
REPORT TO: Council

DATE: 19 July 2007

DEPARTMENT: Governance Panel

REPORTING OFFICER: Chairman of the Governance Panel 2006/2007
Councillor Don MacKenzie

SUBJECT: **GOVERNANCE PANEL ANNUAL REPORT 2006/2007**

WARD/S AFFECTED: All

FORWARD PLAN REF: N/A

1.0 PURPOSE OF REPORT

- 1.1 The Governance Panel is in its first year of operation as the Audit Committee for the Council. Good practice indicates that 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.

2.0 RECOMMENDATION/S

- 2.1 It is recommended that Council receive the report

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 2006/7

- 4.2 The Governance Panel has therefore prepared an Annual Report for 2006/7 based on the requirements detailed above.

A How the Governance Panel met its Terms of reference in 2006/2007 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 3 meetings in 2006/2007 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 October 2006

- 4.5 Annual Governance Report - Audit 2005/06 - Audit Commission

The Panel considered the Annual Governance Report - Audit 2005/06 from the Audit Commission. It was noted that due to the recent establishment of the Governance Panel it had not been possible to consider this item prior to the General Purposes Committee. Future work programmes for the Panel will include this item at the appropriate time.

- 4.6 Internal Audit - half yearly report

The Panel considered a report to inform it about the work of Internal Audit in the first half of 2006/07 and plans for the remainder of the year. This considered the actions to address issues raised and the management of Internal Audit resources

Meeting 18 December 2006

4.7 Interim Audit 2004/05 - follow up

The Panel received an update on progress made in relation to an Action Plan arising from the Audit Commission Interim Audit 204/05.

4.8 Review of Internal Audit 2004/05 - follow up

The Panel received an update on progress made in relation to an Action Plan arising from the Audit Commission review of Internal Audit 2004/05.

4.9 Internal Audit performance indicators

The Panel requested to review the performance indicators available in measuring the performance of Internal Audit. After this review it agreed to receive a twice-yearly update on Internal Audit performance indicators.

Meeting 3 April 2007

4.10 Independent Review of the System of Internal Audit

The Panel received the proposals to undertake an independent review of the System of Internal Audit from the Head of Legal and Democratic Services for 2006/07. It noted the need to clearly define the "system of internal audit" and also that the Council's Corporate Governance Framework clarified the role of the Council's Internal Audit section concerning Corporate Governance.

4.11 Audit and Inspection Plan Harrogate Borough Council Audit – 2007/2008

The Panel considered the Plan and queried whether, and to what extent, the Council's existing CPA status would drive the future CPA process if the Council were to apply for reassessment. The Panel received the report and draft plan.

4.12 Annual Audit and Inspection Letter Harrogate Borough Council – Audit 2006

The Panel considered the letter and questioned the Audit Commission concerning the Council's Decent and Non-decent Homes Standards and in particular the view from the Panel that in assessing Council performance on this matter it considered that the Council was achieving appropriate targets in an agreed timescale. The Panel also raised issues concerning the need for quality data, externally generated data, the Council's progress in relation to Affordable Housing and CPA re-categorisation. It also recognised good performance regarding waste management, planning and safer communities and congratulated Officers upon this achievement. The Panel also noted the diversity issues highlighted in the Audit Letter, and queried what specific actions the Council needed to take to address those issues. The Panel received the report.

2. Regulatory Framework

Meeting 26 October 2006

4.13 Anti-Fraud and Corruption Strategy

The Panel considered and endorsed the updated anti-fraud and corruption strategy.

4.14 Statement On Internal Control Half Yearly Update

The Panel received an update regarding monitoring and progress made on a number of issues contained in Section 5 of the Statement On Internal Control 2005/2006. These included value for money issues, the Council's revitalised Whistleblowing Policy, arrangements regarding the Council's plans for business continuity and the "Sources of Assurance" in relation to internal control

4.15 Risk Management Arrangements Half Yearly Update

The Panel received an update regarding issues arising in relation to risk management since the review of risk management undertaken in July 2006.

4.16 Ombudsman's Annual Letter 2005/06

The Panel considered the Annual Report for 2005/06 from the Local Government Ombudsman concerning the range of findings that the Ombudsman could conclude upon in relation to the Council's activities following complaints made against the Council.

Meeting 18 December 2006

4.17 Standards Committee - Terms Of Reference

The Panel received a report regarding its involvement in the payment of any significant amount of compensation under Section 92 of the Local Government Act 2000 in respect of actual or possible maladministration and the potential co-option of an independent member of the Standards Committee on to the Governance Panel. The Panel agreed the co-option and its involvement in the payment of any significant amount of compensation.

4.18 Risk Assessment

The audit manager (Audit Commission) sought the views of the panel on the key issues and risks facing the authority. The Panel agreed that it would review the arrangements for managing new and emerging risks following approval of the Corporate Strategic risks by the Executive.

4.19 Draft Statement on Internal Control - Sources of Assurance

The Panel considered and agreed proposals to achieve more effective engagement from Heads of Service in relation to the Statement on Internal Control by developing statements of assurance on the Covalent Management System

4.20 Annual Efficiency - Introduction and Update

The Panel considered the Council's annual efficiency arrangements including cashable and non-cashable savings, sustainable gains, Gershon work streams, the process of identifying and measuring gains, the inspection and audit process, Harrogate Borough Council's approach and its three-year target in achieving that approach.

Meeting 3 April 2007

4.21 Statement on Internal Control 2006/2007

The Governance Panel considered the statement on internal control 2006/07 and agreed that it was consistent with their view of the Council's system of internal control, based on knowledge which they 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.

4.22 Annual Efficiency Statement Forward Look 2007/2008

The report was received and the annual efficiency statement approved to form the basis of the on-line submission for publication on the Department of Communities and Local Government website.

4.23 Draft Strategic Risk Register 2007/2008

The report was received, and the Governance Panel approved the general approach to compiling the strategic risk register to be fed back to CMT and Cabinet, prior to them agreeing the final register.

3. Accounts

4.24 Due to the timing of the establishment of the Governance Panel it has not been possible to consider the final accounts for the Council 2006/2007 as this is completed annually in June. The Governance Panel did not have its first meeting until 26 October 2006 and completed its work for 2006/2007 at its meeting on 3 April 2007. The final accounts 2006/2007 will be considered by the Governance Panel to be established for 2007/2008.

Comment on 2006/2007

- 4.25 In its first 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 and appropriate external reports from the Audit Commission. It has had an effective input into risk management arrangements within the Council, The Annual efficiency Statement and the future work of the Audit Commission.
- 4.26 The Panel has also looked at its future work and considered how it will be involved in the Council's independent review of the system of internal audit and also how the Panel could benefit from the co-option of an independent member of the Standards Committee.
- 4.27 The most significant work undertaken by the Panel has been the ongoing and effective involvement with the production of the Statement on Internal Control (SIC). 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.
- 4.28 Throughout 2006/7 the Panel has provided an independent challenge to the SIC and in accordance with CIPFA guidance it has the responsibility to oversee the production of the SIC and recommend its adoption. The Panel recognised that in previous years the SIC had been primarily a year-end function, presented to Members retrospectively in June each year. This year for the first time a draft was brought forward to the final panel meeting of the year under review in April, rather than the first meeting of the new panel in June. This was to ensure that it was the Panel who have been informed of the system of internal control in place throughout 2006/2007 and overseen production of the SIC for that period that were asked to recommend the SIC for adoption.
- 4.29 This meant that for 2006/2007 not all of the evidence had been finalised in time to feed into the SIC process but the Panel were assured that there were no likely significant amendments. The Panel did note that outstanding issues have been included in the Action Plan in the SIC so that Members can monitor them through normal reporting arrangements and it is hoped that in future years work will be carried out in time to feed into this revised timetable. The Panel considered that the disadvantages were outweighed by the better practice introduced this year.
- 4.30 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.

- 4.31 The Governance Panel considered that it had undertaken appropriate items of work to ensure that it met its Terms of Reference concerning audit activity and the regulatory framework. It recognised that as it had only been operational since October 2006 it had not considered the Final Accounts for 2006/7 and that these would be considered by the Governance Panel to be established for 2007/8.
- 4.32 It had not identified any areas of particular concern in the year but had requested performance monitoring information for Internal Audit every 6 months. It also welcomed its involvement with the production of the SIC

C Formal Review of the effectiveness of the Governance Panel

- 4.33 There is no agreed methodology for assessing the effectiveness of the Governance Panel. The Institute of Public Finance (IPF) has developed a self-assessment checklist in its publication "A toolkit for Local Authority Audit Committees". The Panel used this checklist as a basis for assessing its effectiveness for 2006/7. A copy of the self-assessment checklist is enclosed at **APPENDIX C**.
- 4.34 The self-assessment is undertaken in a number of sections and the following is a summary of the Panel's assessment for these areas:

Role and Remit

- 4.35 The Panel considered that its role and remit were effective and that the only area that required consideration was the periodic review of its effectiveness. The Panel recognised that this was its first year of operation and considered that the self-assessment was an effective way to assess its effectiveness at this time.
- 4.36 It also recognised that the annual review of the system of internal audit would include an assessment of the Panel's effectiveness "to the extent that its work relates to internal audit" and that this would inform its own work to review overall effectiveness in the future.

Membership, Induction and Training

- 4.37 The Panel considered that membership, induction processes and training were effective. The only areas that could be considered for review were Member links with GP Committee when nominating Members for the Panel and also individual Member skills could be assessed on an annual basis.

Meetings

- 4.38 The Panel considered that arrangements for meetings were effective. It noted that the frequency of meetings was generally set out in the Constitution and not in the Terms of Reference and that the Authority's S151 Officer only attended meetings as required.

Internal Control

- 4.39 The Panel considered that it addressed internal control issues very effectively and that with the review of the effectiveness of the system of internal audit being reported to the Panel and informing the Statement on Internal Control there were no real areas for improvement.

Financial Reporting and Regulatory Matters

- 4.40 The Panel recognised that it had not considered any specific financial issues on behalf of the authority in 2006/7 and that it would review its consideration of the Annual Accounts and any financial issues in 2007/8 when these items were included in the Work Programme.

Internal Audit

- 4.41 The Panel considered that it had been effective in addressing Internal Audit issues. It considered that follow-up audits should now be reported as part of the half-year and annual reports from Internal Audit.

External Audit

- 4.42 The Panel considered that it had been effective in addressing External Audit issues. It noted that it does not assess the performance of External Audit or consider and approve the External Audit fee.

Administration

Agenda Management

- 4.43 The Panel considered that it had been effective in managing its agenda and was satisfied that it had appropriate procedures

Papers

- 4.44 The Panel was satisfied that the papers circulated for meetings were appropriate. It noted that it could consider whether agenda items should include matters arising from previous minutes and whether action points should be included in the minutes.

Overview

- 4.45 The Panel considered that compared with the self-assessment checklist it had performed effectively in 2006/7. It did however recognise that it could consider reviewing a small number of issues such as the consideration of financial issues when these are included in the work programme.

5.0 CONCLUSION/S

- 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
- 5.2 Overall the Panel considered that it had met its Terms of Reference concerning audit activity and the regulatory framework. It recognised that as it had only been operational since October 2006 it had not considered the Final Accounts for 2006/7 and that these would be considered by the Governance Panel to be established for 2007/8. 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 based on the self-assessment checklist.

Background Papers - None

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SUSTAINABILITY ASSESSMENT / POLICY CONSIDERATIONS

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

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