

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 29 June 2011 at 6.30 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor Jason Savage (Chairman); Councillors Campbell, Day, Driver, D Green, W Scobie, Wiltshire and Coleman-Cooke

In Attendance: Councillor Mrs Johnston

157. ALSO PRESENT:

Harvey Patterson – Corporate and Regulatory Services Manager
Sarah Martin – Financial Services Manager & Deputy s151 Officer
Nikki Morris – Business Support and Compliance Manager
Lisa Robertson – Audit Manager - Audit Commission

158. RULE 24.1

THE FOLLOWING MEMBER WAS ALSO PRESENT PURSUANT TO COUNCIL PROCEDURE RULE 24(1) AND TOOK PART IN THE PROCEEDINGS AS FOLLOWS:

Councillor Mrs Johnston on Minute No. 165 – European Regional Development Fund.

159. VARIATION OF AGENDA ORDER

Members agreed to vary the order of the agenda and take Item 5 – Draft Annual Governance Statement, before Item 3 – Annual Report on the Treasury Management Service.

In addition, agenda Item 10 – Report on the Consultation by the Department for Communities and Local Government on the Future of Local Public Audit will be taken after agenda Item 7 – European Regional development Fund.

160. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Binks, Councillor Matterface and Councillor M Tomlinson.

Councillor Coleman-Cooke was substitute for Councillor Binks, Councillor William Scobie for Councillor Matterface and Councillor Mrs Wiltshire for Councillor M Tomlinson.

161. DECLARATIONS OF INTEREST

There were no declarations of interest.

162. ANNUAL REPORT ON THE TREASURY MANAGEMENT SERVICE

Sarah Martin, Financial Services Manager and Deputy s151, officer outlined the report which summarises the Treasury Management activity and prudential indicators for 2010/2011.

Regulations issued under the Local Government Act 2003 require that the Council produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2010/2011.

The report summarises:

- capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

Sarah advised Members on the borrowing rates and the 2 loans that had been repaid, one of these loans being over 5 years at 2.5% and the other being over 10 years at 3.4%.

The overall position of the debt activity resulted in a fall in the average interest rate by 1.75%, representing net General Fund savings of £149,000pa. Sarah added that the Council policy was that risk was more important than yield and that at 0.76% the interest was double of that in 2009/2010 and higher than benchmarks used.

Some Members had concerns regarding the Council's Treasury Management policy and why Thanet District Council could not borrow at better rates by borrowing more money 'inter council'. Sarah advised Members that this could not be done but that advice would be sought from the Council's treasury advisors.

The following was asked by Members:

'that a report on how the £17 million underborrowing had been financed be brought to the Committee

and are we using revenue money or selling assets?'

in addition the following was asked;

'that Members be advised of any existing guidance for a prudential strategy on borrowing'

Sarah is to respond to the questions asked.

Subject to the above questions being answered the following recommendations were agreed:

"that the Governance and Audit Committee:

- Approve the actual 2010/11 prudential and treasury indicators in this report
- Note the annual treasury management report for 2010/11
- Recommend this report to Cabinet"

MOTION ADOPTED.

163. STATEMENT OF ACCOUNTS 2010/2011

Sarah Martin presented the Statement of Accounts for 2010/2011 to Members and explained why the accounts had been delayed in being supplied to Members.

Previously Members had been required to approve the accounts by 30 June, prior to the audit. This has now been moved to the 30 September, so that Members can be made aware of the findings of the audit and make a more informed decision. The pre-audited accounts would still be presented to Members as an early notification of the financial outcome of the previous financial year.

An explanation of changes to the content and format of the 2010/2011 accounts was given at annex 1 to the report and details the changes that had been introduced as a result of the introduction of the International Financial Reporting Standards. Subsequently the accounts now look very different to previous years. The 1 April 2009 balance sheet has been restated on an IFRS basis to aid comparison between years.

It has been necessary to review all leases where the Council is either the lessor or the lessee. Sarah added that the judgement as to whether a lease is a finance lease or an operating lease is more subjective under IFRS.

Members asked what the difference was between these two types of leases. Sarah explained that a finance lease appeared as an asset on the balance sheet and an operational lease stays on the revenue balance. She added that a finance lease occurs when the risks and rewards are transferred. An operating lease is similar to a hire purchase agreement.

Under the heading of 'Segmental Reporting' a query was raised by Members as to the meaning of BVACOP. Sarah informed Members that it was 'Best Value Accounting Code of Practice' issued by CIPFA. She explained that authorities now have to produce its income and expenditure on the same basis as internal management reporting, as well as in accordance with BVACOP. BVACOP allows comparisons between authorities.

In summarising the Council's outturn position Sarah advised Members that as a result of cuts in discretionary spend, a recruitment freeze and identification of efficiency savings by Managers, savings have resulted in an in-year under-spend of £1.15m.

Members asked when the decision was made on the 'recruitment freeze' and who by. Sarah advised that this was the decision made at CMT (now SMT), Corporate Management Team, and then reported to Members in the Budget Monitoring Reports. Concerns by Members were raised as to how the accounts are scrutinised by Members and when. Lisa Robertson, Audit Manager from the Audit Commission explained that Members had from now until September to scrutinise the accounts and bring attention to any figures not understood or incorrect. Sarah added that when the accounts go to the September meeting, Members will receive a copy at least two weeks in advance.

Harvey Patterson, Corporate and Regulatory Services Manager also advised Members that the Council, when approving the budget, sign it off. Decisions involving expenditure in excess of relevant budget are approved by Cabinet. Any decision on overspend is for Cabinet decision. The decision to deliver an underspend does not need to be approved by Members. Harvey added that 'on-line guidance' was available to Members.

Some Members were dissatisfied with the process and the late receipt of so many papers. Members suggested that another meeting of the Governance and Audit Committee be arranged in July or August so that the accounts can be scrutinised in detail.

Subject to the agreement that 'reserves were kept in the most appropriate place' it was

proposed by Councillor Campbell and seconded by Councillor Day that:

“Governance and Audit Committee note the draft Statement of Accounts for 2010/11 and approve the proposed movements to reserves”

MOTION ADOPTED.

164. DRAFT ANNUAL GOVERNANCE STATEMENT 2010/2011

Nikki Morris, Business Support and Compliance Manager presented Members with the Draft Annual Governance Statement 2010/11. The presentation included information on why the Council produce an Annual Governance Statement, how the document is prepared, the approval process and what happens next.

Referring to page 33 (5.5) of the Annual Governance Statement, Members asked where Councillors were informed of Freedom of Information Requests. Responding to this query Nikki informed Members that these requests are on a quarterly report that is placed on the TDC website and summarised all FOI requests that have been made, when they were received and responded to and the reasons, if appropriate, why they are not disclosed if that is the case.

A further question was raised regarding CRB checks for Members. Harvey advised that the Council cannot have a mandatory policy where Members have to be CRB checked. The Council can facilitate Members who wish to have this check.

Moved by Councillor Campbell and seconded by Councillor Day that:

Members accept the report.

165. DEBT WRITE OFF PROTOCOL

Harvey advised Members that a detailed update would be brought to the September meeting of the Governance and Audit Committee.

Although the protocol for Debt Write Off was in the Financial Procedure Rules within the Constitution a process by which the ‘write offs’ could be scrutinised at Member level was being investigated by the Council’s legal department who were looking at the Data Protection detail.

166. EUROPEAN REGIONAL DEVELOPMENT FUND

In giving Members some background to this report the Chairman emphasised that the projects named within the report between 2000 and 2006 were prior to the Governance and Audit Committee being established. Since 2009 an External Funding Protocol was in place and the Governance and Audit Committee had a framework in place to ensure the process was followed.

Following some concerns raised by Members regarding the Protocol and unexplained misspending it was suggested that Clive Bowen, External Funding Officer should come and to talk to the Governance and Audit Committee to explain the process. Members also asked whether other officers were qualified to administer the External Funding Protocol.

A further suggestion made by Members was that a quarterly report be brought to Governance and Audit Committee giving information on monies and organisations given grant funding. Harvey advised Members that during the period of time in question grant funding had been mismanaged and that the Council are the accountable body responsible for proper use of grants. He added that where possible the Legal department are recovering monies but that lack of evidence made this unlikely. The question Members should be asking is whether, with the protocol now in place, the same situation would happen again. Harvey added that the Governance and Audit Committee is about process and addressing problems should they arise.

Members asked if any other documents were used, apart from the External Funding Protocol and if all officers used this same document. This was confirmed and Sarah added that the External Funding arrangements had recently been audited and received reasonable assurance.

Members agreed that a further report on what evidence there is that the protocol has made the situation better be brought back to this Committee.

Subject to the above it was moved by Councillor Green and seconded by Councillor Campbell that:

“the Governance and Audit Committee note the report contents on ERDF repayments

and

that the Committee note the progress made by the authority regarding systems implemented to avoid future grant reclaims”

MOTION ADOPTED.

167. REPORT ON THE CONSULTATION BY THE DEPARTMENT FOR COMMUNITIES AND LOCAL GOVERNMENT ON THE FUTURE OF LOCAL PUBLIC AUDIT

This report is to provide Members of the Governance and Audit Committee with the consultation response to the Department of Communities and Local Government (DCLG) on the Future of Local Public Audit.

This report had been requested as an urgent item of business by Members.

Number 1 – Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?

Do Members prefer response 1 or response 2 (as set out in Annex 1) as an answer.

Response 2 was agreed.

Number 2 – Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?

Do Members support an approach to local public audit based on the private sector model. Do Members agree with the answer to question 4 as set out in Annex 1?

Response was No!

Number 3 – Do Members consider that the decision to abolish the Audit Commission and open up the market is likely to increase or reduce audit fees? See question 7, Annex 1.

What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?

Response was 'all agree'.

Number 4 – Do Members support the proposal for an independent (ie non elected) chair and vice-chair, and a majority of independents on the audit committee?

Will it be practical to find suitable independent Members that are acceptable to Council?

Response was 'No'.

Number 5 – Should the mandatory role of the Audit Committee be limited to recommendations on the appointment of an auditor, or should the mandatory role be wider as set out in Option 2, section 3 of the consultation?

Response was 'don't agree'.

Number 6 – Which of the 4 options for the scope of the audit, as set out in Section 4 (paras 4.14 – 4.25) of the consultation, do Members consider most appropriate?

Members response was Option 2.

Number 7 – Do Members want to seek the views of town and parish councils on the proposed arrangement for them (question 42 onwards)?

Members response 'No'.

END.

168. EXCLUSION OF PUBLIC AND PRESS

Moved by Councillor Campbell, seconded by Councillor W Scobie and resolved that the public and press be excluded from the meeting on agenda item 9 it contains exempt information as defined in Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

169. DEBT WRITE OFFS FOR 2010-11

Members considered the confidential report of the Financial Services Manager regarding Debt Write Offs for 2010/11.

Members asked why the table appended to the report was on pink.

Harvey agreed that the table should be on white but the main report to remain on pink.

Moved by Councillor Green and seconded by Councillor Campbell that:

“the Governance and Audit Committee note the write off position for 2010/11”

MOTION ADOPTED.

Meeting concluded : 9.35 pm