

HUNTINGDONSHIRE DISTRICT COUNCIL

Title:	Annual Governance Statement: Significant Issues
Meeting/Date:	Corporate Governance Committee – 12 July 2017
Executive Portfolio:	Strategic Resources: Councillor J A Gray
Report by:	Internal Audit & Risk Manager
Wards affected:	All Wards

Executive Summary

The Annual Governance Statement (AGS) is required to include details of any significant governance issues that the Council is aware of.

Senior Management Team (SMT) having considered this matter are of the opinion that the following two items are significant enough to be included in the 2016/17 AGS.

Delays to the introducing of the new financial management system.

This is a major project for each of the 3C's. The supplier did not meet the 'go-live' date of 31 March 2017 and implementation has been delayed until 3 October 2017.

Shared service governance arrangements

This item has been included in the AGS for the last two years. None of the three shared services achieved the 15% savings as set out in the business case. The largest savings were to be delivered by the IT Shared Service, which the Council is leading. The savings target was missed by £590k.

SMT have also considered whether the following two items should be classed as significant AGS issues. After discussion they decided they did not warrant inclusion as AGS issues but should be referenced in the AGS text.

Maintaining effective cyber security defences

The Committee discussed the implications of cyber security breaches at their May 2017 meeting when considering the internal audit 2016/17 annual report, and specifically the limited assurance cyber-security internal audit report. Whilst not complacent, SMT feel that adequate controls are in place to resist a cyber-attack. This was supported by the internal audit report, whose main concerns were about improving

incident response plans.

Creation of the Cambridgeshire and Peterborough Combined Authority.

The Combined Authority (CA) is likely to have a direct impact on the Corporate Plan priorities and objectives of delivering sustainable growth. SMT accept that there is the need for the Council to develop effective partnership arrangements with the CA. A substantial amount of work has already been completed by the Managing Director and other Senior Offices in this area.

The 2016/17 annual Internal Audit Report raised two areas of concern – the management of safeguarding arrangements and the adequacy of the complaints system – and the Committee has already agreed to reflect these in the AGS.

Following Committees decision as to which items are deemed significant, the AGS will be written and presented to the 13 September meeting for approval. This will allow the statutory deadline for publication – 30 September – to be met.

Recommendation

It is recommended that the Committee:

1. Approve as significant governance issues for the 2016/17 AGS:
 - The failure to introduce a key corporate system, the FMS, by 1 April 2017 and its on-going delay.
 - Continued improvements to the shared service governance arrangements.
 - Improvements to safeguarding arrangements and the complaints system to deliver better outcomes for Customers.
2. Determine if there are any other issues that warrant inclusion in the 2016/17 AGS.

1. PURPOSE OF THE REPORT

- 1.1 This report sets out the significant issues identified for inclusion in the 2016/17 Annual Governance Statement (AGS).

2. WHY IS THIS REPORT NECESSARY/BACKGROUND

- 2.1 The Accounts and Audit Regulations 2015 require the Council to conduct a review of the effectiveness of its system of internal control and prepare an AGS each year. The Regulations also require the AGS to be approved by the Committee prior to its approval of the statement of accounts, the statutory deadline for which is the 30 September.

- 2.2 The Committee is being asked to consider those issues that it feels are significant enough to warrant inclusion in the AGS, so ensuring that there is no delay to its approval when presented to the Committee in September.

- 2.3 The Committee have previously considered an issue to be significant if it:

- seriously prejudiced or prevented the achievement of the Corporate Plan themes and aims;
- resulted in the need to seek additional funding or the significant diversion of resources;
- led to a material impact on the financial statements;
- attracted or have the potential to attract significant public interest or have had an impact on the reputation of the Council;
- resulted in formal action being undertaken by the Head of Resources or the Monitoring Officer.
- had been identified by the External Auditor or the Committee as being significant;
- had been reported by the Internal Audit & Risk Manager as significant in their annual internal audit opinion;
- resulted in disclosures of serious incidents relating to information governance, including data loss or confidentiality breach;
- put a major programme or project at risk.

3. ANALYSIS

- 3.1 Corporate Management Team (CMT) have considered the Council's overall governance systems, structures and partnerships and are of the opinion that the following issue should be considered for inclusion in the AGS:

a. Delays to the introduction of the new financial management system (FMS).

Cabinet gave approval to the Head of Resources in October 2015 to enter a joint procurement initiative with 3C partners to replace the FMS.

Following a joint procurement initiative amongst the 3C partners, a supplier was appointed to deliver the FMS to each 3C Partner by 3 April 2017. Officers from each of the 3C's are members of the project board responsible for delivering the new FMS. It is intended that one common set of business process and working practices will be adopted, so allowing for greater opportunities to develop shared service initiatives in the future.

User acceptance testing revealed that two modules did not meet service requirements and further development work was required. This was unlikely to be completed and tested by the 3 April. Considering any go-live date post April could have an impact on the closure of the accounts as well as the subsequent audit, a revised implementation date of 2 October 2017 was agreed.

b. Shared service governance arrangements.

Developing effective governance and reporting arrangements for shared services has been included as a significant governance issue in both the 2014/15 and 2015/16 AGS.

In receiving an update on the progress that had been made to improve governance arrangements, Committee were informed in March 2017 that the Partnership Board continues to meet to provide strategic oversight and performance manage the joint services and the 3C Management Board were meeting quarterly. The client function is managing the operational day to day performance, with the intention of making the day to day management part of the Councils business as usual performance monitoring.

The Council is the lead for the IT Shared Service (ITSS). The 3C combined budget for the ITSS as set out in the approved business plan was £5.914m. A savings target of 15% - £887k - was set for 2016/17. This target has not been met, £296k savings having been achieved.

Whilst this report is not the appropriate forum to set-out the reasons why the savings target was not achieved, there are a number of related governance issues. The main one being the lack of clarity and transparency in budget information presented to the 3C Management Board and Members. The 3C Partnership Agreement sets out the financial information that should be

reported to both the Management Board and each of the 3C's on a quarterly basis. These reports were not prepared.

The Head of IT & Digital (appointed in January 2017) has already taken steps to improve budgetary control and reporting and intends to submit a revised business plan that more accurately profiles the delivery of future savings, acknowledging that it will take several years to align business requirements and procurement processes to maximise the buying potential and get economies of scale

c. Maintaining effective cyber security defences.

Cyber security threats have become increasingly sophisticated and can be launched from anywhere, at any time, against any target. The May 2017 WannaCry ransomware cyber-attack affected organisations around the World. It highlighted the need for 3C ITSS to maintain effective update and patch controls across the network and so mitigate financial, service delivery or reputational risks.

A limited assurance opinion was given in the November 2016 internal audit review of cyber security. Whilst the audit review highlighted areas of good practice (e.g. annual penetration testing), it has been agreed that improvements are needed in the areas of cyber risk assessments, the formal assessment of IT network security and incident management. Work is underway to introduce the agreed internal audit actions.

At this time, SMT do not feel that the cyber security threat warrants inclusion in the AGS. Business as usual controls are managing the threats, and whilst that does not mean that SMT are complacent, they feel that adequate controls are in place that would identify and resist a cyber-attack.

d. The creation of the Cambridgeshire and Peterborough Combined Authority.

The Combined Authority (CA) is likely to have a direct impact on the Corporate Plan priorities and objectives of delivering sustainable growth. There is the need for effective partnership relationships to be developed.

Governance arrangements are already in place. The Leader of the Council is a member of the Combined Authority holding the statutory position of Deputy Mayor and has responsibility for the economic and productivity strategy and international trade, inward investment and business development. He is also the Chair of the Investment Group. He is realigning Cabinet roles to reflect the Combined Authority's structure.

Two Members have also been appointed to the CA scrutiny committee. Their brief will require them to reflect on the CA as a whole, rather than focus on Huntingdonshire, and as such there may be conflicts that required to be managed.

- 3.2 The 2016/17 annual Internal Audit Report that the Committee considered in May 2017 raised two areas of concern – the management of safeguarding arrangements and the adequacy of the complaints system.

4. RISKS

- 4.1 Where reviews of governance arrangements have revealed significant gaps which will impact on the authority achieving its objectives, the AGS is required to reflect this position and outline the action to be taken to ensure effective governance in the future. The external auditors in forming their Value for Money (VFM) opinion, will review the AGS as part of considering the Council's 'proper arrangements' to secure economy, efficiency and effectiveness on the use of resources. If they consider the AGS is not reflective of our governance arrangements a qualified VFM opinion may be issued.

- 4.2 The Accounts and Audit Regulations 2015 (Para 6, section 4a) require the AGS to be approved before the statement of accounts. The AGS is required to be approved by the Committee by the 30 September 2017. Non approval of the AGS at the 13 September Committee will mean that an additional meeting will be required before the 30 September to approve the AGS and statement of accounts.

- 4.3 This risk will be mitigated by circulating a copy of the draft AGS to the Committee and External Audit for review and comment. The draft AGS will include the significant governance issues agreed by Committee and any additional issues that are identified between today's meeting and its circulation. After taking into account any comments received the final version of the AGS will be prepared and presented to the Committee for approval in September.

5. LINK TO CORPORATE PLAN

- 5.1 The Councils governance arrangements underpin the delivery of the Corporate Plan by ensuring good management, performance, financial stewardship, public engagement and ultimately the outcomes for local people and service users. The AGS details how the governance arrangements operate in practice.

6. LEGAL IMPLICATIONS

- 6.1 Whilst the AGS has to be approved by the 30 September, the legal implications from non-compliance are considered to be low. The

external auditor would refer to the matter in their annual audit letter which may have an effect upon the Council's reputation.

7. RESOURCE IMPLICATIONS

7.1 There are no resource implications arising from this report.

8. REASONS FOR THE RECOMMENDED DECISIONS

8.1 Committee are being asked to approve significant governance issues for inclusion in the 2016/17 AGS. This will allow the AGS to be drafted and approved at their September meeting without further change or amendment.

BACKGROUND PAPERS

Internal Audit annual report 2016/17.

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