Harrogate BOROUGH COUNCIL

Working for you

Agenda Item No.....

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| **REPORT TO:** | Governance Panel |
| **DATE:** | 1 April 2008 |
| **DEPARTMENT:** | Governance Panel |
| **REPORTING OFFICER:** | Scrutiny Officer (Mark Codman) |
| **SUBJECT:** | **DRAFT GOVERNANCE PANEL ANNUAL REPORT 2007/2008** |
| **WARD/S AFFECTED:** | All |
| **FORWARD PLAN REF:** | N/A |

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## 1.0 PURPOSE OF REPORT

1.1 The Governance Panel is in its second year of operation as the Audit Committee for the Council. Good practice indicates that the Panel should prepare an annual report to full Council setting out the Panel's work and performance during the year. This report is therefore the Draft Governance Panel Annual Report 2007/2008.

## 2.0 RECOMMENDATION/S

2.1 It is recommended that the Panel

1) Completes the self assessment of effectiveness detailed in **APPENDIX C**

2) Considers the report and agrees comments/amendments so that a final report can be presented to Council.

## 3.0 RECOMMENDED REASON/S FOR DECISION/S

3.1 The production of an annual report by the Council's Governance Panel and presenting it to full Council is considered good practice.

## 4.0 THE REPORT

**Background**

4.1 Good practice indicates that the Governance Panel should prepare an annual report to the full Council setting out the Panel's work and performance during the year. This report should include:

A. How it met its terms of reference

B. The main areas that the Panel has reviewed and any particular concerns or issues that it has addressed

C. A formal review of its effectiveness

**Governance Panel Annual Report 2007/08**

4.2 The Governance Panel has therefore prepared an Annual Report for 2007/8 based on the requirements detailed above.

**A How the Governance Panel met its Terms of reference in 2007/2008**

**and,**

**B The main areas that the Panel has reviewed and any particular concerns or issues that it has addressed**

4.3 The Governance Panel has agreed core functions and these are attached at **APPENDIX A** for information. The detailed Terms of Reference for the Panel are attached at **APPENDIX B** and fall under 3 main headings:

1. Audit Activity – Internal Audit and External Audit (Audit Commission)

2. Regulatory Framework

3. Accounts

4.4 The Panel had 4 meetings in 2007/2008 (including 1 April 2008) and the work undertaken is detailed below, identified against the areas in the Terms of Reference. This also includes any concerns or issues it has addressed.

**1. Audit Activity**

**Meeting 26 June 2007**

4.5 Independent Review of Internal Audit.

The Panel considered a report, setting out nine recommendations for consideration by the Governance Panel as a result of the Review Group's independent review of internal audit. It was noted that the recommendations were intended to feed into the Council's Statement on Internal Control (SIC) and that the nine recommendations had now been approved by the Council's Corporate Management Team. It was also noted that the 2008 review would be undertaken to meet the Council's SIC timetable 2007/2008. The Panel considered the constitution of any future internal review working group, and specifically the potential for an elected Member contingent noting that the Panel's involvement in such a review would limit its ability to scrutinise any outcomes. The Panel also noted that the Council would be subject to a tri-annual review in 2007/08 by the Audit Commission and endorsed the nine recommendations.

4.6 Internal Audit Annual Report - (a) Outturn 2006/07 and (b) Annual Plan 2007/08

The Panel considered a report which set out the key findings and conclusions from work undertaken by the Council's Internal Audit Section and provided performance information for the year 2006/07. The report also looked forward to 2007/08. The Panel noted the overall picture in terms of audit outturn for 2006/07 as very positive, despite a number of departments judged to have taken a downward direction of travel. The Panel also considered the preliminary information received in response to the most recent audit client satisfaction survey, the results of which were considered to be encouraging at this stage. The Panel commented regarding ways and means of identifying any duplication of work arising from normal Council activity and it was acknowledged that this was the responsibility of individual departments; it was also acknowledged that the Value For Money (VFM) work within the Council also addressed this issue. The Panel agreed the recommendations in the report.

**Meeting 24th September 2007**

4.7 Audit Commission – Governance Report

The Audit Manager (Audit Commission) presented the Annual Governance report providing a summary of the work carried out during the 2006/07 Audit of Accounts, the conclusions reached by the Audit Commission and the recommendations made in discharging its' statutory Audit responsibilities. The Panel noted the proposed wording of the Audit Commission's opinion in relation to Harrogate Borough Council, the key issues and that the Audit Commission were prepared to give an unqualified opinion on both the Statement of Accounts and the Council's arrangements for securing Value For Money. The Panel considered the following issues:

- The Systems of Internal Control and in particular it was noted that despite the wording of the paragraph the Audit Commission findings in relation to the creditors system Agresso were significant but not material.
- Despite the control weakness, no errors in the accounts had been found.
- The Council potentially facing equal pay claims as a result of the single status pay and grading review and that there were also outstanding harmonisation issues as a result of staff expected to work unsociable hours.
- That the Audit Commission would give the Council an unqualified opinion overall.

The Panel requested that in relation to Paragraph 18 Systems of Internal Control the report be amended to reflect that the weakness identified in the creditors system was significant but not material. The Audit Manager agreed to amend the report to clarify this before It was presented to the General Purposes Committee.

4.8 Internal Audit Position Statement

The Panel considered a report in relation to progress made against the Annual Plan for 2007/08. that also included a summary of the findings and conclusions from the Audit work completed and commented on a number of key issues for the remainder of the year. The Panel noted the following work:

- Progress made in relation to the Debt Management Code of Practice.
- Anti fraud work specifically the review of Gifts and Hospitality offered to Council Officers to assess compliance with the Council's Code of Practice. It was acknowledged that some Officers declared more than others due to their seniority and as a result of their position and that the Standards Committee were reviewing this to compare Harrogate's code with that of neighbouring authorities.
- Actions taken by Internal Audit as a result of the independent review carried out by the Head of Legal and Democratic Services and progress made against each of the relevant recommendations.

The Panel noted the report.

**Meeting 4 February 2008**

4.9 Review of Internal Audit

The Panel considered a report pursuant to the Accounts and Audit (Amendments) (England) Regulations 2006 which required audited bodies to review, on an annual basis, the effectiveness of their system of internal audit. The Panel noted that the second review would be timed to comply with the timetable required to meet the Council's obligations with regard to the Annual Governance Statement. The Panel also considered the form and format of the 2008/09 "Review of the System of Internal Audit" and acknowledged that the Audit Commission's Triennial Review of Internal Audit was ongoing and that it would be valuable to wait until the outcome of this review and reconsider this matter at that time. The Panel noted the contents of the report.

**Meeting 1 April 2008**

4.10 Annual Audit and Inspection Letter - Audit 2006-2007

*To be agreed at the meeting*

**2. Regulatory Framework**

**Meeting 26 June 2007**

4.11 Introduction to the Corporate Governance Framework

The Panel considered a report, to provide an introduction to the Council's

Corporate Governance framework. It was acknowledged that the framework had been fully revised, following the corporate restructure in 2005 and agreed and published in July 2006. The Panel noted that it had received training on the framework on 21 June 2007. The Governance Panel noted the Council's Corporate Governance Framework.

4.12 Statement on Internal Control 2006/07 – Section 5 Action Plan Monitoring Quarter 1

The Panel considered a report, to update it on the progress of actions noted in Section 5 of the Statement on Internal Control (SIC) 2006/07 to address significant internal control issues. It was acknowledged that regular monitoring of Section 5 actions was introduced in 2006/07 as an improvement in the SIC management and that the Council's General Purposes Committee would consider the SIC itself. The Panel acknowledged that the review of the effectiveness of the system of internal audit and the Audit Manager's Annual Report had now been achieved.

4.13 Annual Efficiency Statement – Backward Look 2006/07

The Panel considered a report in relation to the annual efficiency statement backward look for 2006/07. It was acknowledged that the statement was based on the Council's annual efficiency forward look statement for 2006/07 considered by the Panel in June 2006. The Panel referred to Appendix A to the report, specifically references to savings not achieved in relation to homelessness and the environment and noted that these areas were particularly hard to predict in budgetary terms and acknowledged that this was an issue to bear in mind for future years. The Panel noted the report.

4.14 Strategic Risk Register 2007/2008

The Panel considered a report in relation to the strategic risk register and an update on the approach to compiling and monitoring the register since the last report received in April 2007. The panel noted that the register set out details of new and emerging risks and those rolling on from previous years and acknowledged that in terms of emerging risk, this was a particularly dynamic activity. The Panel queried whether the risk register was a particularly effective means of dealing with risk and whether there was any evidence to support this. It was noted that it would always be difficult for Officers to identify every risk and ensure that they feature in the register, however, it was possible to embed the concept of risk in business and service planning and decision-making, and the Council's approach ensured that there was a framework for dealing with emerging risks. The Panel noted the contents of the strategic risk register for 2007/08.

**Meeting 24th September 2007**

4.15 Corporate Governance Half Year Update

The Panel considered a report, to provide it with an update on developments in

Corporate Governance and progress made on the delivery of planned actions. The report focused primarily on core corporate governance issues but also noted related developments in the Statement on Internal Control (SIC), Risk Management and the Review of Effectiveness of Internal Audit. The Panel noted the following:

- The definition of Governance
- The principles in delivering good governance
- The governance framework and actions taken in establishing a local code of governance based on a good governance framework, the local code, its principles and key roles for councils.
- The next steps in agreeing a local code for Harrogate Borough Council which would result in a report to council in March/April 2008.
- The need to review existing arrangements, the need to prepare an annual governance statement, the content and sources of that statement and the timetable for the preparation of the governance statement.

The Panel acknowledged the culture of strong corporate governance in the council and noted the need to consider whether partners and potential partners had a similar culture in their organisations. The Panel also noted the progress made in relation to the Council's Corporate Governance arrangements.

4.16 Statement on Internal Control 2006/07 Section 5 Action Plan Monitoring Quarter 2

The Panel considered a report, to provide an update on progress made against actions noted in section 5 of the Statement on Internal Control (SIC) 2006/07 to address significant internal control issues. The Panel noted the progress made.

4.17 Risk Management Half Year Update

The Panel considered a report to provide an update on the Council's risk management arrangements and in particular monitoring of the Council's strategic risk register. It was noted that there had been some additions to the risk register as a result of the National Concessionary Fares scheme and District Heating Scheme. A number of risks had been down graded in particular the Local Government Review and the Royal Hall. It was acknowledged that all risks had now been updated on the Covalent Performance Management system and the links between the risk register and budget spending plans were also noted. The Panel received a presentation regarding the usability of the Covalent performance management system and noted the Covalent seminar that presented a showcase for the way in which Harrogate Borough Council uses the Covalent software in its performance and risk management work. The Panel noted the progress made.

**Meeting 4th February 2008**

4.18 Corporate Governance – Quarter Three Update On Progress Implementing The New Arrangements

The Panel considered a report in relation to the timetable to deliver key developments in Corporate Governance, in particular a revised framework, a review of arrangements, a review and update of the Council's Code of Corporate Governance and the production of an Annual Governance Statement (to replace the Statement on Internal Control). The report also updated the Governance Panel on progress made to deliver the proposals which were on target for delivery by April 2008. .The Panel acknowledged the proposals to ensure good Governance in Partnerships and received and noted the report.

4.19 Statement on Internal Control 2006/07 Section 5 Action Plan Monitoring Quarter 3.

The Panel considered a report to provide an update Ion progress of Actions noted in Section 5 of the Statement on Internal Control 2006/07 to address significant internal control issues. It was acknowledged that issues listed in Section 5 had been identified as significant however this was relative to the base line that indicated generally very high standards of internal control and Governance across Harrogate Borough Council. The Panel acknowledged that at this stage all outstanding issues in respect of the Statement on Internal Control 2006/07 had now been dealt with it noted and received the report.

4.20 Strategic Risk Register 2007/2008 Update

The Panel considered a report to present an extract from the updated Strategic Risk Register 2007/08. It was noted that the Risk Register reflected the most significant risks to the Council, its corporate objectives and services identified primarily through the Council's Strategic and Business Planning processes. The Panel noted the changes between the original risk matrix assigned to each risk and the current risk matrix and any changes that had occurred to affect the level of risk to the Council for each subject. The Panel noted and received the report.

4.21 HBC Efficiency

The Panel received a presentation with regard to the efficiency agenda as far as it related to Harrogate Borough Council. and considered the following:

- The Comprehensive Spending Review 2007.
- The role of the Governance Panel.
- The progression from Gershon 2004 to CSR 2007, the principles of Gershon, sustainable efficiency gains, the identification of efficiency gains and the way in which efficiency related to Governance.
- The Council's approach to risk, being risk aware but not risk averse the process of risk management and the need to establish a balance between risk control and efficiency
- The role of Internal Audit in challenging efficiency controls where it was considered they could be disproportionate to the risks involved and, therefore, detrimental to efficiency.

**Meeting 1 April 2008**

4.22 Annual Governance Statement 2007/2008

*To be agreed at the meeting*

4.23 Local Code of Corporate Governance

*To be agreed at the meeting*

**3. Accounts**

**Meeting 26 June 2007**

4.24 General Fund Final Accounts 2006/2007

The panel considered a report setting out the main features of the financial position on revenue spending 2006/07 on the general fund and the Council's overall statutory statement of accounts for the year ended 31 March 2007. The Panel considered the following issues:

- The conference and exhibition centre and the fluctuation in income from the original estimate for 2006/07 compared to the 2005/06 outturn.
- The predicted level of forecasted reserves.
- The Council's policy on reserves.
- The definition of reserves and whether there were any benefits in being more explicit in terms of where the reserves had come from.
- The level of under spends.
- The budget monitoring process.
- Council income received towards election fees.
- The reduction in planning delivery grant.
- Income derived for CCTV.
- Increase in costs for concessionary fares.
- The level of capital commitments.
- The Royal Hall Refurbishment.
- The Council's accounting policies in relation to asset valuation.
- The specific requirement for paragraph 42 on page 26 in relation to the preparation for entry to economic and monetary union and whether this paragraph was still required and it was suggested that the General Purposes Committee might recommend deletion of this paragraph in future Final Accounts.

The Panel agreed to receive the report and note the information. It also noted the proposed use of 2006/07 under spends and recommended to the General Purposes Committee that the Statement of Accounts be approved.

**Comment on 2007/2008**

4.25 In its second year of operation the Governance Panel has continued to undertake a broad range of work to fulfil its core functions and Terms of Reference.

4.26 *To be agreed at the meeting but should include:*

- *Overall comments on work undertaken*
- *Comments on significant items of work*
- *Training*
- *General statement of assurance (Wording for 2006/7 was “As a general statement of assurance for the Council the Governance Panel concluded that the statement on internal control 2006/07 was consistent with its view of the Council’s system of internal control, based on knowledge which it had gained through training and reports received during 2006/07 and recommended the statement for signature by the Leader of the Council and the Chief Executive and adoption by the General Purposes Committee”)*
- *Conclusion about the Panel’s effectiveness.*

**C Formal Review of the effectiveness of the Governance Panel**

4.27 There is no agreed methodology for assessing the effectiveness of the Governance Panel. The Institute of Public Finance (IPF) self-assessment checklist was used as a basis in 2006/2007 and it is recommended that a similar checklist is used for 2007/8. A copy of the self-assessment checklist is enclosed at **APPENDIX C.**

4.28 The self-assessment is undertaken in a number of sections and the following is a summary of these areas:

- Terms of Reference
- Internal Audit Process
- External Audit Process
- Membership
- Meetings
- Training
- Administration

4.29 It is proposed that Members of the Panel and relevant Officers complete the checklist in order that an assessment can be made regarding the effectiveness of the Panel in 2007/2008. A summary of the results for each section will be included in the final report. *It may be useful for Members to consider this self-assessment prior to the meeting on 1 April 2008.*

5.0 **CONCLUSION/S – TO BE AGREED AT MEETING 1 APRIL 2008**

5.1 Good practice indicates that in line with other sectors the Panel should prepare an annual report to the full Council setting out the Panel’s work and performance during the year. This report is therefore the Annual Report 2006/2007 for the Governance Panel. The report includes:

A. How it met its terms of reference

B. The main areas that the Panel has reviewed and any particular concerns or issues that it has addressed

C. A formal review of its effectiveness

**Background Papers - None**

**OFFICER CONTACT:** Please contact Mark Codman if you require any further information on the contents of this report. The officer can be contacted at Crescent Gardens by telephone on (01423) 556153 or by Email – mark.codman@harrogate.gov.uk

**SUSTAINABILITY ASSESSMENT / POLICY CONSIDERATIONS**

| | | Implications are | | |
|---|---|---|---|---|
| | | **Positive** | **Neutral** | **Negative** |
| A | Economy | | ✓ | |
| B | Environment | | ✓ | |
| C<br>i)<br>ii)<br><br>iii) | Social Equity<br>General<br>Customer Care / People with Disabilities<br>Health Implications | | ✓ | |
| D | Crime and Disorder Implications | | ✓ | |

If all comments lie within the shaded areas, the proposal is sustainable.