

## **GOVERNANCE AND AUDIT COMMITTEE**

**Minutes of the meeting held on 20 March 2012 at 7.00 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.**

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

### **204. 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  
Harpal Singh – Team Leader - Audit Commission  
Lisa Robertson – Audit Manager – Audit Commission  
Simon Webb – Audit Manager – East Kent Audit Partnership  
Madeline Homer – Community Services Manager  
Craig George – Housing Services Manager

### **205. NATIONAL FRAUD INITIATIVE**

The presentation on National Fraud Initiative was deferred until the 27 June 2012 meeting of the Governance and Audit Committee when more information will be available.

### **206. APOLOGIES FOR ABSENCE**

Apologies were received from Councillor David Green.

Substitute for Councillor David Green was Councillor John Edwards.

Apologies were also received from Christine Parker, Head of East Kent Audit Partnership.

### **207. DECLARATIONS OF INTEREST**

There were no declarations of interest.

### **208. MINUTES OF PREVIOUS MEETING**

The minutes of the Governance and Audit Committee meeting held on 13 December 2011, were approved and signed by the Chairman.

### **209. ACTION POINTS FROM PREVIOUS MEETINGS**

Referring to the action plan item in respect of 'Internet Protocol', Members had concerns that they were still unable to access, via the Members' Portal the modern.gov system which would enable access to private agenda packs containing exempt information. Harvey Patterson, Corporate and Regulatory Services Manager advised Members that this did form part of the rollout of the 'Microsoft Outlook' system which had encountered some problems leading to a two month delay.

A new programme of training for Members is to be arranged as soon as possible. Due to the limited number of desks in the 'Learning Resource Centre' it was suggested that

members indicate when they are intending to attend the training. This concern would be fed back to the 'trainers' so that numbers for each session can be monitored.

Harvey added that discussions were taking place with IT and it is hoped that the technical issues will be resolved shortly. Dr Sue McGonigal, Chief Executive advised that this 'action' would remain open.

Members agreed.

## **210. QUARTERLY INTERNAL AUDIT UPDATE REPORT**

The report gives Members a summary of 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 East Kent Audit Partnership to 31 December 2011.

Simon Webb, Audit Manager introduced the report to Members. There have been seven Internal Audit assignments completed during the period. Of these two concluded Substantial assurance, four concluded Reasonable assurance, and one resulted in a split assurance which was partly Reasonable assurance and partly No Assurance. In addition, eight follow-up reviews have been completed during the period.

For the six months to 31<sup>st</sup> December 2011, 298.4 chargeable days were delivered against the planned target of 342 which equates to 87.25% plan completion. The financial performance of the East Kent Audit Partnership is ahead of target at the present time and expected to deliver a further saving to the Council.

Members had concerns regarding the assurance level received in respect of 'Homelessness' which had received a Reasonable/No assurance level. Simon advised Members that this audit examined and evaluated the procedures and controls established by management, in respect of the following business objectives:

- To maximise housing options and choices for all homeless households, and provide a better range and supply of accommodation for homeless people.
- To prevent households becoming homeless wherever possible, particularly through the provision of improved advice services, and closer working with the private rented sector.
- To provide a cost effective, accessible, sympathetic and thorough service for people who experience homelessness.
- End the use of bed and breakfast accommodation, other than in an emergency.
- Ensure that homeless households receive appropriate support to access and maintain accommodation.
- Ensure equality of access and service provision for all service users.
- Monitor performance and work within Best Practice in all aspects of homelessness.

Simon added that this was primarily a good news story as it has improved considerably and management can place Reasonable Assurance that the Council are complying with the statutory requirements in respect of homeless persons and in respect of the system of controls for housing homeless persons in bed and breakfast accommodation.

However their audit found that Management can place No Assurance on the governance of the financial arrangements with the Old Schools Lodge and the use of the lodge as temporary accommodation for homeless people.

The Homelessness process is generally working well and much progress has been made to implement the recommendations of the previous audit reviews. Monitoring of sundry debtors has been simplified to enable the part time Housing Options Officer to monitor all

outstanding rent deposit debtors. Furthermore progress is being made to enable the council to provide temporary insecure tenancies and opportunities to utilise Private Sector Leasing Schemes are being explored. Arrangements with local bed and breakfast accommodation venues have also improved. There is however still concern regarding the level of usage of bed and breakfast accommodation and the increased costs arising now that the Old School Lodge is no longer being used to provide temporary accommodation.

Whilst some progress has been made investigating the deficit charges made by the Hostel operators in previous years this has yet to be resolved satisfactorily and further action is proposed by the Council which will be followed up by Internal Audit later in the year .

Madeline Homer, Community Services Manager explained that the Old School Lodge, originally TDC, was contracted with Amicus Horizon to provide temporary accommodation necessary for homeless persons. Amicus Horizon applied to Kent County Council to become a provider of accommodation and this created confusion in the use of the Old School Lodge.

Craig George, Housing Services Manager updated Members on the current situation adding that the deficit funding from Old Schools Lodge is being dealt with and Amicus Horizon have been written to and did provide accounts for the Old Schools Lodge. However, these were insufficient to confirm the deficit funding required and so further correspondence has been sent advising them that they must provide independently audited accounts that certify the amount of deficit funding required for the years 2006/07, 2007/08 and 2008/09. The Council will be pursuing rigorously reimbursement of monies.

Referring back to the 2006/07, 2007/08 and 2008/09 deficit Members asked whether processes were now in place. Craig advised that the issue in 2006 was that processes had been in place but they had not been challenged nearly enough. Sue added that in 2007/08 the problem had been recognised and work started to resolve it. Since that time an enhanced procurement team has ensured that substantial improvements have been made with advice and guidance being given.

Some Members felt that more people in the procurement team was not necessarily the answer but that the Council should ensure that a process was in place and was robust enough. Sue replied that people apply the processes and regular verification that those processes were being followed was implemented.

In referring to the Summary of High Priority Recommendations after Follow Up, members asked whether the item on Planning with a revised target date of 31 March 2012 was on time. Simon said that this would require further follow-up work. Other Members asked why no 'end date' had been provided regarding Equality and Diversity which is a service given Limited Assurance. Simon explained that this had involved a long lead in time and the results of the follow-up work would be provided at the June committee meeting.

Moved by Councillor Campbell and seconded by Councillor W Scobie 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.

**211. INTERNAL AUDIT CHARTER AND 2012/13 AUDIT PLAN**

Simon Webb, Audit Manager outlined the report which gives Members a summary of the way in which the internal audit function provided by the East Kent Audit Partnership intends to deliver its service for the period 1 April 2012 to 31 March 2013 and details of the coverage it intends to provide controls assurance on.

To assist the Committee meet its terms of reference with regard to the internal control environment reports are regularly produced on the work and remit of Internal Audit.

The Audit Charter establishes the purpose, authority, objectives and responsibility of the East Kent Audit Partnership, in providing an Internal Audit function to the partner councils and the Strategy details how the East Kent Audit Partnership provides the Internal Audit function for the year to 31 March 2013. It also sets out the resources required across the four partnership sites and details how the resource requirements will be met.

The audit plan has been prepared in consultation with Heads of Service and the Council Statutory S151 Officer and discussions with business managers across the authority. The plan is also designed to meet the requirements expected by the Audit Commission for ensuring key controls are in place for its fundamental systems.

A question was raised by Members regarding the Financial Systems in relation to car parking and enforcement and whether this referred to paid parking or parking in general. Simon confirmed that this was paid car parking. The assurance level for External Funding Protocol was 'reasonable' and Members asked where this could be improved. Simon advised that although the audit had concluded 'reasonable' assurance, provided all the new controls are adhered to then this could be improved.

Equalities and Diversity had no planned audit days although having received a 'Limited' assurance and Members queried this. Simon advised that this would be part of the 'follow up' audit. This also applied to the Leasehold Services.

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

Members agree the following recommendations:

- “6.1 approve to adopt the Internal Audit Charter
- 6.2 approve to adopt the Internal Audit Strategy for delivery of the internal audit service
- 6.3 approve the Council's Internal Audit Plan for 2011/12”

MOTION ADOPTED.

**212. 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.

The items covered in this report are:

- 2.1 Corporate risk register
- 2.2 Annual Governance Statement
- 2.3 Programme of Reports
- 2.4 Terms of reference – annual review
- 2.5 Data Quality Framework

The following are some questions raised by Members regarding the risk register:

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

*The target date on the risk register, reference BUS0003, is currently 31 March 2012 and Members queried this?*

Sue McGonigal (Chief Executive) advised Members that the target date needed to be changed. Sue added that Managers now have access to Senior Management Team and work has been done with HR to improve skills.

*Members also asked how additional work can be done when the Council are down in numbers structurally and perhaps a list should be made of the things that the Council cannot do anymore.*

Sue McGonigal, in response advised that the Council were looking to do things differently with teams being merged so providing a dual service. Saving targets still needed to be made in excess of £1 million pounds over the next couple of years.

Nikki Morris, Business Support and Compliance Manager brought Members' attention to an additional risk that had been highlighted. This referred to the Council's software supplier for a new localised council tax discount scheme which is expected to be implemented by April 2013. The risk register reference is FIN0005.

BUS030001 – The Council is involved in a number of partnerships including a shared services programme with other Local Authorities, and there is a reliance on these to deliver in a number of areas. There are concerns however around the level of resourcing required, the robustness of the management and governance around these and the ability / willingness of partners to participate fully.

*Members asked:- A strategic business case had been agreed for the Council to be involved in Shared Services, why was it necessary to keep reviewing it?*

In answering Sue McGonigal advised that although the governance arrangements were now in place it was time to review them.

BUS020001 – Managers may not have or use performance information effectively as a management tool.

*A question raised by Members was:- in developing a culture change programme to monitor behaviours did the Council receive resistance or were people generally on board in developing this change?*

The culture change programme was felt to be a 'good news story'. Sue McGonigal added that the review of performance processes would involve a competency based appraisal scheme. It could include people's general 'cheerfulness' on the job and a customer satisfaction outcome. This would be developed over an 18 month period with 40 staff cascading the training out. Feedback so far had demonstrated that performance and motivation had improved.

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.

Harvey Patterson, Corporate and Regulatory Services Manager updated Members on this item. The control measures assigned to this risk have been applied and processes are now in place for dealing with this risk. He added that we are now much more corporately compliant; although one of the areas of concern was the decision making process. Training to ensure this process is understood is to be provided to Members and Managers. The Forward Plan document has significantly improved giving a complete overview of key issues and the meeting path and dates.

The Corporate Report Template confuses users who now have to consult with Finance and Legal before a report can be placed on an agenda. This is to be discussed at Cabinet Agenda Conference and questions and answers will be brought back to this Committee.

The following was asked by Members in relation to the Annual Governance Statement - GV05 – Formal Procurement Programme (BUS03):-

*The problem has been that on repairs and maintenance tenders specifications have not been accurate in the past and where in the process could this be picked up at an earlier stage?*

Sue McGonigal assured Members that the procurement processes had been strengthened and a qualified engineer now leads a merged team.

Nikki Morris asked Members to consider the Terms of Reference for the Governance and Audit Committee, which had additional amendments underlined as follows:

### **Regulatory Framework**

- To review any governance / financial issue referred to it by the Chief Executive or a Director, or any council body;
- To monitor the effective development and operation of risk management and governance in the council;
- To oversee the application of the council's governance arrangements for partnership activities where the council is the accountable body and / or employer;
- To approve the council policies on Anti-Bribery, Whistleblowing, Anti-fraud and Corruption and the External funding Protocol;
- To recommend to Cabinet the Council policy on Equalities (PSED);
- To approve the authority's Annual Governance Statement;
- To consider the council's compliance with it's approved Treasury Management Strategy;
- To consider the council's arrangements for governance and agreeing necessary actions to ensure compliance with best practice;
- To consider the council's arrangements for ensuring adequate data quality;
- To consider the council's compliance with its own and other published standards and controls.

Moved by Councillor Scobie and seconded by Councillor Binks that:

“the amendments to the ‘Terms of Reference’ be agreed”

MOTION ADOPTED.

Moved by Councillor Campbell and seconded by Councillor Binks that:

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

- 5.2 Members agree the programme of reports for 2012/13, on the understanding that there may be variations to the programme should the need arise”
- 5.3 Members agree the changes to the terms of reference and agree that they go forward to the Constitutional Review Working Party, Standards and Council for formal agreement”

MOTION ADOPTED.

**213. REVIEW OF THE EFFECTIVENESS OF THE GOVERNANCE AND AUDIT COMMITTEE AND ANNUAL REPORT**

The Chairman introduced the report which summarises the achievements of the Governance and Audit Committee against its terms of reference for the period 1 April 2011 to 31 March 2012 and details the impact that it has made on the overall system of internal control in operation for that period.

The Chairman thanked the Committee Members for all their hard work through the year.

Due to the postponement of the NFI training it was noted that this would now be scheduled for the 27 June 2012 meeting and an amendment made to the draft report. It was also noted that if a change is made to the membership during a Committee cycle, the new member will be given a detailed induction prior to their first attendance.

Moved by Councillor Matterface and seconded by Councillor Day that:

“Members agree the content of this report and the recommended actions within the action plan, and that Members recommend that the Annual report be forwarded to Full Council”

MOTION ADOPTED.

**214. TREASURY MANAGEMENT UPDATE**

Sarah Martin introduced the report which updates the Governance and Audit Committee on the Treasury Management activity that has occurred since the last report in December 2011.

Sarah advised Members that as soon as the Council become aware of negative ratings then funds are withdrawn as has been the case recently with Santander UK plc, although they still remain on the authority’s counterparty list.

The current investment list was provided to Members who asked who owned ‘Ignis’? Sarah would obtain this information for Members. An Investment Portfolio Benchmark Analysis document had been distributed to Members who were informed that 8 authorities had taken part in this process. The aim of this benchmarking model is to compare rate of returns by adjusting for the risks inherent in the portfolio. The main risks in cash portfolios are Maturity Risk and Credit Risk.

Currently the authority’s loan portfolio is held in one single pool and the costs of borrowing are apportioned across the HRA and General fund using a complex calculation as set out in the subsidy determination. As part of the self-financing review this arrangement has been looked at to see if it should be amended. Options and guidance for Members was provided in the report.

Members asked how the two pool approach could be managed as the Finance Department employed only one Treasury Officer. Sarah advised that following a review of staffing within Financial Services a new strategic housing accountant post, chargeable to the HRA, is to be created and one of this post's tasks will be treasury management for the HRA.

Members agreed to note the content of the report.

Moved by Councillor Mrs Johnston and seconded by Councillor Day that:

“the Governance and Audit Committee notes the report”

Agreed.

**215. REVIEW OF THE EFFECTIVENESS OF THE COUNCIL'S INTERNAL AUDIT ARRANGEMENTS**

Sue McGonigal, Chief Executive (s151 Officer) outlined the report which presents the review of the effectiveness of the council's Internal Audit arrangements for 2011/12 as required by The Accounts and Audit (Amendment) (England) Regulations 2006.

The East Kent Audit Manager and Head of East Kent Audit Partnership regularly meet with the Deputy Section 151 Officer to monitor performance against the Audit Plan, and also to discuss any matters arising in relation to the performance of the Audit Partnership. Periodically these meetings are attended by the External Auditors of the Audit Commission, so that they are able to gain assurance as to the effectiveness of the process. In addition, Sue McGonigal as the council's Section 151 officer meets with the audit partnership regularly to discuss performance against the contract. Sue McGonigal was pleased to provide Members with assurance that in her opinion the Partnership operates to high professional standards and delivers to its contract.

Following a question raised by Members regarding the effectiveness of the Audit service Sue McGonigal advised that the Partnership provided an excellent working relationship with management without fettering the independence needed to be able to take a sufficiently independent perspective.

Members agreed the following:

“the Governance and Audit Committee accept the findings of the review of the effectiveness of the council's Internal Audit arrangements for 2011/12”

MOTION ADOPTED.

**216. AUDIT COMMISSION PROGRESS REPORT**

Lisa Robertson, Audit Manager from the Audit Commission outlined the report which updates Members on progress to date on the current audit plans and the audit and inspection work undertaken since the last update in September 2011.

Since the last meeting the transfer of the Audit Commission to 'Grant Thornton' had been agreed following a complex bid process. Lisa added that significant fee savings were expected.

Members agreed to note the report.



**217. ANNUAL GRANT CERTIFICATION REPORT 2010/11**

Harpal Singh, Team Leader from the Audit Commission outlined the report which summarises the findings from the certification of 2010/11 claims.

Harpal added that he was pleased to advise that the Authority had performed well in preparing claims and returns. The Summary of recommendations note that there are no significant findings arising from the grant certification work that needed to be brought to the attention of those charged with governance which was a good achievement.

Members agreed to note the report.

**218. OPINION AUDIT PLAN 2011/12**

Lisa Robertson, Audit Manager from the Audit Commission outlined the report which updates Members on the audit work that the Audit Commission has proposed to undertake for the audit of the Council's financial statement for 2011/12.

Lisa added that with regard to the Housing Revenue Account reform, the Government plans to reform local authority housing finance by adopting a self-financing model from 1 April 2012. This will be through a one-off settlement payment to or from central government on or before 28 March 2012. This will adjust the HRA debt of the Authority. Payments from government will in most cases be used to redeem an equal percentage of all Public Works Loan Board debt held by the Authority. The audit response is to review management oversight of HRA reforms and transactions required by the Authority and tests of detail on the settlement payment of receipt.

Members agreed to note the report.

**219. FUTURE ITEMS OR TRAINING FOR THE COMMITTEE**

The next meeting of the Governance and Audit Committee (27 June 2012) is to include the NFI presentation.

Members also requested additional 'Finance' training for a future meeting.

Meeting concluded : 8.40 pm