

# MINUTES

## GOVERNANCE AND AUDIT COMMITTEE FRIDAY, 29 JUNE 2012



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### COMMITTEE MEMBERS PRESENT

Councillor Bob Adams  
Councillor Trevor Scott  
Councillor Ian Stokes (Chairman)

Councillor Adam Stokes  
Councillor Jeff Thompson  
Councillor Rosemary H Woolley

### OFFICERS

Head of Finance (Richard Wyles)  
Property Development Manager (Neil Cucksey) item 8 only  
Head of Community Assets (Paul Stokes)  
Property and Facilities Service Manager (Liz Banner)  
Finance Support Manager (David Scott)  
Governance and Risk Officer (Tracey Elliot)  
Principal Democracy Officer (Jo Toomey)

### AUDIT

Audit Commission District Auditor (Tony Crawley)  
Audit Commission Audit Manager (Paula Longden)  
RSM Tenon Senior Manager (Rob Barnett)  
RSM Tenon Lead Auditor (Kelly Waddoups)

### In attendance:

Councillor Mark Ashberry

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## 1. MEMBERSHIP

The Committee was notified that Councillor Adams would be substituting for Councillor Bevan and Councillor Adam Stokes would be substituting for Councillor Wilkins. Councillor Ashberry attended the meeting on behalf of Councillor Shorrock. As he had not had the required training, Councillor Ashberry was permitted to attend as an observer and could only participate at the Chairman's discretion.

## 2. DECLARATIONS OF INTEREST

During the meeting Councillor Adam Stokes declared a personal interest in respect of any discussion on civil parking enforcement because he was a

member of Lincolnshire County Council.

### **3. MINUTES OF THE MEETING HELD ON 15 MARCH 2012**

The minutes of the meeting held on 15 March 2012 were agreed as a correct record subject to the following amendments:

- In the list of members present, replace Councillor Scott with Councillor Adams
- In respect of the minute on the Lincolnshire Audit Forum, a note should be added to say that the Chairman contacted the Forum to state he would attend.

### **4. INTERNAL AUDIT ANNUAL REPORT 2011-12**

The Committee considered the Internal Audit annual report for 2011/12. Particular attention was drawn to the three green assurances for 2011/12 on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. There had been progression from 2011/12, when three amber lights were given.

During 2011/12, 19 Internal Audit reviews, six advisory reviews and four follow up reviews were undertaken. These resulted in 14 substantial assurance opinions and five reasonable assurance opinions. There were no recommendations relating to high or medium risk, which were not accepted by management.

Following a question from a Committee member, internal audit agreed to look into the Council's MOT service and its compliance with Vehicle and Operator Services Agency (VOSA) regulations.

Committee members noted the report and were pleased with progress made.

### **5. INTERNAL AUDIT PROGRESS REPORT**

Representatives from internal audit presented the Internal Audit Progress Report, which showed the reports issued in the current year (contract management – ground and tree maintenance and a follow-up report). The report also highlighted work in progress and a timeline for future audit activity.

The Contract Management – Ground and Tree Maintenance resulted in internal audit making three high, 2 medium and 6 low recommendations, which were all agreed by management. The Head of Property Development explained the measures that were put in place as a result of the audit. Actions had been communicated with staff members and a project plan for renewing the contract was in place. The service was working with Procurement Lincolnshire in preparation for putting the new contract, which was due for renewal in January 2013, out to tender.

## 6. INTERNAL AUDIT FOLLOW-UP REPORT

The Committee noted the internal audit follow up report, which summarised progress made by South Kesteven District Council in implementing previous internal audit recommendations. The review considered 17 recommendations, of which 2 were 'high' and 15 were 'medium'. The review determined that the council was demonstrating good progress in implementing actions. Brief discussion ensued on the follow-up audits in respect of the Council's pool cars and non-domestic rates.

## 7. EXTERNAL AUDIT- PROGRESS REPORT

The external audit progress report was presented to the Committee. There were no significant issues raised within the report. External Audit completed its work programme using a planned approach consisting of a mixture of controls and substantive testing.

Audit of the Council's financial statement would commence on 9 July 2012. Committee members noted that the work would be challenging as the audit would be completed without a key member of staff. The outcome of the audit would be reported to the Committee at its meeting on 25 September 2012.

In discussing future external audit arrangements, members were advised that KPMG had won the contract for the East Midlands however appointment to individual bodies would not take place until July 2012. The new auditor would start from 1 September 2012. Current Audit Commission staff would transfer on 1 November 2012.

A special meeting of the Committee had been called on 23 July 2012, when Councillors would have the opportunity to review and approve the draft Statement of Accounts. Members would be asked to consider any amendments or comments, for incorporation into the final version.

## 8. DRAFT FINANCIAL OUTTURN 2011-12

### ***Decision:***

- 1. Members of the Governance and Audit Committee have reviewed, appraised and approved the Revenue and Capital Outturn report and associated appendices for 2011/12, including the movement and use of reserves detailed in report HOF200.***
- 2. The Committee notes the commentary to the outturn report and has identified no issues of which it would like to make Council and Cabinet aware in relation to the Council's medium term financial planning arrangements.***

The Head of Finance presented report number HOF200 on the draft financial outturn 2011-12. The Committee was asked to approve the outturn and the proposed movement of reserves. The Budget for 2011/12 saw a reduction in formula grant of £1.27m.

The general fund revenue account showed an underspend after a number of required accounting transactions. Within this account, the Committee was asked to approve rolling forward specific set asides into 2012/13 budgeted for Property Services, Waste Services and ICT. The Committee was also asked to approve the creation of an 'invest to save' reserve. As there was no pay award for staff in 2011/12, £100k set aside for the purpose was transferred back to reserves.

The report highlighted key variances across the Council's services. Particularly highlighted were car parking, grounds maintenance, leisure centres and the building control trading account.

With the exception of Grantham, all Special Expense Areas maintained costs. There were unforeseen costs for the Grantham SEA as a result of drainage issues at Grantham cemetery. Councillors noted that current works were contained within the SEA and its reserve but financing of future work would need recouping.

The Housing Revenue Account (HRA) had resulted in an overall surplus of £1.284m which had been added to the working balance and will be used to finance future spending programmes.

Performance in respect of dwelling rent income remained strong. Changes to universal credit, bedroom tax (removal of benefit entitlement for tenants that have 'surplus' bedrooms) and the direct payment of benefits to tenants could affect this position in the future. Efficiency savings and changes to staffing levels had contributed to the revenue variance, as had depreciation in the value of the housing stock.

The £4m underspend against the capital accounts was evenly split between the general fund and the Housing Investment Programme (HIP). Several general fund projects, including Bourne Core Area, Bourne Community Access Point and Grantham Growth would roll over into 2012/13. Housing improvement grants were not time bound meaning they could move across financial years.

Councillors asked questions on the report. Discussion ensued on the variance in respect of leisure centres as the District Valuer had updated the valuations which impacted the calculation of the depreciation in asset value.

The Head of Community Assets explained the new process through which the Council commissioned repairs and improvements. Rather than tendering for individual jobs, works were grouped. This led to an initial backlog of work however in the long-run the new framework would lead to the more efficient

completion of repairs and improvements.

There had been an overspend on heating and installation because the number of boilers that needed repairing and replacing was greater than anticipated. A rolling improvement programme was underway however officers could not insist tenants accept upgrades. The programme was based on the full stock condition survey completed in 2010. A 10% stock survey was completed annually.

Councillors discussed the insurance reserve. The current policy is to finance any judicial review or planning appeal costs from this reserve to mitigate the impact on the council tax payer. The Council had also moved to an in-house risk profile so that there was less reliance on the external insurer. Officers were reviewing insurance arrangements to optimise the balance between use of internal resources and external arrangements.

The pension reserve allowed the authority to respond to any pension reviews, financing any changes to employer contributions. The priority reserve was a one-off source of funding to pump-prime projects in support of priority outcomes.

The chairman proposed the recommendations, which were agreed by the Committee.

*13:30-13:44 – the meeting adjourned.*

## **9. LOCAL CODE OF CORPORATE GOVERNANCE - REVIEW**

### ***Decision:***

***That the Committee approves the updated Local Code of Corporate Governance as attached at appendix 1 of report number HOF196.***

The Local Code of Corporate Governance was last reviewed in 2010. Report number HOF196 gave the Committee the opportunity to review and update the code so it reflected recent changes in the Council's priorities and strategic direction.

The Committee was reminded that Council delegated authority to the Committee to approve the Local Code in its entirety. The Committee was required to ensure it was comfortable with the level of transparency and evidence within the document, which was a public statement. A copy of the statement would be put onto the home page of the Council's website.

Representatives from the Audit Commission explained changes to the categories of assurance it could give on the use of resources. The highest assurance it could now give was 'adequate'.

The consensus of the Committee was that a sufficient summary was provided

within the principles for good corporate governance and that the full version should be published.

The recommendations in report number HOF196 were proposed by the Chairman and agreed by the Committee.

## **10. ANNUAL GOVERNANCE STATEMENT**

Report number HOF197 on the draft Annual Governance Statement for 2011/12 was presented to the Committee. The document would form one of the key statements in the Annual Statement of Accounts. It gave an assessment of the Council's governance arrangements incorporating key messages from internal and external audit reports.

As the Committee was charged with governance, it was its responsibility to approve a statement which would be incorporated in the annual statement of accounts. Councillors were invited to highlight any messages or observations they felt needed strengthening. No committee member highlighted any issues. The Chairman asked members to raise any points at the Committee's meeting on 23 July 2012. These comments could be incorporated into the accounts that would be presented on 25 September 2012.

## **11. TREASURY MANAGEMENT ANNUAL REPORT 2011-12**

### ***Decision:***

***The Committee notes report number HOF198 and approves the content of the annual report on Treasury Management Activity for 2011/12.***

Report number HOF198 on the annual report on treasury management activity for 2011/12 was summarised by the Finance Support Manager. Production of the report was a requirement of the Local Government Act 2003. A mid-year report was presented to Committee in December 2011. The report summarised the financial position nationally together with the Council's investment performance.

The Committee considered the draft Treasury Management Strategy however the final version was approved by Council because of the significant changes to the prudential indicators required to allow the self-financing of the Housing Revenue Account.

The Council had a number of public works loans which were due for payment within the next five years. Renegotiation would be less cost-effective than letting the loans run their course.

In respect of interest rates, average balances were higher than the budget assumption but the return was slightly lower than projected. Overall the Council had achieved a 1.71% return rate; the average return for other district councils

was 1.39%.

Increases in interest rates were not expected until 2014. Councillors also considered the potential impact of the interest rate dropping to 0.25%.

The recommendation in report number HOF198 were proposed by the Chairman and agreed by the Committee.

## **12. RISK MANAGEMENT ANNUAL REPORT 2011-12 AND RISK REGISTER UPDATE**

### ***Decision:***

- 1. The Governance and Audit Committee notes the content of report number HOF 201.***
- 2. The Governance and Audit Committee notes the latest version of the Corporate Risk Register.***

Report number HOF201 asked Committee members to note the contents of the report and the latest version of the Corporate Risk Register. The Committee had received updates throughout the year and had approved the updated strategy in June 2011. It had been agreed that the Committee would review the strategy every two years.

All service managers went through an exercise to identify the service risk profile. This highlighted exceptional risks for each service area which were built into service plans.

Changes had also been made to the risk section on the report template for council, cabinet and committees. This required officers to provide more information on high risks.

Work had been undertaken to review risk around projects, health and safety and partnerships. Performance measures had also been developed. Particularly highlighted was the positive assurance given to the Council's risk processes by internal audit.

The Finance Support Manager highlighted the three changes that had been made to the corporate risk register, which related to IT infrastructure, introduction of Civil Parking Enforcement (CPE) and tree stock condition.

*Councillor Adam Stokes declared a personal interest in any discussion on CPE as a member of Lincolnshire County Council.*

There was brief discussion on the new additions to the register. Councillors questioned the score apportioned to several risks and their position on the heat map. Some risks scored lower than Councillors expected because control

measures were in place to mitigate the risks. The residual risk score for other risks was higher because there were fewer controls that could be put in place.

The recommendations in report number HOF201 were proposed by the Chairman and agreed by the Committee.

### **13. CLOSE OF MEETING**

The meeting was closed at 14:28.