

HUNTINGDONSHIRE DISTRICT COUNCIL

MINUTES of the meeting of the CORPORATE GOVERNANCE PANEL held in Civic Suite 0.1A, Pathfinder House, St Mary's Street, Huntingdon, PE29 3TN on Wednesday, 16 September 2015.

PRESENT: Councillor M Francis – Chairman.
Councillors T D Alban, E R Butler and R J West.

APOLOGIES: Apologies for absence from the meeting were submitted on behalf of Councillors Mrs P A Jordan and Mrs D C Reynolds.

23. MINUTES

The minutes of the meeting held on 16th September 2015 were approved as a correct record and signed by the Chairman.

24. MEMBERS' INTERESTS

There were no declarations of interest received from those Members that were present.

25. CORPORATE GOVERNANCE PANEL PROGRESS REPORT

The Panel received and noted a report (a copy of which is appended in the Minute Book) of actions taken in response to previous decisions.

Having considered the report the Panel agreed to the deletion of those items indicated as being removed from future reports.

A Panel Member expressed that they were keen for a new Fraud Working Group to be re-established in the near future as in the past this Group had been beneficial.

26. APPROVAL FOR PUBLICATION OF THE 2014/2015 ANNUAL GOVERNANCE STATEMENT AND THE ANNUAL FINANCIAL REPORT

Consideration was given to a report by the Head of Resources (a copy of which is appended in the Minute Book) which sought approval in principal for the publication of the Council's Annual Governance Statement, Annual Financial Report and Letter of Representation.

The Annual Governance Statement (AGS) and Annual Financial Report (AFR) were documents required by statute and had to be approved and published by the 30th September.

In the absence of the Head of Resources, the Panel were apprised by the Accountancy Manager 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. Therefore the Panel were requested to approve in principal both the AGS and the AFR, as well as the Letter of Representation, and following confirmation by the External Auditor that both documents were 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.

Mr Clive Everest and Mr Chris Wlaznik, the Council's External Auditors from PricewaterhouseCoopers LLP (PwC) were in attendance at the meeting and presented their draft ISA 260 report to the Panel. It was noted that 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 was a significant estimate and the External Auditors had requested evidence for assurance that this figure was appropriate;
- Page 9 - Valuation of property, plant and equipment - the Authority operated a 3 year cycle of revaluation and Leisure Centres represented the largest element of the Council's estate. As the Leisure Centres had not been valued during 2014/15 (as they were revalued in 2013/14) and given their significant value the External Auditors had requested that the Authority obtained assurances from the expert valuers that there were no material revaluation during the course of the year. It was explained that since the publication of the Agenda the External Auditors had received the valuation report from the Council's expert valuers, Barker Storey Matthews, and were satisfied with the response;
- Page 10 - Non-Domestic Rates safety net calculation - in August the Department for Communities and Local Government released a revised calculation template for the non-domestic rates safety net calculation. The External Auditors considered that the revised calculation was appropriate. However, it was yet to be agreed with the Council whether it 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 were of the opinion that the estimate regarding appeals made against NDR assessments might be overly prudent and therefore the Authority was required to provide an additional explanation to support the appropriateness of the level of provision; and
- Pages 14 - 15 – Internal Controls – The External Auditors had identified four areas where the Council's internal financial controls required improvement relating to:
 - No formal authorisation process for journals;
 - Bank reconciliations;
 - No formal authorisation process for fixed asset disposals; and
 - Depreciation Policy.

It was explained to the Panel that where an Accountant below Principal Accountant level generated a journal of more than £850,000, this was 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 was to be introduced whereby a random 10% sample of journals would be reviewed by either a Principal Accountant or the Accountancy Manager.

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

The External Auditors referred the Panel to page 16 of their report regarding the risk of fraud. At the Panel's meeting in March the Panel had been asked whether they were aware or had any concerns regarding fraud. In presenting the draft ISA 260 report to the Panel the External Auditors asked the same question and received confirmation from the Panel that there had been no changes to its view of fraud risk and that no additional matters had arisen that should be brought to the attention of External Audit.

Appendix 1, page 20 of the draft report, referred to a summary of uncorrected misstatements. In response to a question the Panel were informed by the External Auditors that there were no uncorrected financial misstatements or disclosure misstatements to report and it was not envisaged there would be once the final ISA 260 report was issued.

The Annual Governance Statement had been prepared in consultation with the Panel and their comments had been incorporated. The Internal Audit and Risk Manager noted that there was one amendment required to the document regarding the Lead Officer listed on the last page of the report (page 18). The Lead Officer responsible for Improve project management practices, including Officer compliance with the project management toolkit, was the Corporate Team Manager, not the Corporate Director (Services).

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

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

Referring to page 34 of the AFR it was noted by a Panel Member that as the Council did not possess 'Mayoral Regalia' the wording should be replaced with 'Civic Insignia'.

Having 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 hoping that the new Auditors would be able to replicate their high standards, the Panel

RESOLVED

- i. to receive the External Auditor's Draft ISA 260 report (attached as Appendix A to the Officer's Report).
- ii. in principal, approves the Annual Governance Statement (attached as Appendix B to the Officer's Report) and authorises the Executive Leader and Managing Director to sign the Statement on behalf of the Council, once the External Auditors confirm that the Annual Governance Statement will not be qualified.
- iii. in principal, approves the Letter of Representation (attached as Appendix C to the Officer's Report) and authorises the Head of Resources to sign it on behalf of the Council, once the External Auditors confirm that both the Annual Governance Statement and the Annual Financial Report will not be qualified.
- iv. in principal, approves the Annual Financial Report (attached as Appendix D of the Officer's Report) and authorises the Chairman of the Panel to sign the accounts on behalf of the Council once the External Auditors confirm that the Annual Financial Report will not be qualified.

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

The Panel received a report (a copy of which is appended in the Minute Book) by the Head of Resources in respect of the change to the External 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 appointed Ernst & Young as the Council's External Auditor for the two financial years 2015/16 and 2016/17.

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

It was noted to the Panel that due to changes in financial regulations, the completion dates of audits and of the accounts would change and would need to be implemented as of 31 May 2018. In preparation for this the Council had been working towards the revised dates when

completing its audits and the accounts.

The Panel expressed its satisfaction with the service provided by PwC and if given the choice would prefer not to change. The Panel accepted the enforced position, but strongly suspected that the fees for the External Audit service would increase to that quoted. Whereupon it was

RESOLVED

that the Panel considered the report and offered comment in respect of the change in the External Auditor and the audit fee for 2015/16.

28. IMPLEMENTATION OF AGREED AUDIT ACTIONS

The Panel received and noted a report by the Internal Audit and Risk Manager (a copy of which is appended in the Minute Book) which provided performance information regarding the implementation of agreed internal audit actions for the year ending 31st August 2015.

Five actions had not been introduced, all of which had 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, would be considered by the Cabinet at its meeting on 17th September 2015.

The Corporate Management Team had 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 had been introduced, but late, and 6% (5 in number) remained outstanding. The current position in respect of the 5 outstanding audit actions was summarised in Appendix 2 of the Officer's report. Whereupon it was

RESOLVED

that the Panel note the report.

29. REVIEW OF THE EFFECTIVENESS OF THE CORPORATE GOVERNANCE PANEL

By way of a report by the Internal Audit and Risk Manager (a copy of which is appended in the Minute Book) the Panel was acquainted with the outcome of the Annual Review on the effectiveness of the Panel. The review concluded that the Panel was acting effectively and fulfilling its Terms of Reference.

Due to five of the eight Members being newly appointed to the Panel in May 2015, it was agreed that the Internal Audit and Risk Manager would 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:

- i. Five new Members were appointed to the Panel in May 2015. In order to obtain a clear idea of the current knowledge of all Panel Members regarding governance matters, a skills assessment would be completed so that training needs could be identified and addressed.
- ii. Whilst the Cabinet were responsible for approving the Risk Management Strategy and ensuring that risk management procedures were in place across the Council, the Panel required assurance that these arrangements were working effectively.
- iii. The Panel were aware that a review of the Council's Constitution was underway. The Panel would like early sight of any proposed changes so that they were able to adequately deliberate and consider the changes before making any recommendation to the Council.
- iv. A wide breadth of governance related knowledge was required by Members of the Panel. To ensure that the Panel remained effective, the number of new Members appointed to the Panel each year by the Council should be restricted.
- v. 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)

It was noted to the Panel that seven of the ten actions agreed as a result of the 2014 review had been introduced. The remaining three actions were listed within Appendix 1 the Officer's report under items 8 – 10 with accompanying information on how these matters would be addressed.

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

In considering the outcome of the annual review, the Panel endorsed the opportunities to further improve the effectiveness of the Panel with the exception that the Council become a signatory to the PPC. The Panel stated that as the voluntary PPC had been superseded by legislation this should be better able to deal with the reason that the PPC had been initially required. In concluding the Panel

RESOLVED

- i. to consider the results of the outcome of the review of the effectiveness of the Panel;
- ii. endorse the opportunities identified to further improve Panel effectiveness as contained in the Executive Summary of the Officer's Report (points 1-5a inclusive); and

- iii. that the Council does not to become a signatory to the Prompt Payment Code (PPC) as contained in the Executive Summary of the Officer's Report (point 5b).

30. ANNUAL REPORT OF THE PANEL

The Panel was presented with the draft Annual Report of the Panel (a copy of which is appended in the Minute Book) in respect of the year ending 30th September 2015 which provided 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 incorporated the External Auditors opinion on the financial statements and achievement of value for money, the Panel was requested to delegate 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 was required by Members of the Panel, one opportunity identified in the Annual report to further improve the effectiveness of the Panel was that the review of the Constitution considered options for restricting the number of changes to the Panel membership each year or the appointment of Members for longer than one year. In discussing this the Panel emphasised that they did not wish for this to be a deterrent for any Member expressing a wish to join the Panel, but rather to assist with the retention of knowledge on the Panel.

On the related topic of maintaining continuity, the Panel expressed concern at the level of declining attendance by some Panel Members over recent meetings. The Panel agreed for the Chairman to consider this matter further outside of the meeting. Whereupon it was

RESOLVED

- i. that the Panel reviewed the draft Annual Report;
- ii. delegates to the Chairman of the Panel the authority to approve any changes to the report; and
- iii. that the report be submitted to the 30th September 2015 Council meeting.

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

The Panel received a report by the Internal Audit and Risk Manager (a copy of which is appended in the Minute Book) for its consideration as a consultation paper had 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 underpinned the Council's own local Code of Corporate Governance and any changes to the Framework would be required to be reflected in the local Code.

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

One of the consultation responses related to the relationship between Members and Officers. The Panel discussed the response to this as the Panel had previously considered how individual member performance should be evaluated. Within the consultation response it was suggested that senior management should be concerned with how individual members perform and provide training to assist them in improving in that particular role. However, it would be inappropriate for senior management to review an elected Members overall performance. The Panel accepted this, but was keen for Officers to act within a 'critical friend' role and feel able to suggest training as appropriate to individual Members if necessary.

In considering the Council's proposed response to the consultation as attached to the Officer's report, the Panel

RESOLVED

to delegate to the Chairman of the Corporate Governance Panel to finalise the Council's response to the consultation paper in consultation with the Internal Audit and Risk Manager.

32. WORK PROGRAMME AND TRAINING

By way of a report by the Internal Audit and Risk Manager (a copy of which is appended in the Minute Book) Members were acquainted with a work programme for the Panel for the forthcoming twelve months and the future training proposed.

It was noted that a short information session on Procurement would be delivered to the Panel prior to the December meeting. A training session on the Council's Constitution, which was currently under review, was scheduled prior to the Panel meeting in March.

The Panel were informed that following discussions between the Chairman and the Managing Director it had been agreed that a report would be presented to the Panel in December that discussed the future role of the Panel and the focus for their future work programme. In discussing this the Panel noted that there were some significant issues coming forward which the Panel stated they should have some involvement in such as Shared Services, Project Management and the Constitution. Whereupon it was

RESOLVED

that the Corporate Governance Panel note the Programme of Work and the proposed training.

Chairman