
Corporate Governance Panel

Report of the meeting held on 16th September 2015.

Matters for Information

14. CORPORATE GOVERNANCE PANEL PROGRESS REPORT

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

15. APPROVAL FOR PUBLICATION OF THE 2014/15 ANNUAL GOVERNANCE STATEMENT AND THE ANNUAL FINANCIAL REPORT

The Panel has received the Annual Governance Statement (AGS) and Annual Financial Report (AFR), both of which are required by statute and must be approved and published by the 30th September.

The Panel have been apprised of the process required to be undertaken prior to the approval and publication of the 2014/15 final accounts.

As a consequence of the Corporate Governance Panel meeting being held a week earlier than in previous years, the final validation checks by the External Auditors of both the AGS and the AFR were incomplete by the date of the meeting. Consequently the Panel has agreed:

- i. in principal to both the AGS and the AFR, as well as the Letter of Representation; and
- ii. that following confirmation by the External Auditor (deadline of the 23rd September) that both documents are unqualified, delegate authority to the:
 - Executive Leader and the Managing Director to sign the AGS;
 - Head of Resources to sign the Letter of Representation; and
 - Corporate Governance Panel Chairman to sign the AFR.

The Council's External Auditors, PricewaterhouseCoopers LLP (PwC), have presented their draft ISA 260 report to the Panel. The areas where matters remained outstanding were highlighted throughout the report in yellow. However, the Panel were specifically referred to the following areas:

- Page 9 - Pension's liability – the figure contained within the Statement of Accounts is a significant estimate and the External Auditors requested evidence for assurance that this figure is appropriate;
- Page 9 - Valuation of property, plant and equipment - the Authority operates a 3 year cycle of revaluation and Leisure Centres represent the largest element of the Council's estate. As the Leisure Centres have not been valued during 2014/15 (as they were revalued in 2013/14) and given their significant value the External Auditors have requested that the Authority obtain assurances from the expert valuers that there are no material revaluation during the course of the year. Since publication of the Agenda the External Auditors have received the valuation report from the Council's expert valuers, Barker Storey Matthews, and are satisfied with the response;
- Page 10 - Non-Domestic Rates safety net calculation - in August the Department for Communities and Local Government have released a revised calculation template for the non-domestic rates safety net calculation. The External Auditors consider the revised calculation is appropriate. However, it is yet to be agreed with the Council whether this should be recorded as an adjustment to the 2014/15 accounts, increasing the reported income, or reported as a non-adjusting event in the 2015/16 accounts;
- Page 10 - Provision against Non Domestic Rate (NDR) Appeals – the External Auditors are of the opinion that the estimate regarding appeals made against NDR assessments might be overly prudent and therefore the Authority is required to provide an additional explanation to support the appropriateness of the level of provision; and
- Pages 39 - 40 – Internal Controls – The External Auditors have identified four areas where internal financial controls require improvement relating to:
 - No formal authorisation process for journals;
 - Bank reconciliations;
 - No formal authorisation process for fixed asset disposals; and
 - Depreciation Policy.

It has been explained to the Panel that where an accountant below Principal Accountant level generates a journal of more than £850,000, this is reviewed by either a Principal Accountant or the Accountancy Manager. For journals below £850,000 produced by an Accountant below Principal Accountant, a new process is to be introduced whereby a random 10% sample of journals will be reviewed by either a Principal Accountant or the Accountancy Manager.

Currently fixed assets are not depreciated in the first year of purchase so depreciation on newly purchased assets is understated. As a result the Council has agreed that the Depreciation Policy will be updated for the 2015/16 Annual Financial Report.

The External Auditors have referred the Panel to page 41 of the report regarding the risk of fraud. At the Panel's meeting in March the Panel were asked whether it was aware or had any concerns regarding fraud.

In presenting the draft ISA 260 report to the Panel the External Auditors received confirmation from the Panel that there have been no changes to its view of fraud risk and that no additional matters have arisen that should be brought to the attention of External Audit.

Appendix 1 - page 45 of the draft report refers to a summary of uncorrected misstatements. The Panel has been informed by the External Auditors that there are no uncorrected financial misstatements or disclosure misstatements to report and it is not envisaged there will be once the final ISA 260 report is issued.

The Annual Governance Statement has been prepared in consultation with the Panel and their comments have been incorporated. One amendment required to the document has related to the Lead Officer listed on the last page of the report. The Lead Officer responsible for Improve project management practices, including Officer compliance with the project management toolkit, is the Corporate Team Manager, not the Corporate Director (Services).

External Audit have commended the Annual Governance Statement and have confirmed to the Panel that it incorporates all requirements as per the Chartered Institute of Public Finance and Accountancy guidance and also accords with their audit.

The Letter of Representation from the External Auditors is required to support all audits in order to confirm that the audit has been completed to the best of their knowledge and belief. It has been noted to the Panel that a new addition to the letter is the requirement to provide a complete list of the Authority's related party transactions as attached as Appendix 2 of the letter.

The Panel has expressed appreciation to the Officers involved in producing the AGS and AFS and also to the External Auditors for their work over the years and have hoped that the new Auditors will be able to replicate their high standards.

A copy of the Annual Governance Statement 2014/2015 has been circulated to all Members separate to the Council agenda.

16. CHANGE IN EXTERNAL AUDITOR AND AUDIT FEES 2015/16

The Panel has received and noted a report in respect of the change in Auditor and the audit fees for 2015/16.

As a consequence of:

- the abolition of the Audit Commission's public audit responsibility;
- the re-tendering of the Audit Commission 'private sector provider' external audit contracts on the 31st March 2015; and
- the transfer of responsibility for the appointment of external auditors to each local authority from 2017,

the Audit Commission has appointed Ernst & Young as the Council's External Auditor for the two financial years 2015/16 and 2016/17.

There is a two-year gap (financial years 2015/16 and 2016/17) before an Authority can appoint its own Auditor. Until this time, as PwC did not bid for the contract, the Council's appointed auditors for the two intervening years will be Ernst & Young. As a consequence of the new local authority audit regulations, all local authorities will be permitted to appoint their own auditor from 2017/18 onwards.

Due to changes in financial regulations, the completion dates of audits and of the accounts will change and will need to be implemented as of 31 May 2018. In preparation for this the Council has been working towards the revised dates when completing its audits and the accounts.

The Panel were satisfied with the service provided by PwC and would prefer not to change its External Auditor. The Panel has accepted the enforced position, but strongly suspect that the fee for the External Audit service will increase to that quoted.

17. IMPLEMENTATION OF AUDIT ACTIONS

Performance information regarding the implementation of agreed internal audit actions for the year ending 31st August 2015 has been presented to the Panel. Five actions have not been introduced, all of which have been considered previously by the Panel at its meeting in June 2015 and via a recommendation from Council at their meeting on 29th July 2015, will be considered by the Cabinet at its meeting on 17th September 2015.

The Corporate Management Team has set a target that 100% of agreed internal audit actions should be introduced on time. There were 78 actions due to be introduced in the year ending 31 August 2015. 77% (60 in number) of agreed audit actions were introduced on time. A further 17% (13 in number) of the agreed audit actions have been introduced, but late, which have remained 6% (5 in number) outstanding. The current position in respect of the 5 outstanding audit actions were summarised in Appendix 2 of the Officer's report.

18. REVIEW OF THE EFFECTIVENESS OF THE CORPORATE GOVERNANCE PANEL

The Panel has been acquainted with the outcome of the Annual Review on the effectiveness of the Panel undertaken by the Internal Audit and Risk Manager. The review has concluded that the Panel is acting effectively and fulfilling its Terms of Reference.

Due to five of the eight Panel Members being newly appointed in May 2015, it has been agreed that the Internal Audit and Risk Manager should conduct the review and share the findings with the Chairman and Vice-Chairman.

A number of opportunities to further improve the effectiveness of the Panel were identified within the review as follows:

1. Five new Members were appointed to the Panel in May 2015. In order to get a clear idea of all Panel Members current knowledge of governance matters, a skills assessment should be completed so that training needs can be identified and addressed.
2. Whilst Cabinet are responsible for approving the Risk Management Strategy and ensuring that risk management procedures are in place across the Council, the Panel require assurance that these arrangements are working effectively.
3. The Panel are aware that a review of the Council's Constitution is underway. They would like early sight of any proposed changes so that they are able to adequately deliberate and consider the changes before making any recommendation to the Council.
4. A wide breadth of governance related knowledge is required by Members of the Panel. To ensure that the Panel remains effective, the number of new Members appointed to the Panel each year by the Council should be restricted.
5. As recommended by the Panel in September 2013 and last year's report, the Council should introduce a Procurement Strategy and become a signatory to the Prompt Payment Code (PPC)

Seven of the ten actions agreed as a result of the 2014 review have been introduced. The remaining three actions were listed within Appendix 1 the Officer's report under items 8 – 10 with information on how these matters will be addressed.

The Panel were informed that the Council has not become a signatory to the PPC as the voluntary PPC has been superseded by two pieces of legislation that requires all valid and correct invoices to be paid within 30 days of receipt and that the Council's Terms and Conditions requires its prime contractors to pay all subcontractors to the contract within 30 days for each valid invoice. The latter was the issue that the Council wanted to address and the reason that the PPC had been initially required.

In considering the outcome of the annual review, the Panel has endorsed the opportunities to further improve the effectiveness of the Panel with the exception that the Council become a signatory to the PPC.

19. ANNUAL REPORT OF THE PANEL

The Panel has been presented with the draft Annual Report of the Panel in respect of the year ending 30th September 2015 which provides a summary of its work regarding the Council's internal control and governance environment.

Given that a finalised draft of the External Auditor's ISA 260 report had not been received prior to the Agenda dispatch, and part of the Annual Report incorporates the External Auditors opinion on the financial statements and achievement of value for money, the Panel has

delegated authority to the Chairman to approve any amendments required to the Annual Report prior to it being presented to the Council meeting on 30th September 2015.

As a wide breadth of governance related knowledge is required by Members of the Panel, one opportunity identified in the Annual report to further improve the effectiveness of the Panel is that 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 has emphasised that this is not a deterrent for any Member to express a wish to join the Panel, but to assist with the retention of knowledge on the Panel.

The Panel has expressed concern at the level of declining attendance by the Panel Members over recent meetings and the Chairman will be considering this matter.

At the request of the Panel a copy of the Annual Report has been circulated to all Members separately to the Council agenda.

20. CONSULTATION PAPER: DELIVERING GOOD GOVERNANCE IN LOCAL GOVERNMENT: A FRAMEWORK

A consultation paper has been issued by The Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives and Senior Managers (SOLACE) on planned revisions to the Delivering Good Governance in Local Government: Framework. The Framework underpins the Council's own local Code of Corporate Governance and any changes to the Framework will be required to be reflected in the local Code.

The Council's Code of Corporate Governance is based on a previous version of the framework. There is no timetable for the publication of the final document. However, the consultation suggests that the Framework will be published during the current financial year, and therefore the Council's Code of Corporate Governance will require amendments as appropriate and the 2015/2016 Annual Governance Statement will need to take account of the updated Code.

One of the consultation responses relates to the relationship between Members and Officers. The Panel has discussed the response to this as the Panel has recently considered how individual member performance should be evaluated. Within the consultation response it suggested that senior management should be concerned with how an individual member performs and make training available to help them improve in that role but it would be inappropriate for senior management to review an elected Members overall performance. The Panel has accepted this, however is keen for Officers to act as a 'critical friend' role and feel able to suggest training as appropriate to individual Members if necessary.

The Panel has considered the Council's proposed response to the consultation as attached to the Officer's report and has delegated to the Chairman of the Corporate Governance Panel to finalise the

Council's response in consultation with the Internal Audit and Risk Manager.

21. WORK PROGRAMME AND TRAINING

Members of the Panel have received and approved details of their anticipated work programme over the ensuing year and the future training proposed.

A short information session on Procurement will be delivered to the Panel prior to the December meeting. A training session on the Council's Constitution, which is currently under review, is scheduled prior to the Panel meeting in March.

Following discussions between the Chairman and the Managing Director it has been agreed that a report will be presented to the Panel in December that discusses the future role for the Panel and the possible focus for their future work programme. The Panel has noted that there is some significant issues coming forward which the Panel should have some involvement in such as Shared Services, Project Management and the Constitution.

M Francis
Chairman