



# **Annual Report 2013/14**

## **Governance Committee**

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A copy of a leaflet, 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 Trevor Bartlett**  
Chairman of the Governance Committee

## **Comment by Director of Governance**

This report summarises the achievements of the Governance Committee against its Terms of Reference for the period 1 April 2013 to 31 March 2014 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.

**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 2013/2014

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 2012/13 Annual Governance Assurance Statement and authorised the Chief Executive to sign it following consultation with the Council's S151 Officer and Monitoring Officer. On 2 July 2013 the Leader of the Council approved the 2012/13 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
Port Health	Substantial
Environmental Protection Service Requests	Substantial
EK Services – Housing Benefit Payments	Substantial
EK Services – Housing Benefit Admin. & Assessment	Reasonable
Housing Allocations	Reasonable
Officer Code of Conduct and Counter Fraud Arrangements	Reasonable
Licensing	Reasonable
Payroll	Reasonable
Recruitment and Induction	Reasonable
EK Services – ICT Software Licensing	Limited

<b>Audit Area</b>	<b>Assurance Level</b>
Absence Management (Sickness, Annual and Flexi Leave)	Limited
EK Services – Housing Benefit Quarterly Testing (Qtr 4 of 2012-13)	Not Applicable
Disabled Facilities Grants	Substantial
Business Continuity and Emergency Planning	Substantial
CCTV	Substantial
Dover Museum and Visitor Information Arrangements	Substantial
EK Services - Network Security	Substantial
Members' Code of Conduct & Standards Arrangements	Substantial
EK Services – Housing Benefit Quarterly Testing (Qtr 1 of 2013-14)	Not Applicable
Local Code of Corporate Governance	Substantial
EK Services – Council Tax Reduction Scheme	Substantial
Right to Buy Applications	Reasonable
EK Services – Housing Benefit Quarterly Testing (Qtr 2 of 2013-14)	Not Applicable
Treasury Management	Substantial
Capital	Substantial
Budgetary Control	Substantial
Coast Protection	Substantial
Service Contract Monitoring	Substantial
Environmental Health – Food Safety	Substantial
Insurance & Inventories of Portable Assets	Substantial/ Reasonable
Freedom of Information and Record Management	Reasonable
East Kent Housing – Repairs and Maintenance	Reasonable
Environmental Protection – Contaminated land, pollution, air and water quality.	Reasonable
Cemeteries	Reasonable/ Limited
EK Services – ICT Software Procurement	Limited
EK Services – Housing Benefit Quarterly Testing (Qtr 3 of 2013-14)	Not Applicable

4. The Committee received the Final Accounts with an unqualified audit opinion at its meeting in September 2013, presented by the Audit Commission.

### **Work Programme for 2014/15**

<b>2014/15 Governance Committee</b>	
<b>Date</b>	<b>Main Agenda Items</b>
June 2014	Internal Audit Annual Report Internal Audit Quarterly Progress Report Annual Governance Assurance Statement Grant Thornton's Quarterly update

<b>2014/15 Governance Committee</b>	
<b>Date</b>	<b>Main Agenda Items</b>
September 2014	Final Annual Accounts 2013/14 Internal Audit Quarterly Progress Report Grant Thornton's Quarterly update
December 2014	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 2015	Internal Audit Annual Plan 2015/16 Internal Audit Quarterly Progress Report Grant Thornton's Quarterly update Governance Committee Programme for 2015/16

**Programme of Meeting Dates 2014/15**  
(to be confirmed at Annual Council on 14 May 2014)

26 June 2014  
25 September 2014 (Final Accounts)  
4 December 2014  
26 March 2015



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

March 2012

## **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 Audit Commission. 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
- consider electoral and boundary review matters
- 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 14 May 2014)

26 June 2014  
 25 September 2014 (Final Accounts)  
 4 December 2014  
 26 March 2015