
Corporate Governance Panel

Report of the meeting held on 25th March 2015

Matters for Decision

25. CODE OF FINANCIAL MANAGEMENT AND CODE OF PROCUREMENT UPDATE FOR 2015/16

By way of a report from the Accountancy Manager (a copy of which is reproduced as Appendix A hereto), the Panel has been presented with the Code of Financial Management and the Code of Procurement which are reviewed on an annual basis to ensure that they reflect current legislation and the changing needs of the Council. These policies underpin financial governance in the Council and are Annexes to the Council's Constitution.

The Panel has considered the amended pages 5 and 6 of the Code of Financial Management that were tabled at the meeting.

Paragraph 3 of the report explains the proposed changes to the Code of Procurement and Paragraph 4 of the report details the main changes to the Code of Financial Management.

An amendment has been made to paragraph 5.7 of the Code of Financial Management regarding insurance as it was considered by the Panel that any decision not to insure should be reported to the Executive Councillor for Resources and not be a decision taken solely by the Internal Audit and Risk Manager.

Regarding paragraph 1.4 of the Code of Financial Management, the Panel has made an amendment and agreed to include Cabinet approval of the Risk Management Strategy.

Having also supported proposed changes to paragraph 1.12 of the Code of Financial Management, the Panel

RECOMMEND

(a) That the Code of Financial Management, as attached as Annex A to the report now submitted, with the inclusion of the amended pages as tabled at the meeting (page 5 and 6) be adopted, including the following amendments (as highlighted in italics):

- Paragraph 1.4 be varied to read – The Cabinet:

Will:

- **propose to the Council:**
 - **the Medium Term Financial Strategy**
 - **the annual budget and council tax level**
 - **a combined annual report including the Treasury Management Strategy, Treasury Management Policy and Prudential Indicators**

after considering the views of the appropriate Overview and Scrutiny Panel and representatives of the business community.

- **set financial priorities, allocate and re-allocate resources in accordance with the limits in this Code, monitor and review financial performance.**
- ***Approve the Risk Management Strategy***
- **Paragraph 1.12 be varied to read - Budget Managers (Service Managers, Heads of Service, Corporate Directors and Managing Director) – Eighth bullet point:**
 - ***Will, in accordance with the Risk Management Strategy, determine the inherent risks, within their services, to the achievement of the Council's priorities and establish, maintain and document adequate systems of risk management and internal control, in consultation with the Internal Audit Service and ensure that relevant employees or Members are familiar with such systems.***
- **Paragraph 5.7 be varied to read - Insurance**

The Internal Audit and Risk Manager shall obtain insurance to protect the Council or minimise its potential losses from risks including those to employees, property, equipment and cash. Any decision not to insure significant risks must be based on a detailed risk assessment *and reported to the Executive Councillor for Resources.*

(b) That the Code of Procurement, as attached as Annex B to the report now submitted, be adopted.

Matters for Information

26. CORPORATE GOVERNANCE PANEL PROGRESS REPORT

Details of actions taken in response to recent discussions and decisions have been noted by the Panel. The format of the Progress

Report has been amended and now indicates those items that are to be deleted from the report.

27. EXTERNAL AUDIT PLAN 2014/2015

The draft External Audit Plan for 2014/2015 has been presented to the Panel by the Council's External Auditors. Members' attention was drawn to the key audit risk areas identified and the approach that will be undertaken to complete these audits was noted.

The Panel's views on fraud and the triviality threshold of £90,000 were sought by the External Auditors. It was explained that if fraud was suspected the External Auditors would notify the Council.

The overall materiality has initially been set at 2% of 2013/14 expenditure. In response to a question, it was explained that if a number of items were identified that fell below the 2% level the External Auditors would highlight this to the Council's Finance Team.

Having received an explanation on the triviality threshold, the Panel were content with the triviality threshold of £90k.

The Panel noted that the external audit function would transfer to Ernst and Young from 2015/16 onwards initially for two years.

28. EXTERNAL AUDIT GRANT CERTIFICATION 2013/14

The Panel has received and noted a report from the External Auditor detailing the certification of specific grants received by the Council in 2013/14.

During 2013/14, the Council received central government grant for Housing Benefits and part of the control framework for such grants is that they are subject to external audit.

In respect of Housing Benefits, some minor errors were identified which meant that additional testing was required. The consequential impact of this is an increase to the original fee of £8,869.

The Panel has expressed their concerns again that the rules issued for auditing benefit claims were too rigid as minor errors following sampling have significant cost implications for an authority. In response to concerns expressed that previous correspondence from the Head of Resources to the Local Government Association had no effect, the Head of Resources reported that the Department for Work and Pensions now seemed to recognise that there is an issue.

29. EXTERNAL AUDITORS: ISA 260 REPORT – 2013/14: IMPLEMENTATION OF RECOMMENDATIONS

Following the external audit of the 2013/14 Annual Financial Report, the External Auditors are required to issue their ISA 260 Report. The report made four recommendations in respect of the 2013/14 Annual Financial Report and the Panel has been informed of progress with

implementing the recommendations. The External Auditors will undertake a review of all recommendations and report back to the Panel in September 2015.

30. FRAUD TEAM UPDATE

The Panel has been informed that the Fraud Working Group has fulfilled its objectives and Terms of Reference. The Cabinet has endorsed the findings of the Panel to retain an in-house Fraud Team. Good progress is being made to deliver the Cabinet's decision and it is expected that the Council will have an operational Fraud Team ready for the transfer of responsibility of welfare fraud investigation to the Department for Work and Pensions in May 2015.

Arising from the Panel's deliberations on the retention of the Fraud Working Group, it has been decided that the Fraud Working Group should be disbanded and that the matter should feature as an item on the Corporate Governance Panel Progress Report, to enable the Panel to consider whether they wish to establish a new Fraud Working Group, and if so, to determine its Terms of Reference, once the in-house Fraud Team was in place.

31. ACCOUNTING POLICIES FOR THE ANNUAL FINANCIAL REPORT 2014/15

The Panel has approved amendments to the accounting policies. For 2014/15 three policies require amendment of which two are considered significant. However, none will have an impact on the Council's general fund balance. The amendments are for clarification, transparency and to ensure compliance with International Financial Reporting Standards (IFRS) accounting arrangements.

32. INTERNAL AUDIT SERVICE: INTERNAL ANNUAL PLAN

Under the requirements of the Public Sector Internal Audit Standards, the Panel has been provided with the Internal Audit Manager's opinion on the overall adequacy and effectiveness of the Council's internal control and governance processes.

Members were informed that internal audit resources are currently insufficient to deliver the annual audit plan owing to the vacant post held within the team since October 2014. Efforts to recruit to the post have proved unsuccessful.

The internal audit plan for 2015/16 is based on delivering 352 days. However, current resources only allow for 250 days to be delivered which is a shortfall of 102 days. It is anticipated that the vacant post will be filled during the year.

In response to a query that Project Management should feature on the Internal Audit and Assurance Plan, it was explained that this was an item on the reserve list and until a sufficient amount of project work has taken place to satisfactorily audit, the internal audit services were better used elsewhere.

33. PROGRESS ON ISSUES ARISING FROM THE 2013/14 ANNUAL GOVERNANCE STATEMENT

Progress made to date in respect of the four areas for improvement identified in the 2013/14 Annual Governance Statement has been noted by the Panel. Good progress has been made across all four improvement areas and it is considered that all will be achieved prior to the preparation of the 2014/15 Annual Governance Statement.

34. IMPLEMENTATION OF AUDIT ACTIONS

Performance information regarding the implementation of agreed internal audit actions for the year ending 28 February 2015 has been presented to the Panel. Eight actions have not been introduced of which two were red actions and six were amber actions.

The Panel has expressed concern and disappointment that a number of agreed internal audit actions have not been implemented and were overdue. As a result the Panel has resolved to call to account the Heads of Service to meetings of the Panel in order that they provide an explanation as to why the audit actions remain outstanding.

The Panel has also indicated its concern at the loss of data within the Audit Action e-database following a software transfer and the resulting officer time this has incurred. The Panel have resolved that the Internal Audit and Risk Manager and IMD Operations Manager will provide a report to the next meeting of the Panel on the current situation, remedies to resolve the issues and prevention of a future re-occurrence.

35. WORK PROGRAMME AND TRAINING

Members of the Panel have received details of their anticipated work programme over the ensuing year. Provided there was commitment from the full membership of the Panel, the Panel has agreed to undertake a review of the effectiveness of the Panel, to be conducted by the Internal Audit and Risk Manager, prior to the elections.

G J Harlock
Chairman