Harrogate BOROUGH COUNCIL

Working for you

Agenda Item No. 6

REPORT TO: **Corporate Overview and Scrutiny Commission**

DATE: 23 April 2009

DEPARTMENT: Corporate Policy and Improvement

REPORTING OFFICER: Scrutiny Officer (M Codman)

SUBJECT: **DRAFT GOVERNANCE PANEL ANNUAL REPORT 2008/2009**

WARD/S AFFECTED: All

FORWARD PLAN REF: N/A

1.0 PURPOSE OF REPORT

1.1 The Governance Panel is in its third 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 Governance Panel Annual Report 2008/2009.

2.0 RECOMMENDATION/S

2.1 It is recommended that the Panel consider the report as an overview of the work undertaken in 2008/09 and agree any amendments for inclusion in the final report to 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 2008/2009

4.2 The Governance Panel has therefore prepared an Annual Report for 2008/2009 based on the requirements detailed above.

A How the Governance Panel met its Terms of reference in 2008/2009

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 detailed Terms of Reference that 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 2008/2009 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

Audit Commission (External)

4.5 The Panel considered the Audit Commissions review of Internal Audit in relation to compliance with the CIPFA standards. The review was based around Internal Audit's compliance with the eleven standards set out in the CIPFA Code of Practice for Internal Audit in Local Government. The Internal Audit service was found to be compliant with most of the CIPFA requirements. However, it was reported that there was also scope to improve and strengthen the internal audit arrangements. The review concluded that:

- The relationship between Internal Audit and the Governance Panel as the Audit Commission worked well.
- Nineteen recommendations for the improvement of the service were put forward.

The Panel accepted the report and noted that the large number of recommendations were no reflection on the quality of work undertaken by the Internal Audit Service, they addressed only minor procedural matters and sought improvements rather than radical changes.

4.6 The Panel considered the Audit Commission Audit and Inspection Plan 2008/09, detailing work proposed to be undertaken by the Audit Commission for the 2008/09 financial year, based on audit planning and the requirements of moving towards Comprehensive Area Assessment (CAA). The Panel noted the following:

- The differences in approach between the Comprehensive Performance Assessment

and the Comprehensive Area Assessment. Notably that in the CAA, partnerships would feature to a disproportionate extent and that sustainability would be a key area.
- The risks associated with the proposed re-centralisation of finance functions.

The Panel requested to receive the Audit Commission Annual Audit and Inspection Letter as soon as possible. The District Auditor agreed to review the timetable with a view to releasing an early draft of the Annual Audit and Inspection Letter for consideration by the Panel.

4.7 The Panel considered the Audit Commission Code of Audit Practice, which detailed to new Members of the Panel the way in which the District Auditor was required to undertake audit work as well as auditing standards. Incorporated in this was an updated Statement of Responsibilities of Auditors and Audited Bodies, the two main changes in the update were:

- The requirement that those bodies publishing financial statements electronically must ensure that they accurately reflect the original financial statements and the Auditor's report on those statements.
- Regarding access to information under the Freedom of Information Act 2000, audited bodies were required to seek the consent of the Auditor should they wish to disclose information obtained from him.

It was highlighted to Members that in the case of Freedom of Information requests, commercial confidentiality was not an unqualified defence in refusing such requests and each case would have to be reviewed very carefully. The Panel expressed concerned at the current position.

Members anticipated potential governance problems with regard to plans for some future work to be undertaken by the Council in partnership with neighbouring authorities.

4.8 The Panel considered the Audit Commission Annual Governance Report for Harrogate Borough Council Audit for 2007/08 and noted that the audit was now substantially complete and that the Audit Commission would give an unqualified opinion in relation to the accounts together with an unqualified conclusion on the Council's value for money arrangements. The Panel was advised about the level of equal pay claims, in that a detailed assessment had not yet been made, however, the Council had accrued sufficient general reserves to cover any likely equal pay claims. In any event the Housing Revenue Account covered most of those staff likely to be affected by an equal pay claim rather than general fund reserves.

The Panel considered the need to improve the level of detail in relation to a number of disclosures set out in the accounts and noted that this was not considered to be a significant issue. The Panel was informed about a number of items set out in the financial statements and that the means used to report these figures presented a departure from the Statement of Recommended Practice but still complied with general accounting standards. It was satisfied with the approach taken by the Council in this regard.

The Panel was informed about the Council's arrangements regarding value for money and was pleased to hear that the standard of presentation of the paperwork to the Audit Commission was a credit to the Council's finance staff.

The Panel considered the current process and means of budgeting by Harrogate Borough

Council taking into account the probable expenditure for the coming year and the potential use of underspends to offset any rise in Council tax for the following year.
The Panel recommended the Annual Governance Report to the General Purposes Committee for approval.

4.9 The Panel received a report from the Audit Commission containing the details of the Council's Comprehensive Performance Assessment (CPA) Use of Resources Audit 2007/08 undertaken by the Audit Commission. Members commented on the Council's score in several Key Lines of Enquiry (KLOE).

The Panel expressed concern about the change in approach from the Audit Commission under the CAA and noted the immediate difficulties that this would have for comparison with performance in previous years.

Annual Audit and Inspection Letter 2007/08

4.10 To be considered at the meeting and comments agreed.

Internal Audit (Internal)

4.11 The Panel considered the Internal Audit Annual Report 2007/08 detailing the key findings and conclusions arising from work undertaken by the Internal Audit Section 2007/08. The Panel noted that the picture remained positive with all departments having been judged to be in the medium/high level of assurance in terms of their risk management arrangements. It was noted that due to changes in the Information Technology and Development Department (ITD) little progress had been made on the three planned audits of the department but that they were included In the 2008/09-work plan.

The Panel noted that based on evidence from all audit work completed for 2007/08, no significant new issues had emerged which required inclusion in the 2007/08 Annual Governance Statement previously considered by the Panel. It was pleased that the Internal Audit section had achieved good results in terms of performance.

4.12 The Panel considered the Internal Audit Plan 2008/09 and noted that it was based on Audit Risk Assessment and consultation with each of the Departments and the Corporate Management Team. The Panel endorsed the Internal Audit Plan for 2008/09.

4.13 The Panel considered the latest version of the Council's Audit Charter that set out the purpose, authority and principal responsibilities of the Internal Audit function within the Council and Reported. It noted that the Audit Manager was satisfied with the relationship that the Audit Section had with other parts of the Council and that he had never encountered any problems as regards conflicts of interest. The Panel endorsed the Audit Charter.

4.14 The Panel considered progress made against the Annual Plan for 2008/09 throughout the year including 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 issues considered included the following:

- Progress made in relation to the review of ITD.
- A review of compliance with the Council's policy on access to the Internet.
- Progress on the nineteen recommendations of the Audit Commission's Review of

Internal Audit.

- The importance of maintaining adequate staffing levels in Internal Audit.
- The postponement of departmental audits in part due to the secondment of the Principal Auditor to HIC.
- The protocol by which Council staff members could gain access to emails sent and received by Councillors.
- The arrangements to prevent and report upon attempts to access inappropriate websites.

4.15 The Panel were updated on the Annual Review of the effectiveness of the System of Internal Audit and were informed that during the course of work to date the Head of Legal and Democratic Services had not found anything material that would affect the Annual Governance Statement. A further report to be considered at the meeting and comments agreed.

Internal Audit Annual Plan 2009/10

4.16 To be considered at the meeting and comments agreed.

2. Regulatory Framework

Annual Governance Statement 2007/08

4.17 The Panel received a half-year update on Section 5 of the Annual Governance Statement, which addresses issues of Internal Control. Members were directed to two issues of Corporate Governance, which related to the transmission of personal and sensitive information to third parties including loss as well as transmission. The need to ensure value for money in corporate procurement was also noted and it was concluded that a high level of monitoring should be carried out on these issues.

Annual Governance Statement 2008/09

4.18 To be considered at the meeting and comments agreed.

Risk Management

4.19 The Panel were presented with information on Best Practice in compiling a Strategic Risk Register. Members were set a series of questions to consider in terms of matching strategic risks with the Council's corporate priorities and asked to identify issues that remained risks or were simply day-to-day issues. It was concluded that distinction of risk from day to day issues was fundamental and that risks could change over time. It was also noted that those looking at the current descriptions of risk in isolation may not understand the nature of the risk described, however the Panel was advised that further information that would clarify these descriptions was available through the Covalent Performance Management System.

Efficiency

4.20 The Panel noted a report on the Annual Efficiency Statement, a backward look on efficiency savings made in 2007/08, produced as a statutory requirement, to be submitted to the Department of Communities and Local Government. The Panel supported the efficiency savings associated with the use of paperwork in particular.

Contract Procedure Rules

4.21 The Panel considered draft revised Contract Procedure Rules for the Council noting major changes to the rules and also changes in legislation for contracts subject to the EU Procurement Regime, the use of Framework Agreements and measures aimed at improving procurement efficiency that would provide for improved value for money in the provision of services. The Panel queried the Single Tendering procedures and received assurance that there was a named Officer responsible for each individual contract. The Panel recommended the proposed new Contract Procedure Rules to the General Purposes Committee for consideration.

International Financial Reporting Standards

4.22 To be considered at the meeting and comments agreed.

Anti-Fraud and Corruption Strategy

4.23 To be considered at the meeting and comments agreed.

3. Accounts

4.24 The panel considered the main features of the financial position on revenue spending 2007/08 on the general fund and the Council's overall statutory statement of accounts for the year ended 31 March 2008. The Panel considered the following issues:

- Diminuation of the HIC Conference and Exhibition Reserve.
- Items listed in Other Spending requirements in excess of £100,000 and whether these constituted key decisions.
- The contribution for Financial Services Review accommodation costs.
- Concern surrounding consistent year on year under spends.
- The process by which under spends were re-allocated by Cabinet for Council priorities which did not permit the same level of scrutiny as items subject to the usual budget process.
- The level of under spends in ITD,
- The presentation of the report and the summary of the budget were deemed to be difficult for Members to understand.
- Increased costs in Highways, Roads and Transport due to the impact of concessionary fare subsidisation and rise in fuel costs.
- Sources of income from street cleansing.
- Increase in costs for Community Safety including CCTV.

The Panel agreed to receive the report and note the information. It also noted the proposed use of 2007/08 under spends and recommended to the General Purposes Committee that the Statement of Accounts be approved.

Comment on 2008/2009

4.25 In its third year of operation the Governance Panel has undertaken a broad range of work to fulfil its core functions and Terms of Reference. This has enabled it to consider specifically the performance of Internal Audit, (including the Audit Plan) and appropriate

external reports from the Audit Commission (including future work). It has had an effective input into monitoring the regulatory framework including contract procedure rules, risk management, the anti-fraud and corruption strategy, The Annual Efficiency Statement and International Financial Reporting Standards.

4.26 In 2006/07 the Panel recognised the adoption of the recommendation for improvement from its' review of effectiveness in co-opting an independent member of the Standards Committee. Doctor French served on the Panel in 2007/2008 and again in 2008/09 the value of this link to the Standards Committee was again recognised.

4.27 The Panel has also looked at its future work and considered how it will be involved in the new arrangements regarding Comprehensive Area Assessment.

4.28 Significant work has been undertaken by the Panel to monitor actions noted in section 5 of the Annual Governance Statement to address significant internal control issues. This is the public assurance that a local authority has a sound internal control framework, designed to help manage and control risks to the achievement of its objectives. It is not just a financial requirement but is an important public expression of what a local authority has done to put in place good business practice, high standards of conduct and sound governance. It is also a prime source of evidence for the Comprehensive Performance Assessment about how well the local authority manages its' resources.

4.29 The Panel considered the Final Accounts for the second time in 2008/2009. It noted several improvements that could be made in the reporting of the accounts to Members and highlighted several areas and considered that it had provided an "effective" and "robust" challenge to them before recommending approval by the General Purposes Committee

4.30 Panel to consider a general statement of assurance for the Annual Governance Statement 2008/09

4.31 The Governance Panel considered that in 2008/2009 it had undertaken appropriate items of work to ensure that it met its Terms of Reference concerning audit activity, the regulatory framework and the accounts. It had not identified any areas of particular concern and also welcomed its involvement with the Annual Governance Statement. Overall the Panel felt that it had worked well together as a group and had built up a level of experience and expertise that it hoped would be maintained when the panel reconvened in the new municipal year.

C Formal Review of the effectiveness of the Governance Panel

4.32 A questionnaire regarding the effectiveness of the Panel is currently being completed by Officers and Members associated with the Panel. The results will be included in the final report and any actions for improvement identified will be undertaken in 2009/10.

5.0 CONCLUSIONS

5.1 Overall the Panel considered that it had met its Terms of Reference concerning audit activity, the regulatory framework and the accounts. It had not identified any particular areas of concern in the year and considered that it had been effective in the work it had undertaken.

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 i) ii) iii)	Social Equity General Customer Care / People with Disabilities Health Implications		✓	
D	Crime and Disorder Implications		✓	

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