



Annual Report 2016/17

Governance Committee

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A copy of a leaflet developed by the Committee in 2012, but still very relevant for use by both members and non-members of the Committee giving guidance on the functions, role and activities of the Governance Committee.

Foreword by Chairman of the Committee

This report summarises the work of the Committee during the preceding year and concludes that once again it received clear, concise and relevant information together with timely reports and actions taken in response to Members' requests.

The Governance Committee continued to be assured of the integrity and reliability of data held in financial statements and the work undertaken by Internal and External Audit provided detailed assurance on those areas of the Council's work which were the subject of reports.

The assurances from the Director of Finance, Housing and Community, Director of Governance and Director of Environment and Corporate Assets and the work of Internal and External Audit together support the Committee in forming their opinion of the financial statements, enabling them to agree to sign them off in accordance with the regulations.

The submission of this Annual Report continues to enhance the effective communication between the Committee and all sections of the Council including the Executive, Statutory Officers, the Head of Internal Audit, External Audit and other stakeholders.

Councillor Pat Heath
Chairman of the Governance Committee

Director of Governance and Monitoring Officer Statement

The **Delivering Good Governance in Local Government Framework** (2016 Edition) identifies seven core principles of good governance, with associated sub principles. Of particular relevance is:

Core Principle F. Managing risks and performance through robust internal control and strong public financial management.

Sub Principle: Robust Internal Control

This report summarises the achievements of the Governance Committee against its Terms of Reference for the period 1 April 2016 to 31 March 2017 and details the impact that it has made on the overall system of internal control in operation for that period. In particular the Committee has effectively provided an independent assurance on the risk and control framework of this Council.

As the Monitoring Officer, I am therefore satisfied that the Governance Committee is operating effectively and has contributed to the achievement of the core and sub principles. This is evidenced by:

The Governance Committees' review of the Council's Risk Management Strategy on a bi annual basis.

The Governance Committees' responsibilities for ensuring that the Council has an effective internal control mechanism.

Internal Audit reporting quarterly to the Governance Committee on progress against the approved audit plan, providing details of the assurance levels for each audit assignment and any key control weaknesses.

The Head of Internal Audit providing an annual internal audit report to the Governance Committee, which reports on the internal control environment and provides an overall audit assurance for the financial year.

David Randall

Director of Governance and Monitoring Officer

The Role of the Governance Committee

The role of the Governance Committee is set out clearly in the Council's Constitution and is also presented in greater detail in the attached leaflet 'Membership of the Governance Committee: Guidance for Members and information for non-Members'. The six appointed members of the Council provide independent assurance of the adequacy of the risk management framework and the associated control environment together with independent review of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment. The Committee also oversees the financial reporting process by considering the final Statement of Accounts.

Work Undertaken During 2016/2017

1. The Accounts and Audit (England) Regulations 2011 require the Council to, at least annually, review the effectiveness of its System of Internal Control, and then publish a statement on internal control within the Annual Governance Assurance Statement. The Council's Corporate Management Team accepted the 2015/16 Annual Governance Assurance Statement and authorised the Chief Executive to sign it following consultation with the Council's S151 Officer and Monitoring Officer. On 6 June 2016 the Leader of the Council approved the 2015/16 Annual Governance Assurance Statement. The Statement included shared services such as East Kent Housing and EK Services in the Governance Framework.
2. During the year the Governance Committee received updates on progress against the agreed actions from the annual governance assurance process. The Committee was able to request service managers and, where necessary, the relevant portfolio holder to attend the committee to give an update on progress against agreed actions to reduce risk and/or improve governance.
3. The Committee considered the effectiveness of Internal Audit by reviewing the annual assessment of the Director of Finance, Housing and Community and Director of Governance (S151 Officer and Monitoring Officer), the view of External Audit; and the quality of reports, actions and follow up through the quarterly reports submitted throughout the year to Committee. The quarterly Internal Audit reports have included the following Council services or topics:

Audit Area	Assurance Level
Members' Code of Conduct and Standards Arrangements	Substantial
EKS – Debtors	Substantial
Procurement	Reasonable
Dog Warden and Street Scene Enforcement	Reasonable
Commercial Properties and Concessions	Reasonable
EKS – ICT Administration, Security, Third Party Access and Storage	Reasonable
Grounds Maintenance	Limited
EKS – Housing Benefit Overpayments	Substantial
EKS – Customer Services	Substantial

Audit Area	Assurance Level
Members' Allowances and Expenses	Substantial
Disabled Facilities Grants	Substantial
Shared Service Monitoring	Reasonable
FOI, Data Protection and Records Management	Reasonable
EKS – Business Rates Credits	Reasonable
EKS – PCI-DSS	Limited
EKS – Quarterly Housing Benefit Testing (Quarter 4 of 2015/16)	Not Applicable
EKS – Quarterly Housing Benefit Testing (Quarter 1 of 2016/17)	Not Applicable
Electoral Registration and Election Management	Substantial
EK Services – ICT Disaster Recovery	Substantial/ Reasonable
Cemeteries	Reasonable
Business Continuity and Emergency Planning	Reasonable
Equality and Diversity	Reasonable
EK Services – Business Rates Relief	Reasonable
Playgrounds	Limited
Insurance and Inventories of Portable Assets	Substantial
Main Accounting System, Budgetary Control and Treasury Management	Substantial
East Kent Housing – Tenancy and Estate Management	Substantial
EKHR – Recruitment	Substantial
EK Services ICT Management and Finance	Substantial
Receipt and Opening of Tenders	Substantial
Garden Waste and Recycling Income	Reasonable
Performance Management	Reasonable/ Limited
EK Services – Housing Benefit Quarterly Testing (Quarter 2 & 3 of 2016/17)	Not Applicable

Follow up reviews completed throughout the year are shown in the following tables:

Audit Area	Original Assurance level	Revised Assurance level	Original Number of Recs		No of Recs Outstan ding	
Creditors	Reasonable	Reasonable	H	0	H	0
			M	5	M	0
			L	1	L	0
Sickness, Annual and Flexi Leave	Reasonable /Limited	Reasonable	H	7	H	0
			M	7	M	1
			L	0	L	0
Public Health Burials	Reasonable	Reasonable	H	0	H	0
			M	2	M	0
			L	4	L	0
EK Services – Data Files and Back Ups	Reasonable	Reasonable	H	6	H	1
			M	5	M	4
			L	0	L	0

EK Services – ICT Internet and Email	Reasonable	Reasonable	H M L	2 0 2	H M L	0 0 0
EKHR – Sickness Absence, Leave and Flexi	Reasonable /Limited	Reasonable	H M L	7 6 0	H M L	0 1 0
East Kent Housing – Sheltered and Supported Housing	Limited	Reasonable	C H M L	0 5 6 3	C H M L	0 0 0 0
East Kent Housing – CSO Compliance	Reasonable	Reasonable	C H M L	0 5 8 0	C H M L	0 0 0 0
Housing Allocations	Substantial	Substantial	C H M L	0 0 1 0	C H M L	0 0 0 0
Capital	Reasonable	Substantial	C H M L	0 0 1 2	C H M L	0 0 0 0
VAT	Limited	Reasonable	C H M L	0 3 4 0	C H M L	0 0 4 0
EK Services – Debtors	Substantial	Substantial	C H M L	0 0 1 1	C H M L	0 0 0 0
Printing and Post	Substantial	Substantial	C H M L	0 0 2 2	C H M L	0 0 0 0
Employee Health and Safety	Reasonable	Substantial	C H M L	0 3 3 0	C H M L	0 0 0 0
East Kent Housing – Repairs, Maintenance and Void Management	Limited	Limited	C H M L	0 6 9 3	C H M L	0 0 2 0
Dog Warden and Environmental Crime Enforcement	Reasonable	Reasonable	C H M L	0 3 4 1	C H M L	0 1 0 0
Your Leisure	Reasonable	Reasonable	C H M L	0 4 0 1	C H M L	0 0 0 0
Risk Management	Reasonable	Reasonable	C H	0 1	C H	0 0

			M L	3 0	M L	0 0
Environmental Protection Service Complaints	Substantial	Substantial	C H M L	0 0 2 0	C H M L	0 0 0 0
Building Control	Reasonable	Substantial	C H M L	0 4 4 1	C H M L	0 0 1 1
EK Services – ICT Physical and Environmental	Reasonable	Reasonable	C H M L	0 1 4 0	C H M L	0 1 1 0
Procurement	Reasonable	Reasonable	C H M L	0 1 3 2	C H M L	0 0 1 1
EKS – ICT PC Controls	Reasonable	Reasonable	C H M L	0 0 6 0	C H M L	0 0 0 0
EKS – ICT External Review	Reasonable	Reasonable	C H M L	0 0 1 7	C H M L	0 0 0 4
Cemeteries	Reasonable	Reasonable	C H M L	0 0 0 1	C H M L	0 0 0 1
Disabled Facilities Grants	Substantial	Substantial	C H M L	0 0 2 2	C H M L	0 0 1 0

4. The Committee received the Final Accounts with an unqualified audit opinion at its meeting in September 2016, presented by the External Auditors, Grant Thornton.

Work Programme for 2017/18

2017/18 Governance Committee	
Date	Main Agenda Items
June 2017	Internal Audit Annual Report Internal Audit Quarterly Progress Report Annual Governance Assurance Statement Grant Thornton's Quarterly update
September 2017	Final Annual Accounts 2016/17 Internal Audit Quarterly Progress Report Grant Thornton's Quarterly update
December 2017	Internal Audit Quarterly Progress Report Annual Governance Assurance Statement Action Plan – progress report Grant Thornton's Quarterly update Risk Management and Value for Money Update
March 2018	Internal Audit Annual Plan 2018/19 Internal Audit Quarterly Progress Report Grant Thornton's Quarterly update Governance Committee Programme for 2018/19

Programme of Meeting Dates 2017/18

(to be confirmed at Annual Council on 17 May 2017)

29 June 2017
28 September 2017 (Final Accounts)
7 December 2017
8 March 2018



Membership of the
Governance Committee:
Guidance for Members
and information for non-Members

March 2012
Amended May 2017

Governance Committee – Mission Statement

Why is it important to have a Governance/Audit Committee?

Corporate Governance is all about doing the right thing in the right way.

The Governance Committee is the Council's Audit Committee monitoring to ensure Dover District Council delivers effective decision making, value for money in all expenditure and conducts itself in an open, ethical and transparent manner which displays the highest levels of integrity.

Introduction

The aim of this Guidance is to tell those who are not members of Dover District Council's Governance Committee about the importance of its work not only to the Council as a whole but also to the communities of Dover District who benefit from good governance in their local authority.

It will also inform any potential or existing elected Member of the District Council as to what will be expected of them should they be appointed to serve on the Governance Committee.

Finally it serves as a reminder to those Councillors who already fulfil the role of member of the Governance Committee, helping them to explain their function, assess their own performance and benchmark with others in similar positions.

Statement of Purpose

The purpose of the Governance Committee is to provide independent assurance of the adequacy of the Council's risk management framework and its associated control environment; independent examination of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment; and to oversee the financial reporting process.

The Governance Committee is an essential element of good governance and is best delivered by a Committee which is independent of the Executive (Cabinet) and Scrutiny functions. An effective Governance Committee can help to raise the profile and importance of internal control, risk management and financial reporting arrangements within the Council. It can also act as a forum for discussing issues raised by internal (East Kent Audit Partnership) and external (Audit Commission) audit.

The Audit Commission challenges local authorities to ensure that their Audit or Governance Committees work effectively. In particular a sound system of internal control is in place which includes effectively delivering the core functions of an Audit Committee that provides challenge to the Executive when required; and provides for effective leadership on governance, financial reporting and audit issues.

Core Functions

The main issues with which the Governance Committee can deal are:

- Consider the effectiveness of the Council's risk management arrangements, the control environment and associated counter fraud and corruption arrangements;
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors;

- Be satisfied that the Council's assurance statements, including the Governance Statement properly reflect the risk environment and any actions required to improve it;
- Approve (but not direct) internal audit's strategies and plans;
- Review summary internal audit reports and the main issues arising and seek assurances that action has been taken where necessary;
- Receive the annual report of the head of internal audit;
- Consider the reports of external audit and inspection agencies;
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies and that the value of the audit process is actively promoted;
- Review the financial statements, external auditor's opinion and reports to Members and monitor management action in response to the issues raised by external audit.

Features

Good Governance Committees are characterised by strong chairmanship – displaying a depth of skills and interest. An interest and level of knowledge in financial and risk management, accounting concepts and standards and the regulatory regime are also essential. There needs to be unbiased attitudes – treating auditors, Cabinet and Corporate Management Team (CMT) equally, as well as having the ability to challenge the Cabinet/CMT where required. The membership of the Governance Committee should be balanced, objective, independent of mind and knowledgeable.

Other features of an effective Committee include:

- meetings characterised by free and open discussion by all members without political influence being displayed;
- prompt decisions on all matters put before the Committee;
- financial understanding displayed by one or more of the Members when considering issues;
- monitoring and, where necessary, supporting managers to secure successful outcomes to audit recommendations.

Structure and Administration

Although no single Committee model is prescribed it should be independent of the Executive and Scrutiny functions. It should have clear reporting lines and rights of access to other committees and functions.

There must be terms of reference which are reviewed on an annual basis taking into account relevant governance developments and how the Governance Committee integrates with other committees of the Council.

Regular attendees to Governance Committee meetings should include the Chief Executive, Director of Governance & Monitoring Officer, Director of Finance, Housing and Community (with S151 responsibility), Head of Internal Audit and the External Auditor. The Committee should also have the right to call on any other officers or agencies of the Council as required.

The Benefits

The Governance Committee will bring the following benefits to the Council:

- reduce the risks of illegal or improper acts;
- reinforce the importance and independence of internal and external Audit;
- increase confidence in the objectivity and fairness of financial reporting.

Stricter internal control and the establishment of a Governance Committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However it will:

- give additional assurance through a process of independent and objective review; and
- raise awareness of the need for internal control and the implementation of audit recommendations.

Committee authority

The Governance Committee is vested with sufficient authority to act with independence. It is constituted as a committee of the Council and the terms of Reference are contained within the Council's Constitution. The Committee has explicit authority to receive full access to information and the ability to investigate any matters within its Terms of Reference.

Frequency of meetings

The frequency of meetings needs to be driven by the nature and timing of the business to be considered, any complementary work conducted by other committees and any work that can be carried out between meetings. This all needs to be determined at the outset of the financial year so that the Committee is not considering unnecessary issues, reacting to foreseeable events or commenting on matters that can no longer be influenced.

It is expected that the Governance Committee will meet 4 times per year but the Committee can decide to increase this if it is felt necessary to ensure that the Committee meets its Terms of Reference. The quorum for the meeting will be 50% of the Members.

Assurance Framework

The majority of assurances to the Committee should come from management and auditors who provide a critical element of independence and assurance. In this context robust systems of risk management and application of an Assurance Framework should be at the core of any Committee's review process.

Therefore the Governance Committee will need to liaise closely with management and other committees dealing with and managing risk in order to minimise any duplication or overlap. The Governance Committee's role is not to manage risks but rather to ensure that the overall system is in place and effective.

Key Questions

This list of questions is not intended to be exhaustive or restrictive, nor should it be treated as a tick list substituting for detailed consideration of the issues it raises. Rather it is intended to act as a "prompt" to help the Governance Committee ensure that their work is comprehensive.

Strategic processes

- How is the organisational risk management culture generated and is it appropriate?
- Is there a comprehensive process for identifying and evaluating risk and for deciding what levels of risk are tolerable?
- Is the Risk Register an appropriate reflection of the risks facing the organisation?
- Is appropriate ownership of risk in place?
- How are these risks being managed?
- What are the areas of greatest risk to the achievement of the Committee's aims and objectives?
- What areas in the internal control system give management the greatest concern and why?
- How does management know how effective internal control is?
- Is risk management carried out in a way that really benefits the organisation or is it treated as a box ticking exercise?
- Is the organisation as a whole aware of the importance of risk management and of the organisation's risk priorities?
- Does the system of internal control provide indicators of things going wrong?
- How meaningful is the Annual Governance Assurance Statement and what evidence underpins it?
- Does the Governance Statement appropriately disclose action to deal with material problems?
- Have the implications of the results of the effectiveness review been discussed at Management team level?
- Have any major changes been made in internal controls in the past year? Were these made in order to improve existing controls or were they new controls established due to changes in operating systems?
- Are appropriate procedures in place to ensure adequate user involvement in the development of new systems and major system changes, including the design of control checks and balances?

- What were the most significant internal control weaknesses uncovered by internal and external auditors during the period?
- What is the auditors' view on the balance between the risk of error in the present internal control system and the cost of additional controls?

Planned activity

- Is the internal audit strategy appropriate for delivery of a positive reasonable assurance on the whole of risk control and governance?
- Will the annual audit plan achieve the objectives of the internal audit strategy and in particular is it adequate to facilitate a positive, reasonable assurance?
- Does internal audit have appropriate resources, including skills, to deliver its objectives?
- Are there any issues arising from management not accepting internal audit recommendations and are agreed internal audit recommendations appropriately actioned?
- What assurance is there about the quality of internal audit's work?
- Is there appropriate co-operation between the internal and external auditors?

Policies of the organisation

- Is there an appropriate counter fraud policy in place and are losses suitable recorded?
- Are suitable processes in place to ensure accurate financial records are kept?
- Does financial control, including the structure of delegations, enable the organisation to achieve its objectives with good value for money?
- Have any cases of fraud or illegal, questionable or unethical activities been uncovered which might affect the accounts or which could cause embarrassment?
- Are issues raised by the external auditors given appropriate attention?

Response to audit activity

- Are agreed procedures in place for monitoring progress with the implementation of recommendations?
- If management reject audits recommendations, which the auditor stand by, are suitable resolution procedures in place?

Assurances

- Do the assurances available facilitate the drafting of a meaningful Governance Statement?

- Do those producing the assurances understand fully the scope of the assurance they are being asked to provide and the purpose to which it will be put?
- What mechanisms are in place to ensure the assurances are reliable?
- Are the assurances 'positively' stated (ie – premised on sufficient, relevant evidence to support them)?
- Do the assurances draw out material weaknesses or losses, which should be addressed?

The Governance Committee itself

- How does the Governance Committee know if it is being effective in achieving its terms of reference and adding value to corporate governance and control systems of the organisation?
- Is the Committee content that it has received sufficient training and has the appropriate skills mix?
- Is the Committee content with its level of understanding of the purpose of the work of the organisation?
- Is the Committee content that it has sufficient time to give proper consideration to its business?
- Is the Committee content that it is avoiding any conflict of interest?
- Is there any evidence of the Committee's advice having an impact on the organisation?

Terms of Reference

The Committee comprises 6 members of the Authority.

Purpose

To provide independent assurance of the adequacy of the control and risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process. The Governance Committee will also sit as the Council's Audit Committee receiving reports from both internal and external audit, approving the audit programmes and ensuring sufficient resources to deliver the internal audit service.

Functions

1. Agree and then periodically review the Terms of Reference in relation to the Internal Audit Function.
2. Ensure effective internal audit and internal control arrangements.
3. Receive the Internal Audit Annual Programme of Work.
4. Receive audit activity reports and assurances contained therein relating to the level of internal control and risk management across the Council.

5. Ensure that audit recommendations agreed by management are implemented effectively.
6. Consider external audit reports and make recommendations to the Council.
7. Ensure effectiveness of the Council's risk management arrangements.
8. Seek assurances that effective action is being taken on risk and internal control related areas of weakness.
9. Receive the Governance Assurance Statement and monitor implementation of the action plan.
10. Approve the Council's audited Annual Statement of Accounts, income and expenditure and balance sheet prior to 30 September.
11. Monitor and review the Constitution and make recommendations to Council.
12. Consider electoral matters and Boundary Reviews and make recommendations to Council.
13. Consider reports of the Joint Independent Remuneration Panel and make recommendations to Council.
14. Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control information.

Role and responsibilities of Governance Committee members

Members of the Governance Committee and nominated substitutes are required to:

- scrutinise draft and final accounts in September each year
- consider audit reports on Council services
- receive and approve the Internal Audit action plan
- receive and consider the Annual Audit and Inspection letter
- consider risk assessment and management
- review the Council's Constitution and recommend changes
- make recommendations to Council
- receive regular training and updating on relevant matters.

Skills and competencies required

- attention to detail
- understanding of Council functions and services
- understanding of audit processes
- familiarity with Council's statement of accounts and supporting processes
- familiarity with the Council's Constitution
- understanding of corporate risk and its management

NB: These skills and competencies are in addition to those required to be an elected Member of the Council.

Programme of meeting dates (to be confirmed at Annual Council on 17 May 2017)

29 June 2017
 28 September 2017 (Final Accounts)
 7 December 2017
 8 March 2018