

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 27 June 2012 at 7.00 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor John Worrow (Chairman); Councillors Binks, Campbell, Lodge-Pritchard, Moore, Moores, W Scobie, S Tomlinson and M Tomlinson

220. ALSO PRESENT:

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
Lisa Robertson – Audit Manager – Audit Commission
Simon Webb – Audit Manager – East Kent Audit Partnership
Christine Parker - Head of the East Kent Internal Audit Partnership

221. GOVERNANCE AND AUDIT QUIZ

A pre-meeting training presentation was given.

222. APOLOGIES FOR ABSENCE

Apologies were received from Councillor Day.

Substituting for Councillor Day was Councillor Moores.

223. DECLARATIONS OF INTEREST

There were no declarations of interest.

224. MINUTES OF PREVIOUS MEETING

The minutes of the Governance and Audit Committee meeting held on 20 March 2012, were approved and signed by the Chairman.

225. ACTION POINTS FROM PREVIOUS MEETING

Referring to the action plan item in respect of 'Internet Protocol' and the migration to 'Outlook' for email, some Members had concerns that this was still an ongoing problem for many of them and that it was unacceptable. Members advised 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. Nikki Morris, Business Support and Compliance Manager advised Members that she would speak with Sophie Chadwick, Contracts and Partnerships Relationship Manager who is co-ordinating these problems.

An update report is to be provided at the next meeting of the Governance and Audit Committee.

226. INTERNAL AUDIT PROGRESS 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 March 2012.

Simon Webb, Audit Manager introduced the report to Members. There have been five internal audit assignments completed during the period. Of these two concluded Reasonable assurance, one concluded Substantial assurance and one resulted in a split assurance which was partly Reasonable and partly Limited assurance. One piece of work comprised of quarterly housing benefit testing for which an assurance level is not applicable. In addition, three follow up reviews were completed during this period.

In respect of the housing benefit testing, Simon Webb advised Members that over the course of the 2011/12 financial year the East Kent Audit Partnership has been completing a sample check of council tax, rent allowance and rent rebate and Local Housing Allowance benefit claims to support the Audit Commission's verification work. Members asked why an Assurance level for this work was not applicable. Simon Webb informed Members that an assurance level was not applicable to this type of work as it was not an audit of the whole system of control, but rather sample testing of benefit claims to provide an indication of the accuracy rate. A further query from Members concerned the nine claims that had failed due to procedural/data input errors which equalled a 20% failure rate. Simon Webb explained that these errors did not effect the subsidy claim or the amount of the payment to the claimant.

In total 45 benefit claims were checked across the two quarters and of these only one failed the criteria set by the Audit Commission's verification guidelines as the error identified impacted the subsidy claim – an error rate affecting subsidy, across the 45 claims tested, of only 2% which is the lowest error rate identified by the East Kent Audit Partnership testing at Thanet in recent years.

The payroll processes have continued to evolve since first introduced and many of the expected controls are effective, as demonstrated by staff at all four sites being paid on time each month. Action has been taken to control risks regarding some of the issues that were highlighted by partners during the settling in period, and further issues have been raised as a result of the audit. It is recognised that there are risks around the monthly process and risks around the key relationships; all partners are keen to see these resolved and the way forward agreed.

Members also queried the checking levels within the payroll system which the audit had commented were set too high and were advised that at present exception reports were produced on each payroll run of variances of 30% from the previous payroll run – this was considered too high a level as it meant that potentially too many errors would go undetected. The findings had shown that there is scope for improvement to strengthen the existing controls and reduce risk. The errors regarding the overpayment of allowances paid to leavers and the additional mileage payments made via the software error detected during this audit, contributed £4000 towards the audit.

Members asked about the process for debt reporting and whether this was only against targets. Simon Webb advised that yes, it was but that scope for improvement in this was part of the Management action plan to be considered over the next few months.

Referring to the Equality and Impact Assessment Members were concerned that their involvement was limited and that they did need to know their role. It was also noted that some Members had not attended the Members briefing which had included an item on equalities and diversity.

The report was received by Members.

227. INTERNAL AUDIT ANNUAL REPORT

Christine Parker outlined the report which provides a summary of the impact of the work of the East Kent Audit Partnership for the year to 31st March 2012.

The primary objective of Internal Audit is to provide independent assurance to Members, the Chief Executive, Directors and the Section 151 Officer on the adequacy and security of those systems on which the Authority relies for its internal control. The purpose of bringing forward an annual report to members is to:

- ***Provide an opinion on the overall adequacy and effectiveness of the Council's internal control environment.***
- ***Present a summary of the internal audit work undertaken to formulate the opinion.***
- ***Draw attention to any issues the Head of the Audit Partnership judges particularly relevant to the preparation of the Governance Assurance Statement.***
- ***Compare actual audit activity with that planned, and summarise the performance of Internal Audit against its performance criteria.***
- ***Comment on compliance with the CiPFA Code of Practice for Internal Audit in Local Government, and report the results of the Internal Audit quality assurance programme.***

During 2011/2012, 101 recommendations were made in the agreed final audit reports to Thanet District Council. These are analysed as being High, Medium, or Low risk. Of these 101 recommendations 92% were said to be of a high risk or medium risk but none are so significant that they need to be escalated at this time.

Taken together 85% of the reviews accounted for substantial or reasonable assurance, whilst only 15% of reviews placed a limited assurance to management on the system of internal control in operation at the time of the review.

For each recommendation, an implementation date is agreed with the Manager responsible for implementing it. The follow up review is then timed to allow the service manager sufficient time to make progress in implementing the agreed actions against the agreed timescales. The results of any follow up reviews yet to be undertaken will be reported to the quarterly committee at the appropriate time.

Expenditure and recharges for the year 2011-12 are all in line with the budget. The financial management of the Internal Audit cost centre held by Dover District Council has performed well and had delivered 14% savings against budget.

The East Kent Audit Partnership (EKAP) has been able to exceed its targets for financial performance for 2011-12 through careful financial management. The EKAP now has a track record for bringing down daily rates (see table below). This daily rate excludes any internal recharges that are added to the service by the Council, which are not under the control or management of the EKAP. This equates to a saving of £42.68 per day against the original target for 2011-12 of £300. 15/day; a total financial saving to Thanet District Council of £14,597.14 for 2011-12 (or 14% against the original budget of £300. 15/day).

Year	Cost / Audit Day
2006-07	£288
2007-08	£277
2008-09	£262 (Reserve Refunded to Partners)
2009-10	£281
2010-11	£268
2011-12	£257

The overall conclusion is that the internal Audit function provided by the EKAP has performed well against its targets for the year. Clearly there have been some adjustments to the original audit plan for the year 2011-12, however, this is as expected and there are no matters of concern to be raised at this time.

Some Members asked for clarification regarding the Internet and e-mail controls being given a status of Finalised and assurance level of Reasonable. Christine Parker advised that this was referring to the policies for each of the three councils and was more about how Thanet District Council is complying with them.

Other Members queried the reduction in days that were substantially reduced from previous years and asked whether this was adequate. Christine Parker informed Members that Thanet has an overall plan of 400 days, although part of this is used to undertake EK Services and East Kent Housing Audits. Christine confirmed that the Thanet audit plan is considered to be adequate in size.

Another concern raised by Members was 'Homelessness' which had received an original assurance level of Reasonable/No and had also been given two follow-up reviews which were completed. Simon Webb advised that this was still an area of concern and still unsatisfactory. The results of a further follow-up will be brought to the September Governance and Audit Committee meeting.

The report was received by Members.

228. AUDIT COMMITTEE UPDATE (TO AUDIT COMMITTEE)

Andy Mack, District Auditor 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 March 2012.

As part of the Audit Commission's pre-statements work no issues required further reporting to management or the Audit Committee. The Audit Commission assessed that good arrangements are in place in the control environment operating at the Authority.

The transfer of the Audit Commission to 'Grant Thornton' would see changes over the next 18 to 24 months although continuity, especially in the early days of the contract, was expected. Significant fee savings were also expected.

Members agreed to note the report.

229. 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:

- Corporate risk register
- Annual Governance Statement 2010/11 action plan.

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

GV02 – Review staff against Child Protection training. *Why not started?*

Project being reviewed due to cost and staffing implications – in house training being considered as part of reducing costs.

Nikki Morris, Business Support and Compliance Manager advised that she had an update from Sarah Phippin, Community Development Officer, which she read to the Committee:- "Council staff are presently trained via 'on-line' learning and classroom based sessions, depending upon their level of contact with children. This is in need of being refreshed due to the changes that have happened nationally in relation to the Protection of Freedoms Bill which was given Royal Assent in May 2012. The original idea of a TDC officer being trained as a trainer has been placed on hold due to a reduction in officer numbers through resignation and retirement in the Community Development team, resulting in the Child Protection officer having to take on other duties for the time being. It is planned that once the Olympic Torch Relay has been to Thanet, work will begin on refreshing the training for staff".

The change to eCRB checks that has come from the new Protection of Freedoms Bill means that there are some staff that will require eCRB checks that haven't done so before. At present HR are compiling a list of staff who have been checked against those who need to be checked, and also when these checks were done (as they need to be renewed every three years). Once HR have compiled this list, managers will be informed and will need to let the relevant staff know. In conjunction with this, HR will be organising for three TDC officers to be trained as document checkers for any eCRB checks that need to be done for TDC. This will result in a saving for TDC of £5 per check that is done.

Some Members asked for clarification on who should have a 'CRB' check (Criminal Records Bureau) and at what level. It was explained that each organisation carries out their own CRB check, so one person could have several checks made.

BUS0003 - Members also asked the following: - *whether the Corporate Risk Register (CRR) was overloaded placing unreasonable demands on officers. It was suggested by Members that the Senior Management Team (SMT) take a more robust view and remove any unnecessary risks and control measures.*

Nikki Morris advised that she would discuss this with SMT.

FIN0005 – The Government expects councils to approve a new localised council tax discount scheme by 31 January 2013 for implementation with effect from 1 April 2013. The scheme is to deliver welfare entitlement savings of 10% whilst at the same time protecting payments to pensioners and other (yet to be defined) vulnerable groups. The implementation of the scheme is dependent on the software suppliers being able to make the necessary changes to the system within a very tight timeframe.

Members asked:- *what are the implications for staff?*

Sarah Martin, Financial Services Manager and Deputy S151 officer replied that training would be given to staff and they would be working with the software supplier.

CML050001 – Emergency Planning roles are ill defined. Business Continuity Plans are not sufficiently drafted or robustly tested; or are not sufficiently understood across the organisation.

The question asked by Members was:- *whether the Business Continuity Plans were wasted time or were they used in the superseding activities?*

Nikki Morris advised that the process had been superseded but, at that point in time it had been 80% complete. Emergency Planning and Business Continuity has now been handed to Paul Morgan, Emergency Planning and Inspection Engineer who is expected to have an update very shortly. Simon Webb added that Business Continuity Planning was also in the Audit Plan.

Members noted the content of the report and associated annexes.

230. DRAFT ANNUAL GOVERNANCE STATEMENT 2011-2012

Nikki Morris introduced the report which provides Governance and Audit Committee with the Draft Annual Governance Statement 2011/12.

The Annual Governance Statement is prepared using a method similar to that use in previous years, including:

- Managers providing an assurance statement as to the extent and quality of internal control arrangements operating within their departments for the year. The declaration covers a comprehensive list of those systems and procedures which deliver good governance. Managers are asked to declare any weaknesses in their governance arrangements.
- Service Managers reviewing the results of those declarations, identifying those issues which are significant or which are common to more than one area and discussing the outcomes with the Portfolio Holder with responsibility for each service area.
- Assurance statements from the Section 151 Officer, Monitoring Officer and the following key areas: performance management, procurement and risk management identifying any governance issues that have arisen and should be addressed in the forthcoming year.
- Statements from the shared service partners we work with on compliance with the governance arrangements in place.
- Reviewing the annual reports from Governance and Audit Committee, Overview and Scrutiny Panel and Standards Committee.
- Considering the Internal Audit Annual Report, and also the Section 151 Officer's report on the effectiveness of the internal audit arrangements in place.
- The council's Governance and Audit Committee considers the draft statement in June and is afforded the opportunity to give its input to the statement and to consider whether it accurately reflects the council's control environment.
- The Governance and Audit Committee approves the Annual Governance Statement in September and it is signed off by the Chief Executive/Section 151 Officer and Leader of the Council.

The Annual Governance Statement also includes 'Improvements During the Year' and 'Significant Governance Issues'. An 'Action Plan' will be compiled and regularly reported back to Governance and Audit Committee.

Members asked what the Senior Management Team strategy was for the continuing rise in the hours that staff work. The Council are reliant on staff working over and above their contracted hours which is no longer tenable.

Nikki Morris advised that this was an item on the Risk Register and also within section 9 of the Draft Annual Governance Statement.

Members also asked if any analysis of the hours worked had been undertaken to identify which officers regularly worked more than their contracted hours. Nikki Morris is to investigate this.

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

“Members accept the draft Annual Governance Statement for 2011/12”

MOTION ADOPTED.

231. ANNUAL TREASURY MANAGEMENT REVIEW

Sarah Martin introduced the report which summarises Treasury Management activity and prudential/treasury indicators for 2011/12.

Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. The report provides details of the outturn position for treasury activities and highlights compliance with the Council’s policies previously approved by members. During 2011/12, the Council complied with its legislative and regulatory requirements.

At paragraph 2.2 to the report it shows details of the Housing finance reform which was implemented at the end of 2011/12 and abolished the housing subsidy system financed by central government and, consequently, all housing debt has been reallocated nationally between housing authorities. The result of this reallocation is that this Council received, at the end of the year, a repayment of debt by the Department of Communities and Local Government of £925,000 which resulted in a corresponding decrease in its Capital Financing Requirement (CFR). (The Department also paid the breakage costs of £152,342.) There has been no impact on HRA revenue finances in 2011/12 due to compensating adjustments being made in the HRA determination.

The table below shows the net borrowing and the Capital Finance Requirement. In order to ensure that borrowing levels are prudent over the medium term the Council’s external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR for 2011/12 plus the expected changes to the CFR over 2012/13 and 2013/14 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12.

	31 March 2011 Actual £000	31 March 2012 Budget £000	31 March 2012 Actual £000
Net borrowing position	13,944	28,064	7,445
CFR	43,864	47,468	42,250

Members asked that a column showing the date when a loan was taken out to be included in the Treasury Borrowing table in future. Sarah Martin advised that this could be done.

Moved by Councillor Campbell and seconded by Councillor Binks that:

“the Governance and Audit Committee:-

- Approve the actual 2011/12 prudential and treasury indicators in the report
- Note the annual treasury management report for 2011/12
- Recommend this report to Cabinet”

MOTION ADOPTED.

232. FUTURE ITEMS OR TRAINING FOR THE COMMITTEE

The results of the ‘Quiz’ are to be used to influence the training for the next meeting of the Governance and Audit Committee.

Meeting concluded : 8.10 pm