

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 11 December 2012 at 7.00 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor John Worrow (Chairman); Councillors Campbell, Day, Moore, W Scobie, S Tomlinson, M Tomlinson, Edwards and Wells

255. ALSO PRESENT:-

Madeline Homer – Director of Community Services
Harvey Patterson – Corporate and Regulatory Services Manager
Sarah Martin – Financial Services Manager & Deputy s151 Officer
Nikki Morris – Business Support and Compliance Manager
Christine Parker - Head of the East Kent Internal Audit Partnership
Simon Webb – Deputy Head of Audit – East Kent Audit Partnership
Janice Wasson – Community Development Manager
Rob Hetherington – Economic and Regeneration Manager

256. TRAINING PRESENTATIONS

(a) Anti-fraud & Corruption and Anti-Bribery

A pre-meeting training presentation on Anti-Fraud & Corruption & Anti-Bribery was given by Sarah Martin, Financial Services Manager and Deputy s151 Officer.

257. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Binks and Councillor Lodge-Pritchard.

Substituting for Councillor Binks was Councillor Wells and for Councillor Lodge-Pritchard was Councillor Edwards.

258. DECLARATIONS OF INTEREST

Councillor M Tomlinson declared a disclosable pecuniary interest in Minute No. 261 – Internal Audit Progress Report.

Councillor Edwards declared a disclosable pecuniary interest in Minute No. 261 – Internal Audit Progress Report.

259. MINUTES OF PREVIOUS MEETING

The minutes of the Governance and Audit Committee meeting held on 25 September 2012, were approved and signed by the Chairman.

260. GOVERNANCE AND AUDIT COMMITTEE ACTION PLAN

The Action Plan was noted.

261. INTERNAL AUDIT PROGRESS REPORT

Simon Webb, Audit Manager from the East Kent Internal Audit Partnership, outlined the report which summarises the internal audit work completed by EKAP since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30 September 2012.

There have been fifteen internal audit assignments completed during the period. Of these four had concluded Substantial assurance, seven concluded Reasonable assurance and three had given rise to a split assurance level which were partially Limited.

An audit for Car Parking and Enforcement had concluded 'Substantial Assurance'. Car Parks continue to work with established systems, processes and procedures supported by experienced staff and officers.

Contract Standing Order Compliance had concluded 'Reasonable Assurance' and the process for CSO is generally working well following implementation of the 2010 audit recommendations. Satisfactory evidence was available to support the procurement process in obtaining the required quotations in all 14 cases tested. There is however some scope for improvement that could strengthen the existing controls and so reduce risk.

Two audits had been carried out for East Kent Housing (Tenancy & Estate Management and Rent Setting, Collection & Arrears Management). Both had concluded 'Reasonable Assurance'. Each of the partner authorities have their own processes and there are examples of best practice across the four areas that can be 'ported' between them to increase efficiency and effectiveness.

An audit of East Kent Services (ICT Procurement & Disposals) has also concluded 'Reasonable Assurance'. Each of the partner authorities have their own processes in place for procurement. EK Services are unable to have one process in place for purchasing ICT equipment however, they have worked with each partner to create a process for each, which works effectively. EK Services do not currently have access to all financial systems and therefore all queries are redirected to the Authority. The audit had focussed on the monitoring of Shared Services.

The audit of Thanet Leisure Force (Monitoring and Performance Arrangements) had concluded Substantial/Limited Assurance. The last audit of this area had taken place in March 2012. The resulting audit report had made six recommendations, all of which concerned the terms and conditions of the lease between the Council and TLF. At the time the recommendations had been accepted but still remain to be implemented.

Madeline Homer, Director Community Services gave the Governance and Audit Committee a summary of the current situation in relation to TLF. The report had identified changes regarding the responsibility for overseeing the contract between the Council and TLF which had changed several times over recent years and again recently, and this had resulted in a lack of continuity and background knowledge of TLF. The responsibility now lies with the Economic and Regeneration team headed by Rob Hetherington.

Rob Hetherington, Economic and Regeneration Manager advised the Committee that most of the recommended actions related to the lease. He added that an officer was now in place and over the next three months would ensure that the lease and grant conditions were updated.

Some Members had concerns that the audit recommendations had not previously been activated or followed up and asked what was different now.

Simon Webb informed Members that a 'follow-up' would be carried out in quarter 4 and that processes were in place where this could be flagged up. Madeline Homer added that a deadline had been set at March 2013 and assured Members that the recommendations of the audit would be done by then. A lot of time had been spent on the Ramsgate Swimming Pool lease where most focus had been during this period.

Another concern of Members was regarding the £75K loan to TLF in 2004 which had been to assist them with essential works, which were required at the Winter Gardens.

The agreement stated that the monies would be paid back in 7 instalments of £12,228.50 and a final payment of £6,114.25 would be due six months after the seventh annual payment. Although the 7 payments had been received, the last one having been paid on 13 December 2011, no action had been taken to recover the final amount due. Madeline Homer advised that she would make enquiries of the Finance team to find out why recovery of this sum had not been sought.

Christine Parker, Head of the East Kent Internal Audit Partnership referred Members to paragraph 3.2 of the Internal Audit report which explained that any individual High priority recommendations outstanding after follow-up are included at Appendix 1 and on the grounds that these recommendations had not been implemented by the dates originally agreed with management, they had now been escalated for the attention of the s.151 officer and Members of the Governance and Audit Committee. Should it be necessary the follow-up recommendations would be part of a further progress report to this Committee. It was noted that Members did not expect to see this item again.

Members asked for an explanation in relation to the Margate Museum. The audit report stated that on taking over the museum from the previous trust there were found to be no reliable records cataloguing the artefacts owned by the Council. To address the issue TMofMM (The Friends of Margate Museum) were undertaking the cataloguing of artefacts as part of a two-year project. The Council however has a responsibility to safeguard assets and with the collection valuation estimated to be £400K, together with the associated insurance risks, alternative options should be sought to shorten the two-year time scale and reduce the risk of loss; whether or not the collection is complete cannot be assessed due to the lack of reliable documentation and systems historically. It is certainly possible that exhibits have gone missing in the past. Option considerations must ensure that the Council's interests are adequately protected.

Janice Wasson, Community Development Manager agreed that the museums had not been a priority in regard to recording of artefacts but that Kate Willson, Community Development Officer, had stepped in and was in the process of making an inventory of the assets. Members asked whether advice had been sought from the 'Quex Museum' who had experience of the digitalising process. Janice would forward this suggestion to Kate.

Further discussion took place and Members raised concerns regarding the Dickens House Museum and the Curator's lack of an employee contract. Without this formal footing responsibilities are not clearly defined and could adversely impact on service standards and expected performance.

In referring to Data Protection Act Compliance, which had received a Reasonable/Limited Assurance, it was noted that ICT equipment is not reviewed prior to its being disposed of which is to ensure that no data has been stored on it. An outside contractor is used to dispose of redundant ICT equipment and although a certificate is received by EK Services to confirm that it has been disposed of this does not prevent data getting into the wrong hands once the Council has signed equipment over.

In addition officers who leave the Council, EK Services and EKH who have been allowed access to the network do not have their account disabled in a timely manner. This allows for the opportunity of Council information being stolen and misappropriated. This raised significant concerns with Members who asked whether this applied to all ICT equipment. Simon Webb advised that the Housing Benefit section held some of the most sensitive data and gave assurance that access to that part of the building had additional restrictions. It was noted however that on various occasions when officers have been issued new cards, the old cards still remained active. This therefore presents security issues as once entry has been gained to the building there are only a few areas that cannot be accessed.

Sarah Martin had received a response from EKS and gave Members a summary of those responses (Members had received this note via email). Members felt that the response received from EKS was extremely inadequate. Harvey Patterson, Corporate and Regulatory Services Manager and as the Council's Data Protection Officer, said that one of the assurances he had was in the protection and security of the Housing Benefit and Revenues offices. The use of the GSI security system was expensive but his concerns were about what was held on the 'H' and 'C' drives and also the use of non-encrypted memory sticks. The disposal policy required all hard drives should be cleaned prior to sale.

Members felt that information stored on a memory stick was a huge risk to the Council and could have disastrous consequences.

A proposal was received from Councillor Campbell and seconded by Councillor Wells that:

"Cabinet are to be made aware of the concerns of the Governance and Audit Committee regarding the disposal/destruction process of ALL ICT equipment. The Committee had no confidence in the response received from EKS and an urgent and immediate change to the process of IT security protocol was required"

ALL AGREED.

Christine Parker updated Members on the Quarter 2 'balanced scorecard' and advised that there were no concerns to bring to the Committee's attention. She added that they were close to a target of 98% by the end of March 2013.

Moved by Councillor W Scobie and seconded by Councillor Campbell that:

"6.1 the report be received by Members and

6.2 that any changes to the agreed 2012-13 internal audit plans, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved"

MOTION ADOPTED.

262. QUARTERLY GOVERNANCE PROGRESS REPORT

Nikki Morris summarised the report which provides Governance and Audit Committee with the progress on governance related issues.

The items covered in this report are:

- Corporate risk register
- Annual Governance Statement 2011/12 action plan
- Governance Framework and Local Code of Corporate Governance annual review
- Risk Management Strategy

Members were informed that the risk identified (R1022) – 'Welfare Reform Legislation impacts on regeneration', was at the operational level risk, this would be redesignated and an overarching corporate risk on the Welfare reform would replace this.

In referring to the Risk Register (R1001) – 'The Council relies on staff consistently working for longer than their contracted hours' - Members asked how many hours staff worked that had not been scoped or recorded anywhere. A resolution to this serious risk could not be sought until the hours worked had been identified. A control measure to scope how endemic the problem is was agreed by Members to be added.

A proposal was received from Councillor Campbell and seconded by Councillor W Scobie that:

'The Chief Executive and Cabinet should be made aware of the Governance and Audit Committee's concerns regarding this risk. An exercise should be undertaken to 'scope' the hours that staff are working to identify where they are working more than their contracted hours and also if there are particular areas that are affected. An additional control measure should be added once this analysis (scoping) has been done'

Members agreed.

It was also suggested and agreed that a training session on the Risk Register be included at the next Governance and Audit Committee meeting.

Referring to the Risk Management Strategy and the role of the Governance and Audit Committee stated as follows: 'Provide independent assurance of the risk management framework and associated control environment, independent scrutiny of the council's financial and non-financial performance, and oversee the financial reporting process', Members queried that the Terms of Reference for the Committee have slightly different wording. Nikki Morris advised although this did form part of the TOR it had not yet been reflected in the strategy which would need to be amended.

Moved by Councillor Campbell and seconded by Councillor S Tomlinson that:

- “5.1 That Members noted the content of annexes 1 and 2 and had identified any issues on which they required more clarification
- 5.2 That Members approved the reviewed Governance framework and Local Code of Corporate Governance (annexes 3 and 4)
- 5.3 That Members noted the amendment to the Risk Management Strategy at annex 5”

MOTION ADOPTED.

263. ANTI FRAUD AND CORRUPTION AND ANTI-BRIBERY POLICIES

Sarah Martin, Financial Services Manager and Deputy s151 officer introduced the report which presents a revised Anti-Fraud and Corruption Policy and Anti-Bribery Policy for Members' approval.

Members queried the wording and meaning of the following under the heading of 'Members':-

'Members

Members of the Council are expected to fully understand and strictly comply with the requirements of all regulations and rules which have as their objective the prevention of fraud and corruption. Principal amongst these are:

- The Council's Standing Orders
- The National Code of Local Government Conduct
- Sections 94-96 of the Local Government Act 1972
- Local Authorities' Members' Interest Regulations 1992
- Section 106 of the Local Government Finance Act 1992.

The Council will give due emphasis in the induction of new Members to the provisions of these measures and will maintain a Member Handbook in which the measures are clearly explained.

No Members will meet a third party who is looking to promote a cause without an officer being present’.

Harvey Patterson, Corporate and Regulatory Services Manager and Monitoring Officer agreed that the wording required changing to be more explicit and would be amended and brought back to this Committee. A suggestion made by Members was to amend the last sentence to read ‘No Member will engage a third party who is looking to promote a cause without an officer being present’.

Moved by Councillor S Tomlinson and seconded by Councillor M Tomlinson that:

“subject to amendments to the wording at page 112 and the detail regarding ‘engage’ as above, Members approve the revised Anti-Fraud and Corruption Policy and Anti-Bribery Policy”

MOTION ADOPTED.

264. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY - MID YEAR REVIEW REPORT 2012/13

Sarah Martin, Financial Services Manager, summarised the report which provides the Governance and Audit Committee with the Treasury Management activity and prudential/treasury indicators for the first half of 2012/13.

In referring to the current economic climate the Sector’s Interest rate forecast (issued by Sector on 17 September 2012) was noted as below:-

	17.9.12 actual	Dec- 12	Mar- 13	Jun- 13	Sep- 13	Dec- 13	Mar- 14	Jun- 14	Sep-14	Dec-14	Mar- 15
BANK RATE	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.75	1.00
3m LIBID	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.70	0.90	1.10	1.40
6m LIBID	0.85	0.85	0.85	0.85	0.85	0.85	1.00	1.10	1.30	1.50	1.80
12m LIBID	1.30	1.30	1.30	1.30	1.40	1.50	1.70	1.90	2.10	2.30	2.60
5yr PWLB	1.89	1.50	1.50	1.50	1.60	1.70	1.80	1.90	2.00	2.10	2.30
10yr PWLB	2.91	2.50	2.50	2.50	2.60	2.70	2.80	2.90	3.00	3.20	3.30
25yr PWLB	4.15	3.70	3.70	3.70	3.80	3.80	3.90	4.00	4.10	4.20	4.30
50yr PWLB	4.32	3.90	3.90	3.90	4.00	4.00	4.10	4.20	4.30	4.40	4.50

The above Sector forecasts for PWLB rates incorporate the introduction of the **PWLB certainty rate** in November 2012 which will reduce PWLB borrowing rates by 0.20% for most local authorities. The actual PWLB rates on 17.9.12 ought therefore to be reduced by 20bps to provide a true comparison to the forecasts.

The Treasury Management Strategy Statement and Annual Investment Strategy update showed that a negative rating watch applying to a counterparty at the minimum Council criteria may be, rather than will be, removed from the list. The decision on whether to remove the counterparty will be in line with advice from the Council’s external treasury consultancy (Sector).

Moved by Councillor Campbell and seconded by Councillor W Scobie that:

10.1 “the Governance and Audit Committee recommends the following to Council:

- Note the report, the treasury activity and recommend approval of any changes to the prudential indicators.
- Recommend approval of any changes to the investment criteria
- Recommend approval of any other changes of treasury management policy”

MOTION ADOPTED.

265. TREASURY MANAGEMENT STRATEGY STATEMENT, MINIMUM REVENUE PROVISION POLICY STATEMENT & ANNUAL INVESTMENT STRATEGY FOR 2013/14

Sarah Martin, Financial Services Manager & Deputy s151 Officer introduced the report which provides the Governance and Audit Committee with the proposed Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2013/14 for approval.

The report sets out the Prudential Indicators through the year and also includes the counterparty lists. The Council has determined that it will only use approved counterparties from the UK (irrespective of the UK sovereign credit rating) or other countries with a minimum sovereign credit rating of AAA from Fitch (or equivalent). This list will be added to, or deducted from by officers should ratings change in accordance with this policy.

Members asked whether ‘Fitch’ (or equivalent) still existed. Sarah confirmed that they were.

Moved by Councillor W Scobie and seconded by Councillor Campbell that:

“the Governance and Audit Committee approve each of the key elements of this report and recommend them to Council:

- The Prudential Indicators and Limits for 2013/14 to 2015/16, including the Authorised Limit prudential indicator.
- The Minimum Revenue Provision (MRP) statement which sets out the Council’s policy on MRP.
- The Treasury Management Strategy for 2013/14 to 2015/16 and the treasury Prudential Indicators.
- The Investment Strategy for 2013/14 contained in the Treasury Management Strategy, including the detailed criteria”

MOTION ADOPTED.

266. FUTURE ITEMS OR TRAINING FOR THE COMMITTEE

The following items are to be included in the training presentations for the 21 March 2013 Governance and Audit Committee:-

- Internal Audit/Introduction/Update

- Risk Register

Meeting concluded : 8.50 pm