

# Corporate Governance Committee

Chairman's Annual Report to Council for the year ending 31 March 2017





# Introduction by the Chairman of the Corporate Governance Committee

This is the seventh annual report on the work of the Corporate Governance Committee and the third one that I have presented as Chairman of the Committee.

In March 2017 the Council agreed a number of changes to the Committee's terms of reference. It is now a requirement of the Constitution that the Chairman of the Corporate Governance Committee provides the Council with an annual report explaining how it has discharged its responsibilities.

The report summarises both the Committee's activities undertaken during 2016/17 and issues that relate to that financial year. It is intended to:

- reassure the Council and other stakeholders that it is undertaking its responsibilities and obligations properly and in a way that allows it to provide effective oversight; and
- demonstrate to the District's residents and other stakeholders the importance the Council places on good governance and the contribution the Committee makes to achieving that aim. The Committee's meetings are open to the public and its reports are available on the Council's webpages and I welcome the public's attendance at our meetings.

The Committee is of the view that the Council's governance and internal control procedures are generally sound. There are always opportunities for improvement however and the Committee have expressed concerns about the effectiveness of the controls associated with the management of the Council's complaint system and the effectiveness of safeguarding procedures and felt that significant improvements were needed in these two areas. They believe that these two issues should be included in the Council's 2016/17 Annual Governance Statement (AGS).

The number of cyber-attacks across the public sector appears to be increasing. With an almost total reliance on IT systems, the Committee remains concerned that a successful cyber-attack would have a major impact on the Council's ability to deliver services. It has therefore decided to make the seeking of assurance in this area a priority for 2017/18.

The Committee provides two key pieces of assurance to the Council – this report and the AGS. The AGS has to be approved before the Annual Financial Report (AFR). As I mentioned in the introduction to last year's annual report, legislation has been introduced that will bring forward to 31 July 2018 the date by which both the 2017/18 AFR and AGS have to be approved and published. I intend to make it a priority in the coming year that regular reports are received by the Committee informing them of the progress being made to achieve this date.

I want the Committee to follow best governance practice, and so in January 2017 Committee Members self-assessed their own effectiveness. As mentioned above, there are always opportunities for improvement and these are included in the report.

I would like to thank all the Members who served on the Committee during the reporting year and for the contributions they have made to challenging and improving governance arrangements. I also want to thank those Officers who have supported the Committee. Their frankness is appreciated.

**Councillor Mike Francis**

Chairman, Corporate Governance Committee

July 2017

## Introduction

The Committee is required to discharge the functions of the Council in relation to both the corporate governance of the Council and the conduct of Elected Members.

The Committee oversees the Council's governance and financial arrangements and the promotion and maintenance of high standards of conduct amongst the Council and Town and Parish Council's within the District of Huntingdonshire. This includes advising the Council on the Code of Conduct for Members, agreeing a Code of Conduct for Planning matters and considering reports by the Local Government Ombudsman.

Functions relating to the conduct of Members are considered by a Standards Sub-Committee (which will report to the main Committee).

The full functions of the Committee are listed at the end of the report.

## Effectiveness

An effective Corporate Governance Committee 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 Committee's work activities have been designed so that they not only provide assurance to the Council and allow it to discharge its functions, but also allow the Committee to make a positive contribution towards maintaining good governance practices across the Council.

### Committee priorities 2017/18

Monitor the steps being taken that will allow for the Annual Financial Report and Annual Governance Statement to be approved by 31 July 2018.	Monitor progress towards an improvement to the % of internal audit actions introduced on time.	Ensuring the Committee exercises its assurance oversight role in the best possible way.
Monitoring the progress made by the IT Shared Service to respond to cyber-security attacks.	Reinvigorate the Committee's training programme.	

# Matters considered

Set out below is a brief outline of the significant matters considered by the Committee during 2016/17.

	2016				2017
	June	July	Sept	Dec	Mar
<b>Constitution</b>					
Propose to Council:					
New Code of Corporate Governance		•			
Members Allowance Scheme				•	
Changes to Codes of Financial Management & Procurement					•
<b>Annual Governance Statement</b>					
Update on significant issues identified		•			•
Improvements to debt management			•		
Approve 2015/16 AGS			•		
<b>Internal Audit</b>					
Approve Audit plan					•
Annual report 2015/16 & Internal Audit Charter	•				
Proposed 3C shared internal audit service			•		
Approve IT audit plan 2016/17			•		
Implementation of agreed actions			•	•	•
Interim report 2016/17				•	
<b>External Audit &amp; Financial reporting</b>					
Progress made with introducing recommendations	•				•
2015/16 Audit results report			•		
Appointment process from 2018/19				•	
Approve accounting policies					•
Approve 2015/16 annual financial report			•		
Review audit plan					•
Review grant certification report					•
<b>Standards</b>					
Member code of conduct & register of pecuniary interests			•		•
Committee annual report			•		
Committee training				•	
Review of effectiveness of the Committee					•
<b>Fraud</b>					
Fraud Investigation Activity 2015/16	•				
Approved whistleblowing policy and noted concerns received	•				

# How effective is the Committee?

The Committee undertook a review of its own effectiveness in January 2017. Nine of the 12 Committee Members attended the review meeting.

Whilst considering themselves to be acting effectively and fulfilling their Terms of Reference (as applicable at that time), a number of opportunities to further improve effectiveness were identified – these are listed below together with the action taken.

	<b>Opportunities to improve effectiveness</b>	<b>Action taken</b>
1	The Committee's terms of reference should be amended to reflect its role and responsibility.	Council approved new terms of reference in March 2017.
2	The Chairman should reinstate private meetings with the external auditor.	Contact already made with the external auditor and a meeting is planned for September 2017.
3	Committee Members completed a skills and knowledge self-assessment in October 2016. This showed good knowledge across four areas of the Committees terms of reference and five areas that had a shortfall. The Head of Resources was to prepare and agree a training plan for Committee Members with the Committee Chairman.	Training plan report was presented to Committee in July 2017 and a formal training day arranged for September.
4	An induction plan is agreed by the Chairman and delivered to all new Committee members within eight weeks of their appointment to the Committee.	The induction training plan has not yet been agreed.
5	A draft copy of the minutes are circulated by email to Committee Members shortly after a meeting has been held.	Democratic Services Officers will circulate draft minutes within four weeks of a meeting.
6	Commission an external effectiveness review prior to March 2019.	As there may be changes to the membership of the Committee after the whole Council elections due to be held in May 2018 the timeframe of March 2019 was appropriate. To reduce costs, the review to be undertaken at the same time as the next Internal Audit external review.
Committee also considered the following two items but decided that no action should be taken at the present time.		
	<b>Opportunities to improve effectiveness</b>	<b>Reason why action not taken</b>
	The work plan to be expanded to receive reports on significant cross-cutting issues.	Issues of concern are to be referred to the relevant Overview and Scrutiny Panel for consideration and appropriate feedback procedures introduced
	The appointment of 'subject experts'.	On reflection, it was considered that these were not required.

## Reviewing the Constitution

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

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

A review of the Code of Procurement was undertaken, with subsequent changes approved by Council.

An update on the Disposal & Acquisitions policy (which was first considered by Committee in July 2015) and its effectiveness has been considered. Committee agreed that the current financial thresholds at which Statutory Officers and/or Member approval has to be obtained before a commercial investment property is purchased should be retained.

## The overall governance of the Council

**Adopting a new Code of Corporate Governance.**

The Code of Corporate Governance (CoCG) describes the way in which the Council carries out its functions through its Members, and employees and the way it undertakes its work, so ensuring that it establishes and maintains public confidence. It is a key document that supports the preparation of the Annual Governance Statement (AGS).

Council first adopted a CoCG in September 2003. A new 'proper practices' document – Delivering Good Governance in Local Government: Framework – was published in April 2016. The Framework defines seven principles that underpin the Council's overall governance structure.

The Committee recommended to Council that a new CoCG should be adopted from April 2016, and so form the basis for the 2016/17 AGS.

**Approving the Annual Governance Statement on behalf of the Council.**

At the September 2016 meeting, the Committee approved the 2015/16 AGS. The Committee 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.

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**Significant governance issues included in the 2015/16 AGS:**

~ **The need to improve debt management.**

~ **Continued development of effective governance and reporting arrangements for shared services.**

**Debt management**

The Head of Resources presented a report in September 2016 that set-out the action taken to improve debt management procedures and the current level of debt.

A update report was considered in March 2017. Stability in the Income Team and the re-introduction of a number of processes had seen an increase in performance, resulting in miscellaneous income debt reducing by 50% to £1.1m in the eight months to February 2017.

The Committee consequently felt that sufficient improvement had been made that it was not necessary to include the issue in the 2016/17 AGS.

**Shared Services**

Both the 2014/15 and 2015/16 AGS included the governance arrangements for shared services as a significant concern. The reason being that the Committee felt that reporting and oversight of shared services performance was still in its infancy and the failure of a shared service would be of significant impact to the Council.

A report presented to both the Overview & Scrutiny Panel (Performance and Customers) and Cabinet in February 2017 stated that the 15% savings target for shared service would not be achieved in 2016/17. As the largest savings were to be delivered by the IT Shared Service, which the Council is leading, the Committee are of the opinion that shared service governance should remain as an issue for the 2016/17 AGS.

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## Approving the Annual Financial Report 2015/16

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

The 2015/16 financial report was externally audited and approved prior to the statutory deadline of 30 September 2016. The external auditors issued both an unqualified value for money and financial statement opinion.

The Committee are aware that from 2017/18 the financial statements will need to be ready for external audit review by the 31 May 2018 and be approved by the Committee by the 30 July 2018. They are also aware that the Council missed the deadline for preparing the 2010/11 accounts due to the introduction of new accounting standards. The Committee intend to request updates on the progress being made to ensure that the new dates are achieved.

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### **Recommending to Council that the external auditors for 2018/19 and onwards be appointed via Public Sector Audit Appointments (PSAA).**

The Audit Commission was responsible for the appointment of external auditors up until its abolition in 2015. Legislation was introduced given Council's freedoms to make their own external auditor appointments from 2018/19. The Committee having considered the three options available (opting in to a nationwide sector led body, setting-up its own Appointments Panel or a joint Panel with others) decided that the sector led body (PSAA) was the most favourable option. The PSAA would be responsible for managing the procurement process and liaising with the Council over who should be appointed.

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## Internal audit

### Adequate assurance opinion.

**The annual opinion of the Internal Audit & Risk Manager as at 31 March 2017 was that the Council's internal control environment and systems of internal control provide adequate assurance over key business processes and financial systems.**

The Committee noted that the adequate assurance opinion was unchanged from 2015/16.

The Committee expressed concern about the limited level of assurance given to the internal audits of both safeguarding procedures and the management of complaints. It was felt that both systems needed significant improvement due to the potential impact upon service deliver arrangements or the non-delivery of the objectives set out in the Customer Service Strategy. As a consequence, Committee requested that both items should be included as significant issues in the 2016/17 AGS.

The Committee received the internal audit annual report at its May 2017 meeting, shortly after the worldwide cyberattack by the WannaCry ransomware. An internal audit cyber security review in November 2016 had highlighted the need for the Council to improve its incident response plans and formally assess and mitigate against the risks posed by cyber security threats. The Committee have made monitoring improvements to the management of cyber security a key priority for 2017/18.

### Not supporting the business case for the formation of shared internal audit service across the 3Cs

(comprising Huntingdonshire, Cambridge City Council and South Cambridgeshire District Council).

In September 2016, the Committee considered a report from the Head of Resources that set-out the business case for the formation of a shared internal audit service across the 3Cs.

The Committee were not convinced that the financial savings to be gained or the resilience and improved responsiveness arguments on which the business case was based were sufficiently sound. They felt that the internal audit service delivered was of a high quality which could not be guaranteed in a shared service.

The decision as to whether or not to proceed with a shared service was to be taken by the Cabinet. The Chairman of the Committee attended the October 2016 Cabinet meeting, stating that the Committee recommended the business case should not be approved. The Cabinet after listening to the arguments put forward, agreed with the Committee and decided not to proceed with the shared service.

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**Poor performance in introducing agreed internal audit action on time.**

Managers have not meet the performance targets set for the introduction of internal audit actions on time. The Committee have spent a considerable amount of time discussing how they could assist in improvement performance.

The Managing Director has attended Committee and explained that due to operational circumstances sometimes the agreed implementation dates may not be achieved. She has recognised and shares the Committee's concerns about overall performance. She intends to introduce a new process, overseen by the Head of Resources (as the Councils Responsible Finance Officer) who will monitor performance and liaise with individual Heads of Service to understand why the action hasn't been achieved and if necessary, grant extensions of time. Performance information will continue to be reported to the Committee to allow for ongoing monitoring.

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**Approving the internal audit work plan and Internal Audit Charter.**

The Committee approved the internal audit plan for 2016/17 in March 2016.

In July 2016, the Committee approved changes to the Internal Audit Charter. Changes were necessary following the April 2016 revisions to the Public Sector Internal Audit Standards – which introduced a Mission of Internal Audit and Core Principles for the Professional Practice of Internal Auditing.

The Audit Charter was updated to reflect the ethos of the Mission of Internal Auditing. However, no changes have been made to the Audit Charter to reflect the Core Principles as the Committee considered that these were already sufficiently addressed.

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## Countering fraud

### **Corporate Fraud Teams (CFT) 2015/16 annual report.**

The Committee remain strong supporters of the CFT and were pleased to see that they had identified over £100k in Council Tax related fraud and undertaken 27 prosecutions. The benefits of working together with social housing partners was highlighted, with 11 social housing properties recovered that had been illegally sub-let. Indeed one fraudster involved in such activity was prosecuted and given an 8 month custodial sentence. Committee were pleased that the CFT have as a priority for 2016/17 continued partnership working with local housing associations.

### **Approving the whistleblowing policy and guidance.**

The whistleblowing policy and guidance was overhauled in 2015 to meet the aims of the whistleblowing code of practice issued by Public Concern at Work. Consequently, only minor changes to the policy were required in both 2016 and 2017.

One whistleblowing allegation was received in 2016/17. The Committee are aware that due to the sensitivity of the allegations, few details can be provided to them. Following discussions with the Internal Audit & Risk Manager they were content that appropriate action had been taken.

The issues above deal with the core business of the Committee. A number of reports and other issues were also considered during the year that had a direct impact upon governance systems and processes across the Council. The most significant of these were:

- Reviewing the new business continuity planning process and monitoring progress with its introduction.
- Reviewing the outcomes of complaints made to the Local Government Ombudsman and internal complaints that could not be dealt with informally.
- Monitoring the implementation of the risk management strategy and the work the Cabinet had undertaken in reviewing and challenging the risk register.
- Considering and then approving to Cabinet, changes to the Housing Benefits risk based verification policy.
- Reviewing the Council's compliance and performance in respect of responses to enquiries received under both the Freedom of Information and Environmental Impact Regulations.

## Committee membership & attendance

		2016				2017	
		June	July	Sept	Dec	Jan	Mar
Chairman	Cllr M Francis	•	•	•	•	•	•
	Cllr K M Baker	•	--	•	•	--	--
	Cllr E R Butler	•	•	•	--	•	--
	Cllr Mrs S Conboy	--	•	•	•	•	•
	Cllr D B Dew			•	•	--	--
	Cllr Mrs A Donaldson					--	--
	Cllr Mrs L A Duffy	•	•	•	•	•	--
	Cllr R Fuller	•	•	•	•		
	Cllr T Hayward	•	•	•	•	•	•
	Cllr P Kadewere	•	•	--	•	•	•
	Cllr Mrs R E Matthews	•	•	•	•	•	•
	Cllr T D Sanderson	--	--				
	Vice-Chairman	Cllr D M Tysoe					•
Cllr R J West		•	•	•	•	•	•
Vice-Chairman	Cllr J E White	•	•	--	•		

Key: • attended    -- absent     Not a Committee Member

The following appointments have been made to the Committee by the Council.

<b>18 May 2016</b>	Councillors K M Baker, E R Butler, Mrs S J Conboy, Mrs L A Duffy, M Francis, R Fuller, T Hayward, P Kadewere, Mrs R E Mathews, T D Sanderson, R J West, and J White
<b>27 July 2016</b>	Councillor D B Dew appointed in place of Councillor T D Sanderson
<b>21 December 2017</b>	Councillors D M Tysoe and Mrs A Donaldson appointed in place of Councillors R Fuller and J White.

## Corporate Governance Committee Functions: Approved by Council 29 March 2017

To discharge the functions of the Council in relation to the Corporate Governance of the Council and to be the Council's "Audit" Committee. These responsibilities include:

<b>Constitution</b>	Considering proposals to change the Council's Constitutional arrangements and making appropriate recommendations to the Council.
<b>Governance</b>	Regularly reviewing the Council's Code of Corporate Governance and recommending any changes to the Council and approving the annual governance statement and reviewing the achievement of any outstanding improvements.
	Ensuring there are effective arrangements for the management of risk across the Council.
	To consider the arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
	Through the Chairman, the Committee 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.
<b>Internal and External Audit</b>	Fulfilling the Board responsibilities of the Public Sector Internal Audit Standards and ensuring effective internal audit is undertaken in accordance with those Standards.
	Receiving and considering external audit reports including the adequacy of management response to issues identified.
<b>Final Accounts</b>	Approving the accounting policies, statement of accounts and considering any matters arising from the external audit.
<b>Countering Fraud</b>	Reviewing and monitoring the policy and procedure and arrangements for investigating disclosures under the Public Interests Disclosure Act 1999. Monitoring the Anti-Fraud and Corruption Strategy and receive annual updates on countering fraud.
<b>Standards</b>	The promotion and maintenance of high standards of conduct within the Council. To advise the Council on the adoption or revision of its Codes of Conduct for Members. The promotion and maintenance of high standards of conduct within the town and parish councils within Huntingdonshire. To advise the Council on the adoption or revision of a Protocol for Member/Officer relations. To advise the Council on the adoption of a Code of Conduct for Planning and monitoring operation of the Code.
<b>Complaints</b>	Consideration of reports by the Local Government Ombudsman including compensatory payments.
<b>Electoral matters</b>	Consider the periodic electoral review and review District and Parish electoral arrangements including boundaries and other electoral matters.

The Monitoring Officer, in consultation with the Chairman of the Corporate Governance Committee is authorised to appoint to the Standards Sub-Committee as and when it is required to be convened.

**Standards Sub-Committee** Functions relating to standards of conduct of members under any relevant provision of, or regulations made under, the Localism Act 2011.

To include Independent Person and Parish Council representatives



