

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 13 December 2011 at 7.00 pm in Council Chamber, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor Jason Savage (Chairman); Councillors Binks, Campbell, Day, D Green, Matterface, M Tomlinson, W Scobie and Worrow

189. THE ROLE OF THE GOVERNANCE AND AUDIT COMMITTEE

A pre-meeting training presentation was given.

190. ALSO PRESENT:

Dr. Sue McGonigal – Chief Executive and Chief Financial Officer
Harvey Patterson – Corporate and Regulatory Services Manager
Sarah Martin – Financial Services Manager & Deputy s151 Officer
Nikki Morris – Business Support and Compliance Manager
Andy Mack – District Auditor – Audit Commission
Harpal Singh – Team Leader - Audit Commission
Simon Webb – Audit Manager – East Kent Audit Partnership
Christine Parker – Head of the East Kent Internal Audit Partnership
Andrew Stevens – Assistant Director – East Kent Services
Mark Gillmore – Payments Manager – East Kent Services

191. VARIATION OF AGENDA ORDER

Members agreed to vary the order of the agenda and take Item 6 – the presentation on External Funding Protocol after item 12 – Budget and Rent Setting Report and Treasury Management Strategy Report 2012/12 – 2014/15.

192. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Mrs Johnston.

Substitute for Councillor Mrs Johnston was Councillor William Scobie.

193. DECLARATIONS OF INTEREST

There were no declarations of interest.

194. MINUTES OF PREVIOUS MEETING

The minutes of the Governance and Audit Committee meeting held on 29 September 2011, were approved and signed by the Chairman.

195. ACTION POINTS FROM PREVIOUS MEETINGS

Referring to an action from the Governance and Audit meeting 22 June 2011, Members asked for clarification regarding the 'Value for Money Reviews' and whether Member involvement had been considered.

Sue McGonigal, Chief Executive and s151 Officer advised that the 'Star Chamber' process was now used for service reviews. Value for Money reviews are no longer carried out as the Council do not have the staffing resource required. The Council's procurement processes are being looked at to see how the 'buying local agenda' can be

pushed forward to improve procurement processes without costing money. The approach to 'Star Chamber' is also to be reviewed (which is a rolling service review). Member attendance in this process is expected.

Members also asked what processes were reviewed regarding procurement and contract management. Sue McGonigal advised that contract letting outcomes were regularly reviewed to ensure that the correct processes are followed and that 'Value for Money' is assured. Sue added that some of the reviews carried out had been at the request of Governance and Audit Committee and had included the Tender process review.

196. EXTERNAL FUNDING PROTOCOL

Members received a presentation from Sarah Martin, Financial Services Manager, on the External Funding and Grants Protocol.

There is a need for a protocol that standardises processes relating to external funding and the payment of grants to ensure consistency and clarity and protect the Council from unidentified risks. The Council had limited staff resources in the past to monitor the evidence which supports the grant funding.

Clive Bowen, External Funding Officer now keeps the required evidence and reviews all external funding. These records must show:

- A sufficient audit trail which should be traceable right back to the original document, demonstrating, for example, the expenditure, an invoice and bank statement.
- Exact evidence of expenditure.
 - Internal staff costs – salary records, detailed timesheet (to show time allocated to the project) and any apportionment methodology.
 - External staff costs – invoices, detailed timesheets.
 - Other costs – invoices, payment receipts, apportionment methodology, copies of leasing/hire agreements, source documents for overheads.
- Records of eligible beneficiaries and steps taken to discern their eligibility.
- Evidence of proper procurement.
- Evidence of any auditable, accountable match funding.
- Compliance with any publicity, equal opportunities and environmental requirements.
- Clear records of any businesses supported for state aid purposes.
- Evidence to support the output measures that as a minimum meet the funder's requirements e.g. this may be national insurance numbers for jobs created.
- Evidence of insurance documents for third party grant recipients to be reviewed by the Council's insurance officer, e.g. a grant being provided for an event.

It was noted that a long retention period was required for these records as auditors could ask to see them some years down the line. Sarah added that the Council were satisfied that the Protocol was now fully embedded and that it would be part of the Audit process for 2012-13.

Members received the presentation.

197. ANNUAL AUDIT LETTER 2010/11

The Chairman introduced the report which presents the Audit Commission's Annual Audit Letter for 2010/11.

Members asked why, having received a strong endorsement from the Audit Commission, the conclusion had been 'adequate'. Andy Mack advised that Auditors are customarily tough critics. He added that two major challenges for the Council had been the introduction of International Financial Reporting Standards (IFRS) and Value for Money during these difficult economic times.

It was noted that the Chairman had been delighted with the report.

Members noted the report.

198. AUDIT COMMISSION UPDATE 2011-2012

Andy Mack summarised the report which updates Members on progress to date on the current audit plans and the Audit and Inspection work undertaken.

A key element of the Audit Commission's certification approach involves taking a sample of benefit cases from the entries on an authority's subsidy claim form and undertaking detailed testing using workbooks. Andy Mack added that Thanet District Council's results had compared favourably with other Councils in Kent. It was noted that changes in the External Auditing provider would begin to evolve in April 2013 with the outcome known by October 2013.

Members noted the report.

199. INTERNAL AUDIT PROGRESS REPORT

Christine Parker, Head of the East Kent Audit Partnership outlined the report which summarises the internal audit work completed by the East Kent Audit Partnership since the last Governance and Audit Committee meeting, together with details of the performance of the EKAP to the 30th September 2011.

There have been eight internal Audit assignments completed during the period. Of these: two concluded Substantial Assurance, four concluded Reasonable Assurance, one concluded limited assurance and there was one audit assignment for which an assurance level was not applicable as this related to quarterly housing benefit testing. The Limited assurance audit was in respect of the Council's CCTV arrangements.

Christine added that the audit plan to the end of September 2011 had been 67.2% complete and the update to the end of November 2011 was 83% complete. The 'scorecard' shown at appendix 4 to the report shows that the internal audit is on target to complete its obligations by the end of the financial year.

Simon Webb, Audit Manager, said that the audit of CCTV had initially found some areas of non-compliance with the CCTV Code of Practice, however Management had promptly addressed most of the issues and accordingly the assurance level had been increased to 'Reasonable' at the time of the follow-up audit in November 2011.

Referring to the Housing Benefit Testing, for the first quarter of the 2011/12 financial year (April to June 2011) an initial sample of 20 claims, including new claims and changes to circumstances of each benefit type, were selected by using Excel software to randomly select the various claims for verification.

In total 20 benefit claims were checked and of these 4 (20% of the sample) failed the criteria set by the Audit Commission's verification guidelines as they impact on the subsidy claim. One further claim failed due to procedural error; however this has no effect on the subsidy claim.

Due to the higher than expected error rate the EKAP then undertook, at the request of EK Services, testing of an additional sample of 20 benefit claims. From this additional sample of 20 claims 2 (10% of the sample) were found to have failed the set criteria as they would have an impact on the subsidy claim. One further claim failed the data quality check due to the input of an incorrect national insurance number; this however has had no effect on the subsidy claim.

In total 40 benefit claims were checked and of these 6 failed the criteria set by the Audit Commission's verification guidelines as they impact on the subsidy claim. Two further claims failed due to procedural/data input errors, however these have no effect on the subsidy claim. The first sample of 20 claims produced an error rate of 20% and the second sample of 20 claims produced an error rate of 10%.

The overall error rate, identified by the EKAP from the sample of 40 claims of 15% is the same as the reported error rate arising from the testing undertaken by the EKAP during 2010/11.

During Quarter 1 of 2011-12, quality control testing was also undertaken by EK Services and during this period a total of 721 transactions on cases were tested which highlighted an error rate effecting subsidy of 2.36%. Detailed results of the testing undertaken by EK Services can be seen in the table below.

| | |
|--|--------------|
| Total cases tested | 721 |
| Total errors | 58 (8.4%) |
| Cases with calculation errors | 17 (2.36%) |
| Percentage of cases with procedural errors | 44 (6.10%) |
| Overall accuracy rate | 704 (97.64%) |

The next sample of benefit claims to be checked by the EKAP will be in respect of Quarter 2 (July to September 2011) and this work is currently in progress and will be brought to the March 2012 Governance and Audit Committee. The sample for Quarter 2 has been selected from those claims which have already been quality control tested by EK Services in order to provide assurance on the data quality of the benefits accuracy performance indicator and also to seek to ascertain the reasons for the difference in the accuracy rate highlighted by the EKAP and that identified by EK Services.

The point must be reiterated, however, that the methodology being used for quality assurance differs between EKAP and EK Services. EKAP check the whole amount of the benefit paid in the financial year to date in order to establish potential accuracy of subsidy claims and EK Services only check the most recent adjustment (transaction) which gave rise to the claim being selected for quality checking.

Andrew Stevens, Assistant Director from East Kent Services added that EKS select a sample of the most recent transactions in a particular week to check for accuracy. In Thanet a claim could have four changes in a year which amounts to 71,000 per year.

Moved by Councillor Campbell and seconded by Councillor Day that:

"6.1 that the report be received by Members

and

6.2 that any changes to the agreed 2011-12 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the attached report be approved”

MOTION ADOPTED.

200. QUARTERLY GOVERNANCE PROGRESS REPORT

Nikki Morris, Business Support and Compliance Manager, summarised the report which provides Governance and Audit Committee with the progress on governance related issues.

Nikki advised Members that the Risk Register, at annex 1 to the report, was a regular item on the SMT Governance Board agenda which ensures that processes are applied.

The following are some questions raised by Members:

BUS0003 – The Council relies on staff consistently working for longer than their contracted hours.

Some of the control measures were only 10% complete, why?

Sue McGonigal advised that the ‘Manager’s Exchange’ had only just been established with the first meeting having just been held. Sue added that it was going well and on track to achieve the control measures target.

BUS030002 – Procurement and contract management / monitoring are increasingly important and there is a need to measure and monitor effectiveness and value for money (VFM) on key contracts.

Why has no target date been set?

Sue McGonigal advised Members that this has recently been assigned to Karen Paton, Procurement and Contracts Manager. This is a consequence of a recent Risk Register review at SMT Governance Board and as soon as Karen has an opportunity a new Procurement and Contract Management process would be in place.

CML020001 – Concerns that the Council is not investing sufficiently in the upkeep of its physical assets due to lack of financial resources.

Draft and implement Asset Management Strategy. No target date set and the review date has passed (27 September 2011).

Sue McGonigal informed Members that the Asset Management Strategy was currently not fit for purpose and it was agreed that it needed to change. ‘Cross Party’ involvement in the process to decide which option for disposal the Council would use is to take place. Sue added that Mark Seed, Commercial Services Manager had recently undertaken a review of Estates and Property Management and the appointment of a new Property Manager was expected shortly when it would be more appropriate for the Asset Management Strategy to be reviewed.

CRS0001 – There are corporate standards, policies and procedures which need to be understood and applied consistently throughout the Council. The organisation has a history of focusing on delivery, not corporateness and there could be tensions, particularly with capacity constraints around key areas of focus.

Most of the control measures are 0% complete which raised concerns from some members.

Harvey Patterson, Corporate and Regulatory Services Manager, advised Members that processes were included in the Members Induction Training. Harvey added that improvements were needed in the importance of decision making and for staff to understand the processes involved. A question and answer testing programme would be provided to Managers to ensure they understood processes and then gave feedback to staff.

CTY010003 – TDC do not respond to a Child Protection issue.

Members reported that at a previous Council meeting it had been agreed that a 'running free' committee/group should be formed and asked whether this would change the above statement?

Sue McGonigal advised that this would not change the statement.

FIN0001 – The Medium Term Financial Strategy contains a number of plans and assumptions around income and expenditure, however there are a number of issues which if they occurred could impact on the plan. This could include issues around the capital programme, pay settlement, pension fund or government legislation changes. This may also include the possibility of one of the council's major customers going out of business. This is further impacted by the current economic volatility – 'credit crunch'.

Members queried that the control measure 'Implement reviews to identify efficiencies and economies' had been implemented but showed 0% complete.

Sarah Martin, Financial Services Manager advised that this was incorrect.

Sue McGonigal thanked Members for the total focus they had given to processes.

At annex 2 to the report an update was provided to Members showing areas of weakness and any actions that had been identified.

Nikki Morris outlined the Governance Framework and Local Code of Corporate Governance documents which have been prepared in line with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) framework Delivering Good Governance in Local Government.

Referring to 'Internet Protocol', Members asked when Member access to the internet would be implemented. Harvey Patterson advised that the implementation may have been delayed due to cost and timing but that he would investigate with the IT department and inform Members.

Moved by Councillor Scobie and seconded by Councillor Campbell that:

5.1 "Members noted the content of annexes 1 and 2 and had identified any issues on which they required more clarification"

and

Moved by Councillor Campbell and seconded by Councillor Binks that:

5.2 "Members approve the changes to the Governance Framework and Local Code of Corporate Governance"

MOTION ADOPTED.

201. MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT

Sarah Martin, Financial Services Manager summarised the report which informs Governance and Audit about the Treasury Management activity in the first half of 2011-12, and for the approval of any changes to the prudential indicators.

Moved by Councillor Campbell and seconded by Councillor Tomlinson that:

10.1 “the Governance and Audit Committee recommends to Council:

to note the report, the treasury activity and recommend approval of any changes to the prudential indicators”

202. BUDGET AND RENT SETTING REPORT AND TREASURY MANAGEMENT STRATEGY REPORT 2012/13-2014/15

Sarah Martin, Financial Services Manager, summarised the report which provides the Governance and Audit Committee with the proposed Treasury Management Strategy Report for 2012-13 for their approval.

Members asked whether the Capital Financial Requirement (CFR) was subject to review?

Sarah Martin advised that this was so.

Referring to the Council’s Policy on Borrowing in Advance of Need, Members asked if this needed to be agreed beforehand and if it was drawing down in advance of need or fixing a rate?

Sue McGonigal said that it was drawing down within the Capital Financial Requirement.

Moved by Councillor Campbell and seconded by Councillor Scobie that:

9.1 “the Governance and Audit Committee approves each of the key elements of the reports and recommends the following to Council:

1. The Prudential Indicators and Limits for 2012/13 to 2014/15, including the Authorised Limit Prudential Indicator.
2. The Minimum Revenue Provision (MRP) Statement contained which sets out the Council’s policy on MRP.
3. The Treasury Management Strategy 2012/13 to 2014/15 and the treasury Prudential Indicators.
4. The Investment Strategy 2012/13 contained in the treasury management strategy and the detailed criteria”

MOTION ADOPTED.

203. FUTURE ITEMS OR TRAINING FOR THE COMMITTEE

Future items or training to be considered at the next meeting.

Meeting concluded : 8.43 pm