &amp; Risk Manager</b>
<b>Ward(s) affected:</b>	<b>All Wards</b>

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**Executive Summary**

All members of the Panel were invited to a meeting on the 26 August to participate in the review of their own effectiveness. Councillor's E Butler, G Harlock and R West attended. After undertaking the review 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. A number of changes are required to the Panel's terms of reference (see Appendix 1) to take into account the audit committee guidance issued by CIPFA in December 2013. The most significant changes are:
  - a. Formalising the responsibility to review the arrangements for securing value for money;
  - b. Building upon the functional reporting role of the Panel by requiring to be formally consulted on proposals for the appointment of external providers of internal audit services;
  - c. Considering the governance arrangements within any shared service; and
  - d. Formalising the initiative introduced last year to meet privately with the external auditor when it is considered necessary.
2. The progress report that is considered at each Panel meeting should be amended to show the actions that have been completed in the previous year. This will allow Panel to refer back to previously agreed actions and if necessary, request update reports to assure themselves that the issues identified have been actioned.
3. A report detailing the progress that is being made with the introduction of agreed audit actions should be presented to each Panel meeting, starting November 2014. The 2015 effectiveness review will consider if the report should continue to be received.
4. The Panel is still largely reactive, rather than proactive in seeking assurance upon key governance areas. So that they can gain assurance upon areas of

concern, the Panel (either individually or collectively) should contribute more to the development of the internal audit plan.

5. The dates of the Panel meetings should be reviewed and where possible, after taking into account statutory reporting dates, be timetabled so that they are held two weeks prior to Council meetings.

Last year's review recommended that Panel Members should undertake a skills assessment and that a formal induction training plan for new Panel Members should be devised. Neither has been introduced. Both areas have been included in the action plan (Appendix 2) that has been prepared to address the issues noted in the report.

### **Issues for consideration by the Panel**

When undertaking the review, there were two matters identified that it was felt appropriate to refer to the Panel for further consideration. These are:

6. Improving the effectiveness of Members; and
7. The Panel receiving the draft Annual Financial Report prior to audit.

### ***Financial implications***

If any decisions are taken that require external consultants to be appointed, the costs and budget will have to be identified. There are no other financial implications.

### ***Legal implications***

There are no legal implications arising from the report.

### **Recommendations:**

It is recommended that the Panel:

1. Note the results of the outcome of the review of the effectiveness of the Panel;
2. Recommend to Council the adoption of the Panels terms of reference as detailed in Appendix 1;
3. Note and endorse the opportunities that have been identified to further improve effectiveness as contained in the Executive Summary (points 2, 3, 4 and 5) and Action Plan (Appendix 2); and
4. Determine what action, if any, they wish take in respect of points 6 and 7.

## 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 six of the last seven years. This report summarises the outcome of the review of the effectiveness of the Panel, undertaken on 26 August 2014.
- 1.2 The Internal Audit & Risk 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 have been compiled over a number of years and 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. This year's review has also taken into account the CIPFA audit committee guidance issued in December 2013. The review considered 74 questions together with a range of supplementary information.

## 2. OUTCOME OF THE REVIEW

- 2.1 The Members who attended the review meeting were 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, it was the view of the meeting 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 of the Panel were identified. These are listed below.

<b>Issue</b>	<b>Changes proposed</b>
a. The terms of reference of the Panel need to be amended to take into account a number of areas that are included within the CIPFA suggested terms of reference for an audit committee, as contained in the publication 'Audit Committees: Practical Guidance for Local Authorities and Police 2013'.	The changes proposed are listed in full in Appendix 1.

Issue	Changes proposed
<p>b. During the review a comparison was made between the actions agreed by the Panel and the information subsequently included in the Progress Report. It was discovered that two recommendations arising from a report on improving internal controls from September 2013 were not carried forward from one Progress Report to another and subsequently the agreed recommendations have not been introduced.</p>	<p>The Progress Report considered at each Panel meeting should be amended to show both the outstanding actions and a summary of the actions that have been completed during the previous 12 months.</p> <p>This will allow Panel to refer back to previously agreed actions and if necessary, request update reports to assure themselves that the issues identified have been properly addressed.</p>
<p>c. The continued poor performance with the introduction of agreed internal audit actions remains a matter of concern. Whilst the Managing Director has reported to the Panel that delivery of the actions would be priority for the new Management Team, the Panel need to take positive action to support them in improving performance.</p>	<p>A report detailing the progress that is being made with the introduction of agreed audit actions should be presented to each Panel meeting, starting November 2014. (The report will support the Panel's decision of May 2014, that the relevant Corporate Director attend the Panel to explain the reasons for the non-introduction of agreed actions).</p> <p>The 2015 effectiveness review to consider if the progress made is sufficient and whether the report should continue to be received.</p>
<p>d. The Panel is still largely reactive, rather than proactive in seeking assurance upon key governance issues. The initiative introduced in 2012 of commissioning reviews has not continued.</p>	<p>The Panel Members currently have the opportunity to contribute to the preparation of the Internal Audit plan. More should be made of this and governance areas of concern discussed with the Internal Audit &amp; Risk Manager. Areas identified for inclusion in future audit plans were:</p> <ul style="list-style-type: none"> <li>i. The operation of the scheme of delegation;</li> <li>ii. Public communication is undertaken in a meaningful way on service performance, finances and governance arrangements;</li> <li>iii. Service risks arising from the Facing the Future programme are being identified and properly managed; and</li> <li>iv. The Officer Governance Board and Working Groups are improving governance, risk and internal control arrangements across the Council.</li> </ul>

<b>Issue</b>	<b>Changes proposed</b>
e. The current timetable of meetings is such that the Panel, on average, meets some 30 days prior to full Council. Following the Council decision to not meet in November, it will be over 80 days before issues considered at the September Panel meeting (Annual Financial Report, Annual Governance Statement, Annual report on the work of the Panel) are referred to Council.	The dates of the Panel meetings should be reviewed and where possible, after taking into account statutory reporting dates, be timetabled so that they are held two weeks prior to Council meetings to allow recommendations and issues to be reported in a timely manner.

### **3. OTHER AREAS FOR CONSIDERATION**

#### **Evaluating Member effectiveness**

- 3.1 The meeting had a wide ranging discussion on how Panel Members skills and experience could be effectively identified and assessed and what procedures were in place to improve the performance of Members (both of those who sit on the Panel and across the Council). Unlike employees, Members performance is not routinely appraised or evaluated. A small number of Members have personal development plans.
- 3.2 Within the private sector, it is considered 'best practice that the performance of the board as a whole, of its committees and of its members, is evaluated at least once a year' (Higgs Review 2003). Given the responsibilities of Members to ensure that the Council is working effectively and that Cabinet in particular have even greater responsibilities for financial and human resources, the review group wished the Panel to consider whether it should support the evaluation of Member performance; and if so, suggests that the matter is referred to the Member Development Panel for further consideration.

#### **Draft Annual Financial Report**

- 3.3 The Accounts and Audit Regulations 2011 removed the requirement that the Annual Financial Report (statement of accounts) had to be formally approved by Members before the 30 June immediately following the end of the financial year. The Annual Financial Report for 2012/13 was therefore only presented to the September 2013 Panel meeting and the 2013/14 Report will be presented to this meeting.
- 3.4 Notwithstanding the statutory requirements, the review meeting discussed the advantages and disadvantages in receiving draft accounts prior to audit and whether only receiving them after audit, in September, was sufficient to allow the Panel to discharge their governance responsibilities.
- 3.5 The review group felt that the Panel as a whole should consider this matter. This would also give the Panel the opportunity to hear the views of the Responsible Financial Officer and External Audit.

#### **4. ACTIONS AGREED FROM THE 2013 REVIEW**

- 4.1 There were seven actions agreed as a result of the 2013 review. Five have been introduced:

<u>Agreed Action</u>	<u>Action Taken</u>
The approval of the risk management strategy should become a responsibility of the Cabinet.	Change to terms of reference agreed by Council in November 2013.
The Panel's terms of reference be amended.	Change to terms of reference agreed by Council in November 2013.
The terminology associated with individual and annual audit assurance opinions and risk register control assurance statements to be explained.	Report presented to Panel in January 2014.
Internal audit reports are circulated to Panel members.	Reports emailed in September 2013 and then on a quarterly basis.
The Panel to prepare a formal annual report.	Presented to Council in November 2013.

- 4.2 The two outstanding actions both relate to the identification of skills and training needs of Panel Members and are listed below. They have both been included in the action plan arising from this review.

##### Agreed Action

Members of the Panel to complete a skills assessment to identify training needs.

A formal induction training plan should be developed. The training plan be delivered to Members within 3 months of their appointment to the Panel.

#### **5. TIMETABLE FOR IMPLEMENTATION**

- 5.1 Appendix 2 contains an action plan based upon the outcome of the review. A report will be presented to Panel in March 2015 outlining the progress that has been made.

#### **LIST OF APPENDICES INCLUDED**

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

#### **BACKGROUND PAPERS**

Notes of 26 August 2014 meeting, effectiveness of the Corporate Governance Panel.

#### **CONTACT OFFICER**

David Harwood. Internal Audit & Risk Manager  
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## Corporate Governance Panel Proposed Terms of Reference

~~The Corporate Governance Panel~~ ~~to~~ discharges the functions of the Council in relation to ~~the C~~ corporate ~~G~~ governance ~~matters of the Council~~ and ~~acts as 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~~ across the following areas:

### 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. Review the effectiveness of the governance arrangements within any outsourced and/or shared service.
4. To consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
5. Review and approve ~~Approving~~ the annual governance statement and reviewing the achievement of any outstanding improvements.
6. Considering proposals to change the Council's Constitutional arrangements and making appropriate recommendations to the Council.

### RISK MANAGEMENT

7. Ensuring there are effective arrangements for the management of risk across the Council.

### INTERNAL AUDIT

8. Ensuring there are effective arrangements for the system of internal audit of the Council including:
  - reviewing and approving the internal audit charter;
  - approving internal audit plans, significant changes to the plan and/or its resourcing requirements and receiving the internal audit annual (and interim) reports on progress in delivery;
  - monitoring the introduction of agreed audit actions;
  - considering upon request, specific internal audit reports;
  - considering a regular review of its effectiveness annually reviewing internal audit effectiveness including contributing to the quality assurance and improvement programme and the external review.
9. To be consulted by the Responsible Financial Officer on proposals for the appointment of external providers of internal audit services and/or shared internal audit services.

### EXTERNAL AUDIT

10. Receiving and considering external audit reports including the adequacy of management response to issues identified; meeting privately with external audit when necessary.

### FINAL ACCOUNTS

11. Approving the accounting policies, statement of accounts, and considering any matters arising from the audit.

**Corporate Governance Panel  
Proposed Terms of Reference**

**FRAUD AND CORRUPTION**

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

**ANNUAL REPORT**

14. 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:

15. 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.
16. Within budgetary constraints request information or advice from third parties to assist the Panel in reaching its conclusions.

End



**Corporate Governance Panel  
Action Plan arising from 2014 effectiveness review**

<b>Ref</b>	<b>Issue</b>	<b>Action Proposed</b>	<b>To be completed by</b>
1	The Panel's terms of reference to be amended as set out in Appendix 1.	Amending the terms of reference of the Corporate Governance Panel.	Report to be presented to Council in December 2014.
2	The Progress Report is amended to show those actions that have been completed in the previous year as well as those that are due.	The Democratic Services Manager amends the format of the Progress Report.	The 26 November 2014 Panel meeting.
3	A report detailing the progress that is being made with the introduction of agreed audit actions should be presented to each Panel meeting.	The Internal Audit & Risk Manager reports progress to the Corporate Governance Panel.	The 26 November 2014 Panel meeting.
4	The Panel is still largely reactive, rather than proactive in seeking assurance upon key governance areas. The Panel should contribute more to the development of the internal audit plan.	In addition to requesting Panel Members input, (prior to preparing the audit plan) the Internal Audit & Risk Manager should meet with the Chairman of the Panel to discuss/identify any specific areas of governance concern.	March 2015..
5	Panel meetings be timetabled (after taking into account statutory reporting dates) so that they are held two weeks prior to Council meetings.	Request the Democratic Services Manager to consider changing the Panel's meeting dates for the 2015/16 municipal year and onwards.	May 2015.
6	Members of the Panel to complete a skills assessment to identify training needs.	The Head of Resources to circulate to Panel a skills assessment questionnaire based upon the CIPFA knowledge & skills framework.	December 2014.
7	A formal induction training plan should be developed. The training plan to be delivered to Members within 3 months of their appointment to the Panel.	The Head of Resources to develop a training plan that covers the areas outlined in the terms of reference.	April 2015.
8	The two recommendations arising from the report on improving internal controls (September 2013) are introduced. 1. Introduce a procurement strategy; and 2. The Council becomes a signatory to the Prompt Payment Code.	The Head of Resources ensures that the two outstanding recommendations are introduced.	1. March 2015 2. March 2015