

GOVERNANCE AND AUDIT COMMITTEE

Minutes of the meeting held on 28 September 2010 at 6.30 pm in Austen Room, Council Offices, Cecil Street, Margate, Kent.

Present: Councillor Jason Savage (Chairman); Councillors Mrs Russell, Day, Mrs Johnston, Mrs B Nicholson, Campbell and Mrs Kirby

95. ALSO PRESENT:

Sarah Martin – Financial Services Manager
Nikki Morris – Corporate Governance and Risk Officer
Sarah Carroll – Corporate Resources Manager
Andy Mack - District Auditor – Audit Commission
Lisa Robertson – Audit Manager – Audit Commission
Christine Parker – Head of the East Kent Internal Audit Partnership

96. APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillors Mrs Lodge-Pritchard, Peppiatt and Cameron.

Councillor Campbell was substitute for Councillor Mrs Lodge-Pritchard and Councillor Mrs Kirby was substitute for Councillor Peppiatt.

97. DECLARATIONS OF INTEREST

There were no declarations of interest.

98. MINUTES OF PREVIOUS MEETINGS

The minutes of the Governance and Audit Committee meetings held on 22 June and 29 June 2010, were approved and signed by the Chairman.

99. ACTION POINTS FROM PREVIOUS MEETINGS

The Governance and Audit Committee Action Plan indicated actions required from the meetings of the 22 June and 29 June 2010. The action to investigate re-instigation of Clean Food Awards is in progress and will be reported back to the December 2010 meeting. The position regarding a review of the provision of a crèche for staff is that although there are currently no plans for this provision, it may be considered in the future. It was emphasised by Members that this provision would make life easier for working families.

Members noted the report.

100. EFFECTIVE AUDIT COMMITTEES

Members received the presentation on 'Effective Audit Committee' from Christine Parker, Head of the East Kent Internal Audit Partnership. The difference between a Scrutiny

Committee and Governance and Audit Committee was emphasised. Governance is an opportunity for Members to robustly challenge the systems of internal control with an unbiased attitude. The terms of reference in respect of these committees clearly indicates the role expected of them.

A Governance and Audit Committee needs to have an unbiased attitude to auditors, Cabinet and Corporate Management Team but can challenge both Cabinet and CMT when required. An Audit Committee can scrutinise financial and non-financial performance and is a demonstration of good governance.

Corporate governance is effective leadership who are committed to do the right thing, the right way at the right time (with the right people in place).

An effective audit committee raises the profile and importance of internal control, risk management and financial reporting but it has to be independent of the Executive.

Members received the presentation.

101. **RISK MANAGEMENT PRESENTATION**

Members received a presentation from Nikki Morris, Corporate Governance and Risk Officer. The presentation included a quiz regarding Risk Management. Members participated and the following questions and results are shown below:-

Question 1 – What is a Risk

	<u>Results</u>
1. The chance that something will happen, for good or bad	17%
2. The measure of the effect of something happening for good or bad	17%
3. Something that might happen	0%
4. An uncertain event that will affect the organisation and its objectives	67%

Answer

4 – an uncertain event that will affect the organisation and its objectives

- If we knew the details of what a risk was, when it would occur and what the effect would be, then it would be a fact, not a risk. Risks are all about uncertainty.
- Risks are objectives, because they absorb resources, change perceptions and alter priorities. Hence, they can change what the objectives are, as well as if, how and when we achieve them.

Question 2 – Risks are...

Results

1. Only ever bad	0%
------------------	----

2.	Only ever good	0%
3.	Either bad or good	33%
4.	Both bad and good	67%

Answer

4 – both good and bad

- Risks have good and bad consequences.
- We tend to call “good” risks *opportunities*. The bad side of an opportunity is the failure to take or maximise it.
- “Bad” risks have a good side, by presenting opportunities;
 - knowing how to avoid the same situation in future
 - identifying where improvements can be made
 - giving staff new skills and experiences.
- However, risks are usually perceived as bad, not good.

<u>Question 3 – The aim of risk management is to...</u>		<u>Results</u>
1.	Manage the health and safety of people	0%
2.	Ensure the effect on the organisation achieving its objectives is minimised	50%
3.	Manage insured items, (people, buildings, vehicles, equipment)	17%
4.	Eliminate all risks	33%

Answer

2 - Ensure the effect on the organisation achieving its objectives is minimised

- Total elimination of risk is unachievable and unhealthy-we need risk as a stimulant for change and progress.
- Risks affect objectives, so risk management is about managing the status of the organisation and its ability to achieve those objectives.

<u>Question 4 – What percentage of risks is estimated to be uninsurable</u>		<u>Results</u>
1.	80%	0%
2.	50%	0%
3.	33%	33%

4. 20% 67%

Answer

1 – 80%

- Insurance applies to tangible assets – property, cars, money, etc. and liabilities, (the tangible costs of being responsible for something).
- However, insurance cannot cover the intangible – you cannot insure your reputation, loss of skills as staff leave the organisation, poor decision making, failure to exploit opportunities, etc.
- How much do these cost? How can you measure it?

Question 5 – When you insure a risk, you...

	<u>Results</u>
1. Transfer the cost and the responsibility	17%
2. Transfer some of the cost, but not the responsibility	67%
3. Reduce the likelihood of the risk	0%
4. Pay a premium up front, then nothing else, so fixing your costs	17%

Answer

2 - *Transfer some of the cost, but not the responsibility*

- Insurance is a “risk funding mechanism” – it pays out after the event, if an insured risk occurs.
- But, you cannot pass on all of your responsibilities to the insurer.
- For example, if we injure an employee through our negligence, who gets sued in court? If we commit a criminal offence, who pays the penalty? Who gets the criticism in the press? Not the insurer?

Question 6 – How many stages are there in the risk management Process

	<u>Results</u>
1. One	0%
2. Two	0%
3. Three	17%
4. Four	83%

Answer

4 – *Identification, assessment, control and monitoring & review of risks*

- Identify – what could happen?
- Assess – how likely it is to happen and how significant would it be if it did?
- Control – put into place appropriate actions to limit the risk or the effect it would have.
- Monitor & Review – feed back into the identification stage. Are the controls effective, has the ride changed.

Question 7 – Who is responsible for managing risks

Results

1.	Everyone – we all face risks in what we do	83%
2.	Staff at “the sharp end” – they are the ones more often at risk	0%
3.	Members and senior managers they control the organisation	0%
4.	Middle managers and budget holders – they control the deployment of resources	17%

Answer

1 – everyone

- Risks occur at all levels in an organisation, from the strategy set by the board down to the day-to-day actions of the staff at the “sharp end”.
- Some risks are common to all and require everyone to play their part, e.g. fire, access to premises, fraud.
- Some risks require different actions at different levels, e.g. a high level objective requires middle level tactics to be put into effect via lower level actions.
- However, we’re all involved.

Question 8 – In managing risks; you can...

Results

1.	Terminate the activity that gives rise to the risk	17%
2.	Reduce the likelihood and/or the impact of the risk	83%
3.	Accept the risk as it is	0%
4.	Pass the risk to someone else	0%

Answer

1 (terminate), 2 (treat), 3 (tolerate) and 4 (transfer) – they should all be Considered for each risk

- Terminate – not always an option, (statutory duties).
- Treat – often achievable, but the effort needs to be proportionate and cost effective.

- Tolerate – if the risk is low enough for you to tolerate, (or by default if you have no other choice!).
- Transfer – via contracts, indemnities, insurance, etc. (But remember that you can only pass some of the risk).

END.

Once the annual review is completed it will be published on the website.

Members received the presentation.

102. QUARTERLY GOVERNANCE PROGRESS REPORT

Nikki Morris outlined the report which provides the Governance and Audit Committee with progress on governance related issues. The table below provides a summary of the corporate risk register for the period June to August 2010 and takes into account the current climate. Although risks have increased in some areas control measures are in place.

Directorate	No of risks per area	Risk review overdue	Risk rating		
			Increased	Reduced	Remained the same
Community Services	1	0	0	0	1
Customer Services and Business Transformation	0	0	0	0	0
Finance and Corporate Services	16	0	4	2	10
Environmental Services	1	0	0	0	1
Regeneration Services	2	0	0	0	2
Total	20	0	4	2	14

Having identified the risks it is then necessary to assess which are going to pose the greatest threat or opportunity, by looking at both the **probability** of the risk occurring and the **impact** that might result, producing the overall **risk rating**. These scores are not intended to provide precise measurements of risk but to provide a useful basis for identifying vulnerabilities or opportunities, ensuring that any necessary actions are undertaken.

Members were asked to refer to the Governance and Audit Committee guidance pack which has a section on 'risk on a page' and summarises the strategy.

Each risk needs to be allocated an owner who will be responsible for and lead on the management of that risk, taking forward any required action to minimise the risk.

With the announcement of the disbanding of the Audit Commission the issues for Audit Committees in Local Government were discussed and the effects it could have.

The Partnership Framework for Thanet District Council at annex 6 to the report gives an overview to the process and the requirements if you are involved in partnership working or are looking to work in a partnership. The partnership assessment asks for confirmation of the significance of the partnership, whether Major, Moderate, Limited or Minor and for a review to be carried out on an annual basis of the contents of the Partnership database.

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

“Members noted the content of annexes 1, 2, 5 and 6 and identified issues on which they required more clarification

– *Annex 6, Partnership Framework overview, definition of Major, Moderate, Limited and Minor in reference to the significance of the partnership*
and

that Members approve the changes to the Risk Management Strategy and Process documents and recommended that the Strategy be sent to the 11 November 2010 Cabinet for approval”

MOTION ADOPTED.

103. TREASURY MANAGEMENT QUARTERLY UPDATE

The Financial Services Manager, Sarah Martin summarised the report which updates Members on what Treasury activity has take place since the last Governance and Audit Committee meeting on 29 June 2010.

There is a possibility of a new fund opening called the ‘Public Sector Deposit Fund’. This is supposed to give a reasonable rate of return with low management fees and will operate in a similar way as a money market fund. This is something the council are closely following the progress of with a view to potentially invest in the fund if it meets our counterparty criteria. This would then come back to the Governance and Audit Committee.

Members noted the report.

104. INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) PROGRESS REPORT AND UPDATED TIMETABLE

Sarah Martin introduced the report which updated Members on progress in relation to the adoption of International Financial Reporting Standards (IFRS) for 2010/11.

In addition to the specified timetabled items (Annex 1) the criteria for classification of certain assets is much stricter under IFRS such that assets held for sale and investment properties may require reclassification as property plant and equipment. This exercise will be completed October-December 2010 as part of the accounts restatement.

Guidance confirms that existing leases where the authority is the lessor, that are signed before 1 April 2010 can continue to be treated as operating leases with rental income credited to general fund budgets, but leases signed after 1 April 2010 will need to be assessed under IAS517 to consider whether they need to be accounted for as finance leases, requiring an element of rental income being treated as a capital receipt. This means there is no impact on existing budgets but future income streams may be affected.

It was also noted that the Finance team were required to report on all annual leave and flexi leave that may be still outstanding at year end.

Members had some concerns with regard to valuations but Christine Parker, referring to the CIPFA Guidance, confirmed that considerable improvement had taken place over the last two years, with the valuation team having been significantly strengthened. Further

work is required to deal with some outstanding issues, which need to be addressed to maximise the portfolio's performance and enhance returns. These issues are being proactively managed, with a view to resolving them by the end of the current financial year.

Members asked that a valuation officer attend the next meeting of the Governance and Audit Committee (7 December 2010) to advise of the valuation process.

Members noted the report.

105. FINAL AUDITED STATEMENT OF ACCOUNTS FOR 2009/10

The District Auditor from the Audit Commission, Andy Mack summarised this report which is for Members to note amendments made to the approved Financial Statement of Accounts. This item was taken in conjunction with agenda item 13 – Annual Governance Report.

Members noted the report.

106. INTERNAL AUDIT PROGRESS REPORT

Christine Parker introduced the report which 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 the 30 June 2010.

Of the 19 completed audits 5 received a substantial assurance level, 7 reasonable, 1 was Limited, 2 were split and 4 where an assurance level was not applicable. An emphasis on Employee Health and Safety processes had been taken due to insufficient progress being made in implementing the majority of the controls to reduce the identified risks. The original audit opinion stands as Limited Assurance.

This matter has now been escalated to the Council's s.151 Officer, Management Team (via Governance Group on 6 September 2010) and Members of the Governance and Audit Committee who had requested that this follow-up be reported upon within this East Kent Audit Partnership Audit quarterly report to the September 2010 meeting.

Management Response

Whilst the formal agreement is not yet in place in respect of this service, the council in partnership with the East Kent Shared HR Partnership have been making active improvement to the health and safety service and once embedded the Audit Partnership are confident that the measures taken will result in a much improved assurance level. Examples of the work which has been undertaken to date are at Annex 1 to the report.

Members had concerns regarding non-compliance of Contract Standing Orders. Christine advised that systems were now in place to ensure that procedures were correctly followed. Training had also been given to the relevant officers.

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

“Members receive the report

and

that the changes to the agreed 2010-11 internal audit plan, resulting from changes in perceived risk, detailed at point 5.0 of the report be approved”

MOTION ADOPTED.

107. AUDIT COMMISSION PROGRESS REPORT

Lisa Robertson, Audit Manager from the Audit Commission introduced the report which provides the Governance and Audit Committee with a progress report against the audit plan.

Andy Mack advised Members that on 13 August 2010 the Secretary of State announced that the Government were abolishing the Audit Commission. At the end of the 2011/12 Audit it is anticipated that the Audit Commission would cease to exist in its current format. The onus would be on Local Authorities to explore various procurement options, possibly as individual Councils or in groups, East Kent or all across Kent for example. He added that the Audit Commission had a duty of care and would maintain focus. Updates would be given at future meetings. The possibility of a mutual organisation was being explored by the Audit Commission.

Members noted the report.

108. ANNUAL GOVERNANCE REPORT 2009-10

Andy Mack introduced the Annual Governance report to the Governance and Audit Committee. He gave his thanks to the S151 Officer, Sue McGonigal and Financial Services Manager, Sarah Martin for the hard work that they and their team had contributed.

At appendix 2 to the report it shows amendments to the draft accounts and included two adjusted misstatements. Andy confirmed that he believed the effects of the uncorrected financial statements misstatements listed are not material to the financial statements, whether individually or in aggregate. These misstatements have been discussed with those charged with governance within the Council.

Suggestions for possible improvements to next year's accounts were made and included:

- Depth of knowledge and experience on 'working papers'
- Training of staff building a team over time
- Allow more time for completion of accounts

Andy added that the Audit Commission were happy to sign the Statement of Accounts for 2009/10.

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

"Members note the revisions made to the Financial Statements for 2009/10

and

Members agree with Management's decision not to make the amendments for the errors shown at Appendix 3 to the Audit Commission's Annual Governance Report

and Members agree the draft letter of representation as shown at Annex 3 to the report"

MOTION ADOPTED.

109. FUTURE ITEMS OR TRAINING FOR THE COMMITTEE

Members were asked to consider future items or training for the Governance and Audit Committee. Suggestions for the December 2010 were:

- National Fraud Initiative
- International Financial Reporting Systems (IFRS)
- Governance Framework/Local Code of Corporate Governance

Members agreed that the 'National Fraud Initiative' would be the preferred option.

Meeting concluded : 8.55 pm