

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter: Annual Report of the Panel
Meeting/Date: Corporate Governance Panel – 16 September 2015
Executive Portfolio: Resources: Councillor J A Gray
Report by: Internal Audit & Risk Manager
Ward(s) affected: All Wards

Executive Summary

The Panel present a formal Annual Report to the Council on the work that it has undertaken each year. The draft Annual Report in respect of the year ending September 2015 is attached at Appendix 1.

At the time of writing the Annual Report, the External Auditor's ISA 260 Report had not been received. Within the Annual Report, under the Section 'Approving the Annual Financial Report 2014/15', there is a paragraph that deals with the External Auditors opinion on the financial statements and achievement of value for money. It will not be known if that paragraph has to be amended until the ISA 260 Report has been received.

To deal with this, it is proposed that the Chairman of the Panel be given delegated authority to approve any changes to the report prior to its submission to Council.

There are no financial implications arising from this report.

Recommendation(s):

It is recommended that the Panel:

1. Review the draft Annual Report and decide what changes , if any, they wish to make;
2. Delegate to the Chairman of the Panel the authority to approve any changes to the report; and
3. Submit the report to the 30th September 2015 Council.

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1. WHAT IS THIS REPORT ABOUT/PURPOSE?

- 1.1 The Annual Report of the Panel provides the Council with a summary of the work of the Panel.

2. WHY IS THIS REPORT NECESSARY/BACKGROUND

- 2.1 Arising from the 2010/11 Panel effectiveness review, the Panel agreed to provide an Annual Report to Council. The report sets out the impact of the Panel's work upon the Council's internal control and governance environment.

3. OPTIONS CONSIDERED/ANALYSIS

- 3.1 The Annual Report has been prepared by the Internal Audit & Risk Manager. It summarises the work undertaken by the Panel during the year ending 30th September 2015.
- 3.2 At the time of writing the Annual Report, the External Auditor's ISA 260 report had not been received. Within the Annual Report, under the Section 'Approving the Annual Financial Report 2014/15', there is a paragraph that deals with the External Auditors opinion on the financial statements and achievement of value for money. It will not be known if that paragraph has to be amended until the ISA 260 Report has been received.
- 3.3 To deal with this, and to allow for any other changes that the Panel consider are necessary, it is proposed that the Chairman of the Panel be given delegated authority to approve any changes to the report prior to its submission to Council.

4. COMMENTS OF OVERVIEW & SCRUTINY PANEL

- 4.1 Not applicable. The report is for consideration by the Panel only.

5. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED?

- 5.1 The Annual Report has been submitted to the Panel in draft. This gives the Panel the opportunity to review it and agree any changes before it is presented to Council on 30th September 2015.

6. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

- 6.1 Once agreed, the Annual Report will be made available to all Council Members and presented to the September 2015 Council.

7. LINK TO THE CORPORATE PLAN

- 7.1 The report will be available on the Council's website. As such it will assist with customer engagement, both at Member level and with other stakeholders.

8. CONSULTATION

- 8.1 No consultation has taken place.

9. LEGAL IMPLICATIONS

- 9.1 There are no legal implications contained in this report.

10. RESOURCE IMPLICATIONS

10.1 There are no resources implications contained in this report.

11. OTHER IMPLICATIONS

11.1 There are no other implications arising from this report.

12 REASONS FOR THE RECOMMENDED DECISIONS

12.1 The Panel need to be satisfied that the Annual Report reflects their work. Changes may be required to the report once the Panel have discussed its contents. Delegating authority to the Chairmen to approve the report, will allow it to be agreed and presented to Council on 30 September 2015.

13. LIST OF APPENDICES INCLUDED

Appendix 1 – 2015 draft annual report of the Panel

BACKGROUND PAPERS

Corporate Governance Panel minutes and reports.

CONTACT OFFICER

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Corporate Governance Panel

Chairman's Annual Report to Council for the year ending 30 September 2015

Introduction by the Chairman of the Corporate Governance Panel

This is the fifth 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 website 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 2015. The Panel is of the view that the Council's governance and internal control procedures are generally sound.

There are two areas – one good and one not so good – that the Panel have taken the lead on progressing.

In December 2014 the Council introduced a new employee Code of Conduct. The Code is very different than previous versions that have been issued and sets out in a clear manner the values and behaviours that all employees are expected to exhibit in carrying out their work and dealing with customers.

Last year's report highlighted the Panel's concerns over the poor performance in introducing agreed internal audit actions. Whilst there has been an improvement, the Panel do not feel that it is great as it should have been. In July 2015, the Panel brought this to the Council's attention. The Panel intend to keep this matter under review during the coming year.

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 2015 provide adequate assurance over key business processes and adequate assurance over financial systems. This is an improvement upon last year.

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 2015. It is for that reason that this report covers the same period, rather than financial years.

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

Councillor Mike Francis
Chairman, Corporate Governance Panel
September 2015

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 2015 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 2015. The Panel are of the opinion that the Terms of Reference (included at Annex A) remain appropriate and no changes are proposed.

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.

A brief outline of the main business conducted by the Panel during the reporting year is listed in the table below and on the following pages.

November 2014	March 2015	June 2015	July 2015	September 2015
Reviewed 1 st annual report on achievement of Value for Money	Review external audit plan for 2014/15 and 2013/14 grant certification	Approved anti-fraud and corruption strategy	Considered Internal Audit annual report and opinion, March 2015	Approved the 2014/15 annual governance statement
Approve changes to whistleblowing policy & procedure	Note the progress in introducing external audit recommendations	Approve changes to whistleblowing policy & procedure	Approve the Internal Audit Charter	Considered the External Auditors 2014/15 'report to those charged with governance' and action plan
Review delivery of Internal Audit plan	Reviewed proposed Constitution changes and recommend their adoption to Council	Approve a training programme for the Panel	Reviewed proposed Constitution changes and recommend their adoption to Council	Approved the 2014/15 statement of accounts
Note progress on the introduction of agreed internal audit actions ¹	Approve 2014/15 Internal Audit plan	Review the risk register and management of risks		
	Note progress on issues from 2013/14 AGS			

Review annual reports				
<ul style="list-style-type: none"> FoI, EIR & DPA requests and improvement action plan ² Whistleblowing concerns received 	<ul style="list-style-type: none"> Accounting policies 	<ul style="list-style-type: none"> Corporate Fraud Team activity 2014/15 Whistleblowing concerns received 	<ul style="list-style-type: none"> Effectiveness of internal audit service 	<ul style="list-style-type: none"> Annual effectiveness review of the Panel and annual report to Council

¹ This report became a standing agenda item from November 2014 onwards

² Freedom of Information, Environmental Information Regulations, Data Protection Act

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:

- Panel members should undertake a skills assessment so that their training needs can be identified and addressed.
- A wide breadth of governance related knowledge is required by Members of the Panel. The 2016 constitution review should consider options for restricting the number of changes to Panel membership each year or the appointment of Members for longer than one year.

The Panel also agreed in September 2014 that the Corporate Director (Services) be requested to consider the potential for mandatory training for Members of the Panel as part of her review of the District Council's Constitution.

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 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 Statement is prepared.

Approving the Annual Governance Statement on behalf of the Council.

At the September 2015 meeting, the Panel approved the 2014/15 Annual Governance Statement. The Panel continue to believe that it is important that the Council's stakeholders understand the Council's governance structures and consider that the style of the annual governance statement allows this.

The Panel are of the opinion that there are two areas that need specific mention – the development of robust and effective reporting arrangements for shared services; and to continue to improve project management practices.

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

- ~ *Explain the Council vision*
- ~ *Develop the performance 'golden thread'**
- ~ *Review partnership commitments**
- ~ *Comply with procurement rules*

In March 2015 the Panel discussed the progress that had been made in delivering the four significant governance issues identified in the 2013/14 AGS.

The Panel were pleased with the action taken in respect of each area and decided that all were being sufficiently managed that they did not require to be included as an issue in the 2014/15 AGS.

Introduction of a new Employee Code of Conduct.

(This was identified as a development issue in last year's report).

One of the major initiatives progressed by the Panel in the last year saw the introduction of a new employee Code of Conduct in December 2014.

The Code, 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 Code up-to-date and ensuring that all employees receive a copy and understand its contents. The Employment Panel have taken over responsibility from the Corporate Governance Panel for the oversight of the Code's contents.

Approving the Annual Financial Report 2014/15

Unqualified financial statement and value for money opinion issued by the external auditor.

The 2014/15 financial report was externally audited and approved prior to the statutory deadline of 30 September 2015. The external auditors issued both an unqualified value for money and financial statement opinion.

The Panel are aware that from 2017/18 the financial report will need to be ready for external audit review by the 31 May and be approved by the Panel by the 30 July. They are also aware that the Council missed the deadline for preparing the 2010/11 accounts due to introduction of new accounting standards. The Panel intend to request updates on the progress being made to ensure that the new dates are achieved.

Delivering Value for Money

The Panel reviewed the arrangements that are in place across the Council to support the

The Council has a responsibility to deliver its services economically, efficiently and effectively. The Panel is aware that the

achievement of Value for Money (VfM).

Council does not have a written framework or strategy that outlines how this will be achieved. It requested a report from the Head of Resources that set out how the Council achieves value for money.

The report detailed the arrangements in place, which included the external auditors unqualified VfM opinion of the last three years, Governance Boards, lean thinking and associated reviews, procurement activity and performance management reporting. The Panel noted that notwithstanding the introduction of zero based budgeting or the likelihood of shared service initiatives, few service led value for money studies had been undertaken.

Internal audit plan and annual opinion

The annual opinion of the Internal Audit & Risk Manager as at 31 March 2015 was that the Council's internal control environment and systems of internal control provided adequate assurance over key business processes and adequate assurance over financial systems.

The Panel noted the annual internal audit opinion which was an improvement upon last year.

In July 2014 when discussing the amount of change that was occurring in the Council, Panel expressed concern that the need to drive out savings and efficiencies may lead to a reducing internal control environment and increasing numbers of internal audit reports being issued that are in the 'limited' or 'little' categories. It is pleasing that this does not appear to be the case.

The Panel, having been previously made aware of the difficulties that Internal Audit faced in recruiting to a post that had been vacant since October 2014, noted that it had been filled in June 2015. The shortfall of audit resources very badly affected the delivery of the internal audit plan. Having discussed this with the Internal Audit & Risk Manager, the Panel were satisfied that sufficient changes were made to audit plan coverage so that all the key financial systems were reviewed.

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

As last year, the Panel have continued to express concern and disappointment at the low number of agreed audit actions that were introduced on time. Despite receiving reports from November 2014 onwards and expressing their dissatisfaction, progress has been slow. In June 2015 the Panel referred the matter to Council and requested them to refer the matter to Cabinet; which was done.

The Panel intend to monitor the progress that has been made, and will if necessary, refer the matter to Council again.

Approving the internal audit work plan

The Panel approved the internal audit plan for 2015/16 in March 2015.

At this time, the Internal Audit Service was not fully staffed and Panel were informed that resources were not sufficient to deliver the plan. Despite taking an optimistic view on recruitment, there remained a shortfall of more than 100 days.

As noted earlier in the report, an auditor was recruited in June 2015 and it is expected that the audit plan will be delivered. The Chairman of the Panel is informed of progress in delivering the audit plan on a quarterly basis.

Countering fraud and the work of the Corporate Fraud Team

The Panel's fraud working group has fulfilled its terms of reference and stopped meeting.

The fraud sub-group ceased to meet from September 2014 as it had fulfilled its terms of reference, recommending to the Panel and Cabinet that a corporate fraud team be retained once the Dept. for Works and Pensions single fraud investigation service became responsible for welfare fraud in May 2015.

In May 2015 the Panel considered the 2014/15 annual report of the corporate fraud team. This showed that during the year the team had received 1,028 allegations of fraud, investigated 345 cases and identified fraud with a value of £464,000. It prosecuted 29 of the most serious cases and a further 28 individuals were cautioned or fined. It also worked with registered social landlords to recover 7 social housing properties that were being used unlawfully.

Updating the whistleblowing policy and guidance.

In November 2014 the Panel reviewed the Council's whistleblowing policy and guidance to ensure it remained fit for purpose. They also considered the aims of Public Concern at Works (PCaW) whistleblowing code of practice and in December 2014, the Council agreed with the Panel's recommendation that it should formally sign up to the Code and

work towards compliance with it.

The Panel revisited the whistleblowing policy in June 2015 and adopted a number of changes that reflected the PCaW Code. In doing so, it had to narrow the definition of 'whistleblower'. Previously any person was able to raise an issue under the policy, it now applies only to Council employees and those contractors who are working for it.

Approved a revised Anti-Fraud and Corruption Strategy.

To reflect the December 2014 Code of Practice on managing the risk of fraud and corruption (published by the Chartered Institute of Public Finance and Accountancy), the Panel approved a revised anti-fraud and corruption strategy in June 2015.

The Strategy reflects a new requirement to focus on non-welfare fraud areas. The Panel in discussing this matter, accepted this would be a major change of approach and a work programme is being developed by the corporate fraud team to help them the aims of the Strategy. Once the work programme has been reviewed by the Panel, they intend to consider if the fraud sub-group is to reconvene so that it can continue to be informed of the progress that is being made.

Reviewing the Constitution

The Council have adopted the recommendations of the Panel and introduced a number of changes to the Constitution to allow it to operate more effectively.

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

They undertake a review of the Constitution towards the end of each financial year so allowing changes to be considered by Council and adopted from the start of the municipal year. In exceptional circumstances, the Panel may also consider changes to the Constitution at other times of the year. Two such exceptional cases occurred in July 2015 when the Panel recommended to Council that amendments should be made to the Constitution to:

- reflect changes to the dismissal procedures for the Councils three statutory Officers and;
- reflect a commercial approach to the disposal and acquisitions of property by amending monetary thresholds to assist with decision making .

Changes to the Code of Financial Management and Code of Procurement were reviewed and recommended to Council for approval at the Panel's March 2015 meeting.

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 Panel received reports in September 2014 and June 2015 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.

Corporate Governance Panel
Terms of Reference approved by Council 17 December 2014

The Corporate Governance Panel discharges the functions of the Council in relation to the corporate 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 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 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) report on progress in delivery;
 - monitoring the introduction of agreed audit actions;
 - considering upon request, specific internal audit reports;
 - 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 the external auditor when necessary.

FINAL ACCOUNTS

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

**Corporate Governance Panel
Terms of Reference approved by Council 17 December 2014**

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