

# AGENDA



|   |
|---|
| For a meeting of the  |
| <b>GOVERNANCE AND AUDIT COMMITTEE</b>   |
| to be held on   |
| <b>FRIDAY, 29 JUNE 2012</b>   |
| at  |
| <b>12.00 PM</b>   |
| in  |
| <b>WITHAM ROOM, COUNCIL OFFICES, ST. PETER'S HILL,<br/>GRANTHAM. NG31 6PZ</b> |
| Beverly Agass, Chief Executive  |

|                            |   |  |
|----------------------------|---|--|
| Committee Members:         | Councillor Jean Bevan (Vice-Chairman), Councillor Trevor Scott, Councillor Rob Shorrocks, Councillor Ian Stokes (Chairman), Councillor Jeff Thompson, Councillor Martin Wilkins and Councillor Rosemary H Woolley |  |
| Committee Support Officer: | Jo Toomey   | Tel: 01476 40 61 52<br>j.toomey@southkesteven.gov.uk |

**Members of the Panel are invited to attend the above meeting to consider the items of business listed below.**

**1. MEMBERSHIP**

The Committee to be notified of any substitute members.

**2. APOLOGIES**

**3. DECLARATIONS OF INTEREST**

Members are asked to declare an interest in matters for consideration at the meeting.

**4. MINUTES OF THE MEETING HELD ON 15 MARCH 2012**

(Enclosure)

**5. UPDATES FROM PREVIOUS MEETING**

- 6. EXTERNAL AUDIT- PROGRESS REPORT**

Report to be presented by the Audit Commission. **(Enclosure)**
- 7. INTERNAL AUDIT ANNUAL REPORT 2011-12**

Members will review the 2011/12 annual report to be presented by Internal Audit. **(Enclosure)**
- 8. INTERNAL AUDIT PROGRESS REPORT**

Members will consider the Internal Audit progress report. **(Enclosure)**
- 9. INTERNAL AUDIT FOLLOW-UP REPORT**

Members will consider the Internal Audit follow-up report. **(Enclosure)**
- 10. DRAFT FINANCIAL OUTTURN 2011-12**

Report number HOF200 by the Head of Finance. **(To follow)**
- 11. LOCAL CODE OF CORPORATE GOVERNANCE - REVIEW**

Report number HOF196 by the Head of Finance. **(Enclosure)**
- 12. ANNUAL GOVERNANCE STATEMENT**

Report number HOF197 by the Head of Finance. **(Enclosure)**
- 13. TREASURY MANAGEMENT ANNUAL REPORT 2011-12**

Report number HOF198 by the Finance Support Manager. **(Enclosure)**
- 14. RISK MANAGEMENT ANNUAL REPORT 2011-12 AND RISK REGISTER UPDATE**

Report number HOF201 by the Finance Support Manager. **(Enclosure)**
- 15. ANY OTHER BUSINESS, WHICH THE CHAIRMAN, BY REASONS OF SPECIAL CIRCUMSTANCES, DECIDES IS URGENT.**

# MINUTES

**GOVERNANCE AND AUDIT  
COMMITTEE  
THURSDAY, 15 MARCH 2012**



---

## COMMITTEE MEMBERS PRESENT

Councillor Trevor Scott  
Councillor Ian Selby  
Councillor Ian Stokes (Chairman)

Councillor Adam Stokes  
Councillor Jeff Thompson  
Councillor Rosemary H Woolley

## OFFICERS

Head of Finance (Richard Wyles)  
Finance Support Manager (Finance and Risk) (David Scott)  
Finance Support Manager (Accountancy) (Nicky Lovely)  
Governance and Risk Officer (Tracey Elliott)  
Community Safety and Licensing Service Manager (Mark Jones)  
Senior Emergency Planning Officer (Paula Ireland)  
Principal Democracy Officer (Jo Toomey)

---

### 55. MEMBERSHIP

The Committee was notified that Councillor Adam Stokes was substituting for Councillor Wilkins, Councillor Adams was substituting for Councillor Scott and Councillor Selby was substituting for Councillor Shorrock for this meeting only.

### 56. APOLOGIES

An apology for absence was received from Councillor Bevan.

### 57. DECLARATIONS OF INTEREST

During the meeting, Councillor Adam Stokes declared a personal interest in agenda item 12 (Pension Fund Assumptions) as a member of Lincolnshire County Council.

### 58. MINUTES OF THE MEETING HELD ON 1 DECEMBER 2011

The minutes of the meeting held on 1 December 2011 were agreed as a

correct record.

## **59. UPDATES FROM PREVIOUS MEETING**

- Minute item 46 – the Development Management Service Manager attended the meeting on 1 December 2011 and outlined a plan for implementing internal audit's recommendations. Internal audit were scheduled to review progress against the recommendations as part of their next follow-up exercise. One Councillor asked whether there was a mechanism through which assurance could be given that information was circulated to parish councils.
- Minute item 47 – Mr Crawley provided an update on audit arrangements for 2012/13 onwards. Contracts for the external audit function had been awarded. The Council would receive confirmation of the organisation providing its external audit services on 23 April 2012. The new contract would start on 1 September 2012. The Audit Commission would complete the 2011/12 audit, however it was unlikely work in respect of housing benefit would be finalised. A letter of assurance would be sent to the new auditor detailing the position as at 31 October 2012.
- Minute item 48 – a temporary hold to cross-match information held by the Council to the Valuation Office's listing had been successfully completed.
- Minute item 52 – the Head of Finance gave an update in respect of Right to Buy provisions in the Localism Act. Pooling arrangements would remain with the council retaining 25% of receipts. However, the Council could retain 100% of the receipt from empty dwellings and surplus land if housing need could be demonstrated.

## **60. CERTIFICATE OF CLAIMS AND RETURNS ANNUAL REPORT**

The certification of claims and returns annual report was presented by the Audit Commission. This work was carried out at the request of local authorities. For claims and returns between £125,000 and £500,000, limited tests were undertaken to agree form entries to underlying records. For claims and returns over £500,000, the control environment for the preparation of claims and returns was assessed, and testing undertaken to agree form entries and test the eligibility of data as appropriate.

Six claims were certified; two claims were subject to a limited review, while the remaining four were subject to a full review. Three of those claims were amended; two affected the overall value of the claim. A qualification letter accompanied the certificate in respect of housing and council tax benefit claim, which the Audit Commission was not able to fully certify.

No recommendations were made to the authority in respect of claims and returns. The Audit Commission provided training to internal audit, whose staff carried out some of the detailed testing on the housing and council tax benefit scheme grant claim. This worked well; work was completed on time and

efficiently and achieved a reduction in fee.

## **61. AUDIT OPINION PLAN 2011-12**

The Audit Commission presented the Audit Plan for the 2011/12 audit to Committee members. The Plan identified key audit risks for the authority (the key risk identified was the self-financing of the Housing Revenue Account), the testing strategy, proposed work, the criteria for assessing value for money and key milestones and deadlines. The report also provided information on ensuring independence and the setting of the audit fee.

Members noted the key audit risk and were advised that the risk would similarly be identified for other authorities required to make significant payments. Approaches to managing the debt varied across councils.

## **62. INTERNAL AUDIT PROGRESS REPORT**

Internal Audit finalised seven reports relating to the 2011/12 audit plan: disabled facilities grants, building control, cash and banking, development control, corporate governance, MOT Services and a follow-up report. In all, 29 recommendations were raised; two were classified as high risk, nine as medium risk and 18 recommendations as low risk. Each area was given a positive assurance. Details of key findings were shown in appendix B to the report. The outcome of the follow-up report was detailed in a report under agenda item 10 (Internal Audit follow-up report).

Management had requested a contingency allocation of 17 days for *ad hoc* and advisory work, which was taken from the 196 days agreed by the Governance and Audit Committee in June 2011. The subsequent changes to the audit plan were highlighted in the report. Changes to the plan since the last Governance and Audit Committee meeting were also highlighted: the flexible working review was deferred and the allocation used for an advisory review of housing allocations for persons with housing-related debt; IT change management and ICT Strategy were undertaken as advisory reviews, an advisory review of risk maturity was undertaken and an additional day was agreed to finalise work on the Carbon Reduction Programme. For 2011/12 191 of 196 days had been used, which left 5 days unallocated.

Appendix C to the internal audit progress report listed previous reports presented to the Committee.

Members of the Committee discussed the findings of the audits. In discussing the audit of development control, Councillors asked questions relating to records of site visits. The audit focused on site visits undertaken by officers, not members of the Council's Development Control Committee.

**Action Point:**

***Find out whether information relating to Development Control Committee members' site visits is logged.***

Councillors also discussed the recommendations relating to MOT services. It was recommended that log documents were reconciled, together with receipted payments. Members were advised that the Council used the facility to MOT its own vehicles. A question was asked in respect of monitoring fuel use. Council vehicles were refuelled at an in-house fuel tank and logs kept of the use of Council vehicles.

**63. INTERNAL AUDIT FOLLOW UP REPORT**

The internal audit follow-up report summarised the review of the implementation of recommendations made by internal audit. The audits considered as part of the follow-up review were: communication, compliance with information security policies, follow-up (debtors), ICT resilience, grants for better warmer homes, pollution control – contaminated land, insurance and housing benefits. 20 recommendations were considered as part of the review – 3 high, 16 medium and 1 significant. 65% had been implemented, in 20% implementation was ongoing, 10% had not been implemented and 5% of the recommendations had been superseded.

As a result of follow-up work, internal audit found that adequate progress had been made in implementing recommendations. Recommendations that were not implemented were reiterated and new recommendations were made where appropriate; these were detailed in the action plan.

Brief discussion ensued on accidents involving council vehicles.

**64. INTERNAL AUDIT STRATEGY**

***Decision:***

***The Committee approved the internal audit strategy for the financial year 2012/13.***

The Strategy for Internal Audit for 2012/13 to 2014/15, (with a detailed plan for 2012/13) was presented to the Committee. The total number of days for 2012/13 was 190, which included: assignments designed to provide assurance or advisor input around specific risks, a follow-up allocation to assess the degree of implementation, a contingency allocation for unplanned and *ad hoc* work and an audit management allocation. The strategy would be revisited annually to confirm priorities for internal audit coverage and develop a detailed plan for the next year. The document also set out internal audit fees based on the proposed strategy.

The strategy summarised the proposed audit work, highlighting potential risks to the authority and the proposed timeline for the work. The Committee was

asked to consider whether the draft strategy covered the organisation's key risks, covered all areas the Committee would expect to be subject to internal audit coverage, that the level of resources was appropriate, whether it reflected areas the Committee felt should be covered as a priority and that the Committee was satisfied that sufficient assurances were being received by the organisation to effectively monitor the risk profile.

The draft plan was based on a risk assessment of the authority, service plans, the Council's priorities and the 2011/12 audit plan. The Committee was assured that there would be opportunities to change the programme of works during the year if it is deemed necessary. The Chairman advised Members that if there were issues they felt should be incorporated in the plan; they should submit them through him.

The Committee approved the internal audit strategy for the financial year 2012/13.

## **65. GOVERNANCE AND RISK MANAGEMENT UPDATE**

### ***Decision:***

- 1. The Committee notes report HOF188***
- 2. The Committee approves the updated Risk Management Improvement Plan actions***
- 3. The Committee approves the wording insertion to the Counter Fraud, Bribery and Corruption Framework at appendix B of report HOF188***

The Finance Support Manager (Finance and Risk) presented report number HOF188, which provided a governance and risk management update.

At its meeting on 29 September 2011, the Committee approved an updated Risk Management Improvement Plan to ensure the continued delivery of effective risk management within the Council. An updated version of the Risk Management Improvement Plan was attached at appendix A to the report, which summarised progress:

- In January 2012 the updated service risk register was presented to the Risk Management Group for peer challenge. The risks were incorporated in the service planning process for 2012/13 and would be managed through the Council's corporate risk management system
- Guidance was being provided for managers on including risk commentary in committee reports to ensure Councillors were fully informed of risks when making decisions
- The categorisation of risks had been undertaken; this meant similar category risks could be managed together more effectively
- Risk triangulation had been deferred from quarter 4 of 2011/12 to quarter 1 of 2012/13 so the Council's new priorities and performance indicators

- could be incorporated
- The Corporate Risk Register was updated in conjunction with Heads of Service to refresh existing risks, ensuring risks remained relevant and review any actions being taken. Use was being made of bespoke risk categories (e.g. economic, reputational, legislative) and weighting was added to corporate risks to identify the most significant risks that could impact on the Council delivering against its priorities
- Benchmarking against other authorities (in Lincolnshire and nationally) showed that the Council was performing well
- An internal audit of risk management had been undertaken and a positive conclusion given

Following a recent assessment of Section 11 compliance with the Children's Act 2004, a minor amendment to the Counter Fraud Bribery and Corruption Framework was proposed; the wording was included at appendix B to the report.

The recommendations in report number HOF188 were proposed, seconded and agreed.

## **66. PENSION FUND ASSUMPTIONS**

### ***Decision:***

***The Governance and Audit Committee approves the International Accounting Standard 19 (IAS19) assumptions to be used in the production of the 2011-12 Statement of Accounts***

*Councillor Adam Stokes declared a personal interest in this item as a member of Lincolnshire County Council.*

The Finance Support Manager (Accountancy) summarised report number HOF191 on the underlying assumptions to be used to calculate IAS19 pension figures for the 2011/12 Statement of Accounts. An addendum to appendix A was circulated at the meeting, which showed the movement of financial assumptions and their potential impact. When producing the Statement of Accounts, the Council was required to comply with a number of reporting standards, including IAS19 – employee benefits. To calculate the cost of earned benefits, estimates were based on the last full actuarial valuation rolled forward and allowing for any change in the underlying financial assumptions (price inflation, pension increase rate, salary increase rate, expected return on assets and discount rate) and demographic assumptions (pensioner mortality, commutation, rates of withdrawal from the scheme and the number of ill-health early retirements).

Brief discussion ensued. In response to a question on whether Members of the Council could join the pension scheme, Committee members advised that the Council had previously taken a decision that they could not.

The recommendations in report number HOF191 were proposed, seconded and agreed.

## **67. ACCOUNTING POLICIES**

### ***Decision:***

***The Committee approves the Statement of Accounting Policies to be used in the production of 2011/12 financial statements as presented in report HOF190***

Report number HOF190 on the statement of accounting policies 2011/12 was presented by the Finance Support Manager (Accountancy). Each year the Council had to produce accounting policies which would determine how items were treated in the Statement of Accounts. The Committee was required to consider the policies, which were appended to the report. A new policy on heritage assets had been included; examples of heritage assets were given.

The recommendation in report number HOF190 was proposed, seconded and agreed.

## **68. COMPONENTISATION APPROACH**

### ***Decision:***

***The Committee approves the proposed approach (as detailed in report HOF192) for estimating the value of components to be derecognised during the production of the 2011-12 Statement of Accounts.***

The report on the revised approach to componentisation estimates for the 2011/12 year end process (report HOF192) was presented by the Finance Support Manager (Accountancy). The Committee was asked to consider the proposed approach to ensure they were confident that the method produced true and fair values for assets to be included in the balance sheet.

During the production of the 2010/11 accounts it was not possible to calculate the value of old components to be written out as information relating to the age and original cost was not available. The Code suggested an estimation technique based on the cost of the new component and indexing back to the date of installation however the stock management system used by the Council did not have the functionality to retain installation dates.

The argument was put forward that the only improvements made to the Council's housing stock were required by the Decent Homes Standard. This meant key components were only replaced if they were older than a specified useful life or in poor condition. Any asset older than its useful life would have depreciated and would have no value to be written out.

An exercise was carried out between Finance and the Improvements team, which identified improvements that were not Decent Homes Improvements. This showed that the number of components replaced that had some residual value was small and therefore the value written out would be immaterial. The auditors agreed with the approach provided there was no change to the Council's decision to only carry out Decent Homes improvements, that there were no mitigating circumstances requiring other improvements to be made and that the Committee approved the approach described.

Other options considered were identifying improvements not undertaken to meet Decent Homes Standards, however this was not considered feasible as the data was difficult to extract and would not be completed before the deadline for producing the Statement of Accounts. Alternatively, when a new component was installed, officers could record the date of installation of the old component before it was overwritten, however, it was unlikely to produce reliable data.

Following discussion on the requirements for the componentisation of assets, the approach proposed in HOF192 was proposed, seconded and agreed.

#### **69. BUSINESS CONTINUITY**

A copy of the emergency planning and business continuity work programme was circulated. The Committee had considered the business continuity report at its meeting on 29 September 2011 at which the Committee asked to see the action plan. The main focus for the year would be disaster recovery planning. In June 2012, the Council had planned an exercise to test the resilience of IT systems.

The Committee was introduced to Paula Ireland, who worked for the Lincolnshire Joint Emergency Management Service. She would be working with the council on emergency planning and business continuity while the designated officer was on maternity leave.

The key risks that could impact on the authority were highlighted: industrial action, fuel strikes and severe weather. Preparations were also underway ahead of the Olympic torch relay, which would be travelling through the district. New information was also being made available on drought.

Following a question, Councillors were advised that the Emergency Management Team was working with the Lincolnshire Association of Local Councils to promote a community emergency plan and flood template. The response rate from parishes had been good.

#### **70. ANY OTHER BUSINESS, WHICH THE CHAIRMAN, BY REASONS OF SPECIAL CIRCUMSTANCES, DECIDES IS URGENT.**

The Chairman raised a number of items of further business:

- Members were unable to claim additional mileage if they transported other Councillors. The proposition had previously been considered by Council following recommendations by the independent remuneration panel however it was not adopted.
- Following recent national media, Councillors asked for assurance that no SKDC officers were being paid as sub-contractors through a limited company. Officers advised that a freedom of information request had been received to this end, to which the response was that there were none.
- Councillors were required to submit related-party forms, approximately a quarter of all forms had been received. The forms were used to identify bodies and organisations on which Councillors had controlling interests.
- Representatives from internal audit, the Audit Commission and officers were thanked for the way they presented reports at the meeting, supporting Councillors in the consideration of complex issues.
- The deadline for expenses claims for Members had been set to enable the processing of all claims before the closedown of accounts for 2011/12.
- The Chairman had received a letter from the Lincolnshire audit forum, which was for the chairmen of audit committees. The previous chairman of the Committee had found these sessions useful.

## **71. CLOSE OF MEETING**

The meeting was closed at 16:11.

# **Audit**

---

# **Committee**

---

# **update**

---

**South Kesteven District Council**

**Audit 2011/12**

**The Audit Commission is a public corporation set up in 1983 to protect the public purse.**

**The Commission appoints auditors to councils, NHS bodies (excluding NHS foundation trusts), police authorities and other local public services in England, and oversees their work. The auditors we appoint are either Audit Commission employees (our in-house Audit Practice) or one of the private audit firms. Our Audit Practice also audits NHS foundation trusts under separate arrangements.**

**We also help public bodies manage the financial challenges they face by providing authoritative, unbiased, evidence-based analysis and advice.**

# Contents

|   |          |
|---|----------|
| <b>Introduction .....</b>   | <b>2</b> |
| <b>Progress report .....</b>  | <b>3</b> |
| Financial statements.....   | 3        |
| <b>Publications and matters of interest .....</b>                             | <b>4</b> |
| Government response to consultation on the future of local public audit ..... | 4        |
| Update on the externalisation of the Audit Practice .....                     | 4        |
| Local government capital finance system.....                                  | 6        |
| Openness and accountability in local pay.....                                 | 6        |
| Accounting for HRA Self Financing .....                                       | 7        |
| <b>Contact details .....</b>  | <b>8</b> |

# Introduction

- 1** The purpose of this paper is to provide the Audit Committee with a report on progress in delivering our responsibilities as your external auditors. It includes an update on the externalisation of the Audit Practice.
- 2** This paper also seeks to highlight key emerging national issues and developments which may be of interest to members of the Audit Committee. The paper concludes by asking a number of questions which the Committee may wish to consider in order to assess whether it has received sufficient assurance on emerging issues.
- 3** If you require any additional information regarding the issues included within this briefing, please feel free to contact me or your Audit Manager using the contact details at the end of this update.
- 4** Finally, please also remember to visit our website ([www.audit-commission.gov.uk](http://www.audit-commission.gov.uk)) which now enables you to sign-up to be notified of any new content that is relevant to your type of organisation.

Tony Crawley  
District Auditor  
8 June 2012

# Progress report

## Financial statements

1 The opinion audit plan was presented to the governance and audit committee in March and set out my approach for auditing your financial statements.

2 I planned an approach using a mixture of controls and substantive testing and progress is reported below.

## Design of material systems

3 In accordance with ISA+ 315, understanding the entity and its environment and assessing the risks of material misstatement, I am required to identify and evaluate the Council's material systems and controls.

4 The work consisted of:

- identification of the material systems at the Council; and
- documentation of these material systems and an assessment of whether the design will prevent and detect material errors.

5 The material systems remain unchanged from 2010/11. I concluded from my assessment that the Council has systems in place that are designed to prevent or detect and correct material misstatements.

## Controls assurance

6 In adherence to ISA+ 330, I identify the key controls, those that prevent or detect and correct material errors, and then carry out tests on their operating effectiveness. If controls are effective, we can place reliance on those controls and reduce the time spent in gathering other audit evidence.

7 As part of a cyclical testing strategy, we planned to carry out controls testing on the following systems this year:

- General ledger
- Business rates (NNDR)
- Council tax
- Housing benefit

8 Using the documentation of the materials systems, I identified key controls and carried out selected testing, relying on internal audit where possible. Full assurance was gained with the exception of the year end reconciliations. These will be followed up in July 2012.

# Publications and matters of interest

## Government response to consultation on the future of local public audit

**9** In August 2010, the government announced its intention to bring forward legislation to abolish the Audit Commission and put in place a new framework for local public audit. In March 2011 the government published a consultation paper and, in January 2012, announced its response to the consultation to which it received 453 responses, the majority from audited bodies.

**10** The Audit Commission has announced the outcome of the procurement exercise to outsource the work currently undertaken by the Audit Practice for the period 2012/13 to 2016/17. The government envisages the retention of the Audit Commission as a small residuary body until the end of those contracts, to oversee them and to make any necessary changes to individual audit appointments. This was discussed at the March meeting of the audit committee and a more detailed summary is provided under 'update on the externalisation of the Audit Practice' below.

**11** Thereafter, the government proposes that a new local public audit regime will apply, the key features of which are as follows.

- Local government bodies will appoint their own auditor on the advice of an independent audit appointment panel, with a maximum of two terms of five years permissible.
- The audit will continue to cover arrangements for securing economy, efficiency and effectiveness, but without imposing further burdens on audited bodies. There will be further consultation on the approach to value for money.
- The power to issue a public interest report will be retained.
- Audit firms will be able to provide non-audit services to audited bodies, subject to complying with ethical standards and gaining approval from the independent auditor appointment panel.
- The National Audit Office will be responsible for developing and maintaining audit codes of practice and providing support to auditors.
- The National Fraud Initiative will continue. Discussions on how this will be achieved are ongoing.

**12** The government is holding further discussions with audited bodies and audit firms to develop its proposals. The government intends to publish draft legislation for pre-legislative scrutiny in Spring 2012.

## Update on the externalisation of the Audit Practice

**13** The Audit Commission's Managing Director, Audit Policy wrote to audited bodies on 6 March 2012 on the outcome of the procurement

exercise to outsource the work currently undertaken by the Audit Practice and on the process for making auditor appointments for 2012/13 and subsequent years.

**14** The key points are as follows.

- Contracts will be let from 2012/13 on a five-year basis to the following firms.

| Firm            | Contract areas   |
|-----------------|--|
| DA Partnership  | North East & North Yorkshire   |
| Ernst and Young | Eastern<br>South East  |
| Grant Thornton  | North West<br>West Midlands<br>London (South), Surrey & Kent<br>South West |
| KPMG            | Humberside & Yorkshire<br>East Midlands<br>London (North)                  |

- The Commission has been able to secure very competitive prices that will save local public bodies over £30 million a year for a minimum of five years. The savings secured will be passed back to audited bodies through significant reductions in scales of audit fees. The Commission intends to publish the final scales of audit fees for 2012/13 in April 2012.
- The Commission Board has confirmed the 'interim' auditor appointments for the first five months of 2012/13.
- The Commission wrote to all audited bodies on 23 April 2012 setting out its proposals for 'permanent' auditor appointments for 2012/13 and subsequent years. Where a body is currently audited by an auditor from the Audit Practice, the Commission proposed as the appointed auditor the firm that was awarded the contract in each area, unless there are good reasons that to do so would be inappropriate.
- To support the consultation process, the Commission arranged a series of introductory meetings in each contract area between 30 April 2012 and 16 May 2012. The purpose of these meetings was to give audited bodies in each area an opportunity to meet the new firm proposed as their auditor and its senior partners, and hear how the firm plans to manage its new portfolio and its approach to the audits.

**15** The Commission is working with auditors to ensure a smooth transfer between the Audit Practice and the incoming firm. In particular, the new auditor will be expected to place maximum reliance on the work of the current auditor. Audited bodies can also help by ensuring they plan their

2011/12 accounts closedown effectively to enable auditors to issue their opinion by the statutory deadline for publication of accounts, 30 September 2012.

**16** Audit Practice staff in each lot area will in the main transfer to the successful bidders on 31 October 2012.

**17** Further details are available on the Commission's website. We will continue to keep you updated on developments.

**18** Against this background, the Audit Practice's focus remains.

- Fulfilling our remaining responsibilities – delivering your 2011/12 audit to the high standards you expect and deserve.
- Managing a smooth transition from the Audit Practice to your new audit provider.

## Local government capital finance system

**19** In late 2011 the Department for Communities and Local Government (DCLG) issued a consultation document on proposed changes to the Local Government capital finance system.

**20** A summary of the consultation responses was published on 8 February 2012 and the Regulations, which come into force on 31 March and 1 April 2012, have been laid before Parliament.

**21** DCLG's commentary confirms the intended effects of the amended Regulations are:

- to bring securitisation (the exchange of future revenues for an immediate lump sum payment) within the capital finance framework;
- to relax the rules on bond investments; and
- to clarify the definition of capital expenditure.

**22** DCLG has also published an updated edition of Capital Finance: Guidance on Minimum Revenue Provision. The amendments to the statutory guidance relate to Housing Revenue Account (HRA) reform only and impact from 2012/13. The changes to the guidance are to ensure that authorities taking on new debt do not face any inappropriate increase in their minimum revenue provision liability.

## Openness and accountability in local pay

**23** On 17 February 2012 DCLG published guidance which sets out the key policy principles that underpin the pay accountability provisions in the Localism Act.

**24** For each financial year, beginning with 2012/13, the Council will be required to prepare a pay policy statement that must articulate its policies on the pay of its workforce, particularly its senior staff (or 'chief officers') and its lowest paid employees.

**25** The statement must be:

- approved by full Council, or a meeting of members in the case of a Fire and Rescue Authority; and

- published on its website.

## Accounting for HRA Self Financing

**26** In March 2012 CIPFA produced guidance on the required accounting entries for councils making or receiving settlement payments to or from the Secretary of State in preparation for the commencement of self-financing of the Housing Revenue Account (HRA) from 1 April 2012. These transactions take place in the 2011/12 financial year and will therefore be reflected in the Council's financial statements for the year ended 31 March 2012.

**27** Contact details

**28** If you would like further information on any items in this briefing, please feel free to contact either your District Auditor / Engagement Lead or Audit Manager.

**29** Alternatively, all Audit Commission reports - and a wealth of other material - can be found on our website: [www.audit-commission.gov.uk](http://www.audit-commission.gov.uk).

Tony Crawley

District Auditor

0844 798 4098

[t-crawley@audit-commission.gov.uk](mailto:t-crawley@audit-commission.gov.uk)

Paula Longden

Audit Manager

0844 798 4321

07977 420164

[p-longden@audit-commission.gov.uk](mailto:p-longden@audit-commission.gov.uk)

If you require a copy of this document in an alternative format or in a language other than English, please call:  
**0844 798 7070**

© Audit Commission 2012.

Design and production by the Audit Commission Publishing Team.

Image copyright © Audit Commission.

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors, members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.



Audit Commission

1st Floor  
Millbank Tower  
Millbank  
London  
SW1P 4HQ

Telephone: 0844 798 3131  
Fax: 0844 798 2945  
Textphone (minicom): 0844 798 2946

# RSM! Tenon

SOUTH KESTEVEN DISTRICT COUNCIL

Internal Audit Annual Report

Year ended 31 March 2012

Presented at the Governance & Audit Committee meeting of: 29<sup>th</sup> June 2012

Approved by: Chris Williams as Head of Internal Audit



*Your council working for you*

## CONTENTS

| Section  | Page |
|--|------|
| 1 Introduction   | 1    |
| 2 Internal Audit Assurance for 2011/12                         | 1    |
| Appendix A Internal Audit Assurance Map 2011/12                | 6    |
| Appendix B Internal Audit Opinions and Recommendations 2011/12 | 15   |

This report is prepared solely for the use of the Members and senior management of South Kesteven District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

© 2010 RSM Tenon Limited

RSM Tenon Limited is a member of RSM Tenon Group

RSM Tenon Limited is an independent member firm of RSM International an affiliation of independent accounting and consulting firms. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity.

RSM Tenon Limited (No 4066924) is registered in England and Wales. Registered Office 66 Chiltern Street, London W1U 4GB. England

---

## 1 INTRODUCTION

### 1.1 The Role of Internal Audit

The role of internal audit is to provide management with an objective assessment of the adequacy and effectiveness of internal control, risk management and governance arrangements. Internal audit is therefore a key part of South Kesteven District Council's assurance cycle and if used properly can help to inform and update the organisation's risk profile. Internal Audit is just one of the sources of assurance available to the Council and Governance & Audit Committee.

The definition of internal audit, as described in CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom, is set out below:

- Internal Audit is an assurance function that primarily provides an independent and objective opinion to the organisation on the control environment comprising risk management, control and governance by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources.
- Whilst Internal Audit "primarily" provides an independent and objective opinion to the organisation on the control environment, it may also undertake other, non-assurance work at the request of the organisation subject to the availability of skills and resources. This can include consultancy work; indeed, Internal Audit intrinsically delivers consultancy services when making recommendations for improvement arising from assurance work, and fraud-related work.

### 1.2 Annual Governance Statement

The preparation and publication of an annual governance statement in accordance with the CIPFA / SOLACE Good Governance Framework is necessary to meet the statutory requirement set out in the Accounts and Audit Regulations, which set out a statutory requirement for authorities to prepare a statement of internal control in accordance with "proper practices".

As your internal audit provider, the assignment opinions that RSM Tenon provides the organisation during the year are part of the framework or assurances that assist the Council prepare an informed governance statement.

## 2 INTERNAL AUDIT ASSURANCE FOR 2011/2012




### 2.1 Context

As the provider of the internal audit service to South Kesteven District Council we provide the Council through the Governance & Audit Committee with an opinion on the adequacy and effectiveness of the organisation's governance, risk management and control arrangements. In giving our opinion it should be noted that assurance can never be absolute. The most that the internal audit service can provide to the Council is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. This report is prepared solely for the use of Members and senior management of South Kesteven District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

## 2.2 Internal Audit Assurance Statement

This annual Head of Internal Audit opinion is provided to South Kesteven District Council by RSM Tenon Limited.

|  |  |
|--|--|
| <p>We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of South Kesteven District Council's arrangements.</p> <p>For the 12 months ended 31 March 2012, based on the work we have undertaken, our opinion regarding the adequacy and effectiveness of South Kesteven District Council's arrangements for governance, risk management and control is as follows:</p> |  |
|  | <p>Red    Amber    Green</p>   |
| <p><b>Governance</b><br/>The Council has adequate and effective arrangements.</p>  | <p><b>Governance</b></p>       |
| <p><b>Risk Management</b><br/>The Council has adequate and effective Risk Management arrangements.</p>   | <p><b>Risk Management</b></p>  |
| <p><b>Control</b><br/>The Council has adequate and effective control arrangements.</p>   | <p><b>Control</b></p>        |

## 2.3 Scope of the Internal Audit opinion

In arriving at our opinion, we have taken into account:

- The results of all internal audits undertaken during the year ended 31 March 2012 (see Appendix A for a risk map of our internal audit assurances and Appendix B for a summary of audits);
- The results of follow-up action taken in respect of audits from previous years;
- Whether high or medium recommendations have been accepted by management and, if not, the consequent risks;
- The affects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports or other assurance providers to the Governance & Audit Committee;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation;
- What proportion of the organisation's internal audit needs have been covered to date.

## 2.4 The Basis of the Opinion

We undertook a total of 19 Internal Audit reviews, six Advisory reviews and four Follow Up reviews of recommendations made during the year. Overall, this resulted in 14 'Substantial' assurance opinions (i.e. "Green") and five 'Reasonable' assurance opinions (i.e. "Amber-Green") being given over the control environment.

With the exception of the following agreed changes, all audits that were on the original 2011/12 Internal Audit Plan have been carried out:

- The Performance Management audit was deferred to 2012/13 due to changes in the Performance Indicator Framework;
- The Asset Management Plan audit was replaced with a review of Travel and Subsistence;
- The IT Change Management, ICT Strategy, Health & Safety and the Carbon Reduction Programme audits were undertaken as advisory reviews and the findings were presented to management;
- The Supporting People review was removed from the audit plan, as the Authority were in the process of carrying out a review of the service and working with the County Council on the proposals for the re-shaping of the older persons service; and
- The Flexible Working review was deferred to 2012/13 and the days were used to undertake an advisory review of 'Housing Allocations for Persons with Housing Related Debt'.

### Governance

As part of this year's review we looked at the Governance Arrangements in relation to Committee and reporting structure; this resulted in three 'Low' risk recommendations being raised.

The implementation and management agreement to the recommendations that are raised during the course of the year are an important contributing factor when assessing the assurance opinion on Governance. Four Follow Up reviews were undertaken during the year. Overall we concluded that "Adequate" progress has been made to implement recommendations.

---

**Risk Management**

An advisory Risk Maturity review was undertaken; this resulted in no recommendations being made. Our objective was to identify the level of maturity, measured against the risk matrix, through an assessment against components relating to Governance, Risk Identification, Risk Assessment, Risk Mitigation, Assurance and Monitoring. The key findings show that the Council is achieving Risk Managed status.

**Control**

The Control Environment is a key aspect of Risk Management, and as can be seen from the number of recommendations raised there is some room for improvement in strengthening the Control Environment. However, it must also be noted that year on year there has been a marked improvement in the strengthening of the control framework, which is reflected by the higher assurance opinions being given to individual audit assignments.

In last year's Annual Report there were two 'No' assurance opinions (i.e. red) and three 'Some' assurance opinions (i.e. Amber – Red) being given, which resulted in an overall 'Amber' traffic light in the Annual Report for Control. However, we have awarded a 'Green' traffic in this report to mark the improvements that have been made and the increased assurance opinions given.

We are satisfied that sufficient support has been given by the Authority to Internal Audit, thus allowing the delivery of the plan and a formal opinion to be given.

**Acceptance of Recommendations**

A total of 63 recommendations have been raised during the year (excluding those recommendations raised as part of the Follow Up reviews), all of which were accepted by management.

**2.5 The Annual Governance Statement**

The overall opinion may be used by the Council in the preparation of the annual governance statement.

**2.6 Conflicts of Interest**

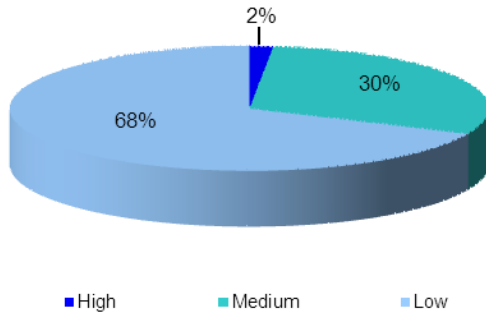
We have not undertaken any work or activity during 2011/12 that would lead us to declare any conflict of interests.

**2.7 Benchmarking Data**

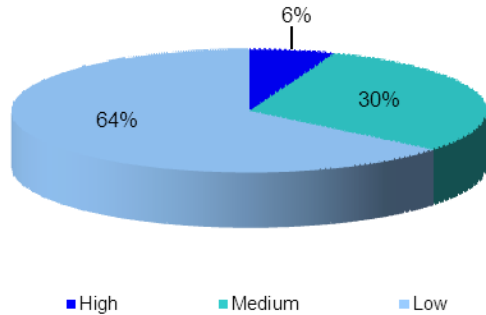
The tables below show the split of internal audit recommendations and opinions for South Kesteven District Council in 2011/12 and those made in 2010/11.

**Comparison of the Number of Recommendations Made**

**Recommendations 2011/12**

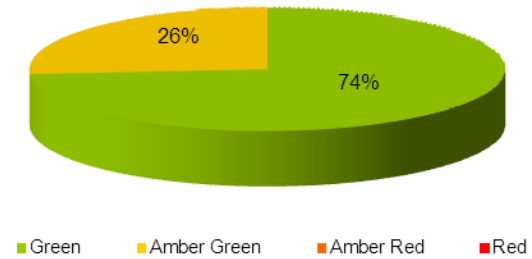


**Recommendations 2010/11**

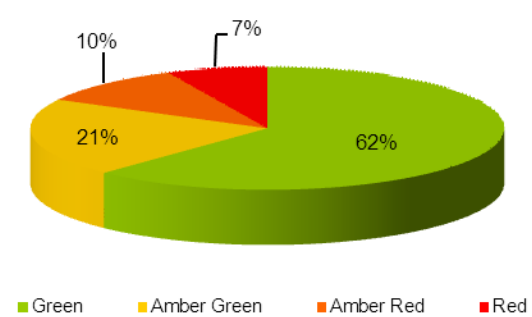


**Comparison of the Number of Assurance Opinions Made**

**Assurance Levels 2011/12**



**Assurance Levels 2010/11**



**APPENDIX A: INTERNAL AUDIT ASSURANCE MAP 2011/2012**

| <b>Risk Based Coverage</b>           |  |   |                  |
|--------------------------------------|--|---|------------------|
| <b>Area of Risk</b>                  | <b>Source</b>                            | <b>Headline Findings</b>  | <b>Assurance</b> |
| Corporate Governance                 | Corporate Risk Register                  | <p>We reviewed the Council's Governance arrangements, in particular the committee structure, Scheme of Delegation, Financial Regulations and the information available to Members to enable informed decision making.</p> <p>Three Low risk recommendations were raised in this area and these were accepted by management.</p>   |                  |
| Treasury Management                  | Identified by Management/ Internal Audit | <p>The Council's Treasury Management Strategy was reviewed. The purpose of this review was to clarify the Council's cash position, its investment portfolio, borrowings and the use of treasury management advisors.</p> <p>Overall processes and controls were found to be in place and operating well. No recommendations were made as part of this review.</p>                               |                  |
| Budgetary Control and Budget Setting | Identified by Management/ Internal Audit | <p>We reviewed the Council's budget setting and budgetary control procedures, in particular the compliance with budget setting, monitoring and reporting, staff training and the dissemination of policy and procedures.</p> <p>One Low risk recommendation was raised in this area and this was accepted by management.</p>  |                  |
| Cash and Banking                     | Identified by Management                 | <p>We reviewed the Council's cash and banking arrangements across the four customer service centres. The purpose of this review was to ensure monies were being accurately recorded upon receipt, monies were held securely and banking was completed in a timely manner.</p> <p>One Medium and one Low risk recommendation were raised in this area and these were accepted by management.</p> |                  |

| Risk Based Coverage |   |  |           |
|---------------------|---|--|-----------|
| Area of Risk        | Source  | Headline Findings  | Assurance |
| Payroll             | Identified by External Audit                          | <p>We reviewed the Council's payroll arrangements with an emphasis on amendments to standing data including starters, leavers and changes, deductions made, exception reporting, BACS payments and payroll reconciliations.</p> <p>Four Low risk recommendations were raised in this area and these were accepted by management.</p>   |           |
| Risk Management     | Corporate Risk Register/ Identified by Internal Audit | <p>We undertook a Risk Maturity review; in particular we considered not only what framework South Kesteven District Council had in place to identify, assess, record and monitor risks, but how that information was used within the Council. In doing this we have assessed against the following key components: Governance, Risk Identification, Risk Assessment, Risk Mitigation, Assurance and Monitoring and Reporting.</p> <p>Overall processes and controls were found to be in place and operating well. No recommendations were made as part of this review.</p> | Advisory  |
| Insurance           | Identified by Management                              | <p>We reviewed the Council's Insurance arrangements to cover its operations and assets, in particular we focussed on procedures for dealing with and reporting claims, submission of claims to the Insurance company, retention of documentary evidence relating to claims, use of central insurance mailbox and reporting of claims information to management and members.</p> <p>Three Medium and three Low risk recommendations were raised in this area and these were accepted by management.</p>   |           |

| Risk Based Coverage |                              |   |           |
|---------------------|------------------------------|---|-----------|
| Area of Risk        | Source                       | Headline Findings   | Assurance |
| Housing Benefit     | Identified by External Audit | <p>Housing Benefits is a key area which is reviewed on annual basis. A joint working arrangement is in place with the Audit Commission to ensure key control testing is undertaken to allow for the Audit Commission to place reliance on our work. The key areas of the review included: legislative changes, policies and procedures, sample testing of housing benefit claims and controls in place to ensure completion of statutory returns.</p> <p>Three Medium and three Low risk recommendations were raised in this area and these were accepted by management.</p>                                    |           |
| Council Tax         | Identified by External Audit | <p>Council Tax is a key area which is reviewed on annual basis. A joint working arrangement is in place with the Audit Commission to ensure key control testing is undertaken to allow for the Audit Commission to place reliance on our work. The key areas reviewed as part of this audit included: parameter files, billing and valuations, invoices raised and dispatched, VO listings, bank and direct collections and reconciliation of Council Tax to the Main Accounting System.</p> <p>One Medium and one Low risk recommendations were raised in this area and these were accepted by management.</p> |           |

| Risk Based Coverage        |                              |   |           |
|----------------------------|------------------------------|---|-----------|
| Area of Risk               | Source                       | Headline Findings   | Assurance |
| NNDR                       | Identified by External Audit | <p>NNDR is a key area which is reviewed on annual basis. A joint working arrangement is in place with the Audit Commission to ensure key control testing is undertaken to allow for the Audit Commission to place reliance on our work. The key areas reviewed as part of this audit included: reconciliation of rateable value to the valuation list, changes to properties, relief applications, daily cash balances reconciled to NNDR accounts and reconciliation of NNDR to the Main Accounting System.</p> <p>One High, one Medium and three Low recommendations were made in this area. All recommendations were accepted by management.</p> <p>The High recommendation made was:</p> <ul style="list-style-type: none"> <li>➤ A reconciliation should be performed to identify and resolve discrepancies between the Valuation Office schedule and the Academy system.</li> </ul> <p>On a weekly basis the Valuation Office schedule should continue to be reconciled to the Academy system with any discrepancies immediately corrected.</p> |           |
| Retention and Redeployment | Identified by Management     | <p>The purpose of this review was to confirm HR policies and procedures were in place in relation to monitoring of staff retention and workforce planning.</p> <p>One Low risk recommendation was raised in this area and this was accepted by management.</p>  |           |

| Risk Based Coverage                   |                          |   |           |
|---------------------------------------|--------------------------|---|-----------|
| Area of Risk                          | Source                   | Headline Findings   | Assurance |
| MOT Services                          | Identified by Management | <p>We reviewed the Council's arrangements in place to ensure compliance with VOSA regulations in ensuring staff are appropriately qualified/ trained in undertaking MOT's and MOT's are conducted in accordance with the regulations. Our review also included a review of Council policies and procedures, fees set and a reconciliation of MOT bookings to MOT certificates issued and income receipted.</p> <p>One Medium and one Low risk recommendations were raised in this area and these were accepted by management.</p> |           |
| Pollution Control – Contaminated Land | Identified by Management | <p>We undertook a review of Pollution control with a focus on Contaminated Land. The purpose of the review was to clarify how the Council complied with Investigation and enforcement legislation including monitoring and recording of incidents, dealing with enquiries/ complaints and the use of specialist staff.</p> <p>Two Medium and one Low risk recommendations were raised in this area and these were accepted by management.</p>   |           |
| Travel and Subsistence                | Identified by Management | <p>We undertook a review of Travel and Subsistence with a focus on the compliance with the Council's Travel and Subsistence policy. The purpose of this review was to ensure claim forms were completed and supported by receipts, claims were checked and appropriately authorised, correct mileage rates were used, reconciliations of payments made and the retention of claim forms and receipts.</p> <p>Two Medium and four Low risk recommendations were raised in this area and these were accepted by management.</p>     |           |

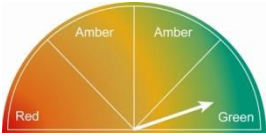
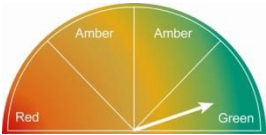
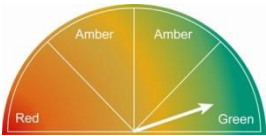
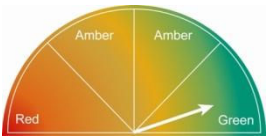
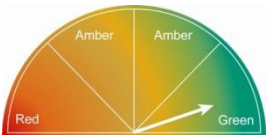
| Risk Based Coverage |                          |  |           |
|---------------------|--------------------------|--|-----------|
| Area of Risk        | Source                   | Headline Findings  | Assurance |
| Markets             | Identified by Management | <p>We undertook review of the Grantham, Stamford and Bourne Markets. The purpose of this review was to ensure that trading rules were communicated to market traders, rent charges were reviewed annually, income from market rent was collected and banked, traders were issued with market licence conditions and health and safety regulations were complied with.</p> <p>One Medium and one Low risk recommendations were raised in this area and these were accepted by management.</p>       |           |
| Development Control | Identified by Management | <p>We undertook a review of Development Control, in a particular we focussed on sample testing of planning case files to ensure compliance with policies and procedures when dealing with caseloads including assessment of applications, inspections, maintaining records, approving applications and ensuring applications were processed within statutory time period.</p> <p>Two Medium and seven Low risk recommendations were raised in this area and these were accepted by management.</p> |           |
| Building Control    | Identified by Management | <p>We undertook a review of Building Control, in a particular we focussed on sample testing of case files to ensure compliance with policies and procedures when dealing with caseloads including assessment of applications, inspections, maintaining records, approving applications and ensuring applications were processed within statutory time period.</p> <p>One Medium and three Low risk recommendations were raised in this area and these were accepted by management.</p>             |           |

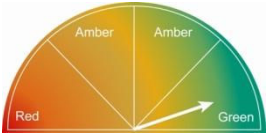
| Risk Based Coverage        |                          |  |           |
|----------------------------|--------------------------|--|-----------|
| Area of Risk               | Source                   | Headline Findings  | Assurance |
| Partnerships               | Identified by Management | <p>We reviewed the Council's arrangements as set out in the Council's Partnerships Policy, in particular our review focussed on the arrangements and controls in place for four partnerships namely: Community Safety Partnership, Local Strategic Partnership, Grantham Growth Partnership and the Bourne Town Centre Management Partnership.</p> <p>One Low risk recommendations was raised in this area and this was accepted by management.</p>  |           |
| Disabled Facilities Grants | Identified by Management | <p>We undertook a review of Disabled Facilities Grants to provide assurance that grants are awarded in accordance with legislation and only to bona fide eligible applicants in an effective and efficient manner. A sample of grant applications were reviewed to confirm these had fulfilled the eligibility criteria, had been appropriately authorised, grant works had been inspected and payments were approved in line with financial regulations.</p> <p>Three Low risk recommendations were raised in this area and these were accepted by management.</p>  |           |
| Better Warmer Homes        | Identified by Management | <p>We undertook a review of Grants for Better Warmer Homes to provide assurance that grants are awarded in accordance with the eligibility criteria relating to Decent Homes standard and only to bona fide eligible applicants. A sample of grant applications were reviewed to confirm these had fulfilled the eligibility criteria, surveys had been completed by applicants, applications had been appropriately authorised, quotes had been obtained for works, grant works had been inspected and payments were approved in line with financial regulations and made direct to contractors.</p> <p>One Medium and two Low risk recommendations were raised in this area and these were accepted by management.</p> |           |

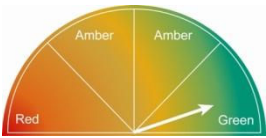
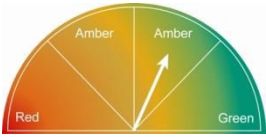
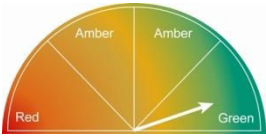
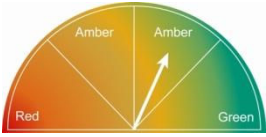
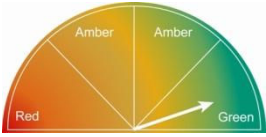
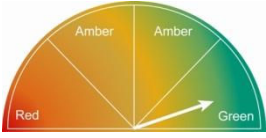
| <b>Other Coverage</b> |                               |   |                   |
|-----------------------|-------------------------------|---|-------------------|
| <b>Area</b>           | <b>Rationale for Coverage</b> | <b>Headline Findings</b>  | <b>Assurance</b>  |
| Markets Follow Up     | Identified by Management      | <p>To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of internal audit recommendations.</p> <p>We reviewed the Council's progress to implement previous internal audit recommendations made in the Markets report in 2010/11. The eight recommendations considered in this review comprised of four 'medium' and four 'low' recommendations.</p> <p>Three low risk recommendations were reiterated, where these had not been fully implemented.</p>                 | ADEQUATE PROGRESS |
| Follow Up 1           | Ongoing Assurance             | <p>To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of internal audit recommendations.</p> <p>We reviewed the Council's progress to implement previous internal audit recommendations made in ten reports. The 22 recommendations considered in this report comprised of one 'fundamental', eight 'significant', one 'high' and 12 'medium'.</p> <p>One high and five medium risk recommendations were reiterated, where these had not been fully implemented.</p> | ADEQUATE PROGRESS |
| Follow Up 2           | Ongoing Assurance             | <p>To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of internal audit recommendations.</p> <p>We reviewed the Council's progress to implement previous internal audit recommendations made in eight reports. The 23 recommendations considered in this report comprised of two 'high', 15 'medium' and six 'significant'.</p> <p>Three medium risk recommendations were reiterated, where these had not been fully implemented.</p>                                | GOOD PROGRESS     |

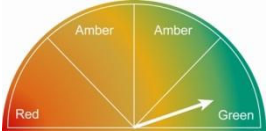
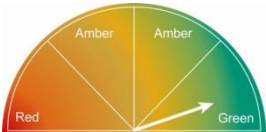
| <b>Other Coverage</b> |                               |  |                   |
|-----------------------|-------------------------------|--|-------------------|
| <b>Area</b>           | <b>Rationale for Coverage</b> | <b>Headline Findings</b>   | <b>Assurance</b>  |
| Follow Up 3           | Ongoing Assurance             | <p>To meet the IIA Standards and to provide management with ongoing assurance regarding implementation of internal audit recommendations.</p> <p>We reviewed the Council's progress to implement previous internal audit recommendations made in eight reports. The 20 recommendations considered in this report comprised of three 'high', 16 'medium' and one 'significant'.</p> <p>Two high and four medium risk recommendations were reiterated, where these had not been fully implemented.</p> | ADEQUATE PROGRESS |

**APPENDIX B: INTERNAL AUDIT OPINIONS AND RECOMMENDATIONS 2011/2012**

| Auditable Area                       | Assurance Level Given  | Number of Recommendations made |        |     |          |        |
|--------------------------------------|--|--------------------------------|--------|-----|----------|--------|
|                                      |  | High                           | Medium | Low | In Total | Agreed |
| Corporate Governance                 |    | 0                              | 0      | 3   | 3        | 3      |
| Treasury Management                  |    | 0                              | 0      | 0   | 0        | 0      |
| Budgetary Control and Budget Setting |    | 0                              | 0      | 1   | 1        | 1      |
| Cash and Banking                     |   | 0                              | 1      | 1   | 2        | 2      |
| Payroll                              |  | 0                              | 0      | 4   | 4        | 4      |
| Risk Management                      | ADVISORY   | 0                              | 0      | 0   | 0        | 0      |

| Auditable Area             | Assurance Level Given  | Number of Recommendations made |        |     |          |        |
|----------------------------|--|--------------------------------|--------|-----|----------|--------|
|                            |  | High                           | Medium | Low | In Total | Agreed |
| Insurance                  |    | 0                              | 3      | 3   | 6        | 6      |
| Housing Benefit            |    | 0                              | 3      | 3   | 6        | 6      |
| Council Tax                |    | 0                              | 1      | 1   | 2        | 2      |
| NNDR                       |    | 1                              | 1      | 3   | 5        | 5      |
| Retention and Redeployment |  | 0                              | 0      | 1   | 1        | 1      |
| MOT Services               |  | 0                              | 1      | 1   | 2        | 2      |

| Auditable Area                        | Assurance Level Given  | Number of Recommendations made |        |     |          |        |
|---------------------------------------|--|--------------------------------|--------|-----|----------|--------|
|                                       |  | High                           | Medium | Low | In Total | Agreed |
| Pollution Control – Contaminated Land |    | 0                              | 2      | 1   | 3        | 3      |
| Travel and Subsistence                |    | 0                              | 2      | 4   | 6        | 6      |
| Markets                               |    | 0                              | 1      | 1   | 2        | 2      |
| Development Control                   |    | 0                              | 2      | 7   | 9        | 9      |
| Building Control                      |  | 0                              | 1      | 3   | 4        | 4      |
| Partnerships                          |  | 0                              | 0      | 1   | 1        | 1      |

| Auditable Area             | Assurance Level Given  | Number of Recommendations made |        |     |          |        |
|----------------------------|--|--------------------------------|--------|-----|----------|--------|
|                            |  | High                           | Medium | Low | In Total | Agreed |
| Disabled Facilities Grants |  | 0                              | 0      | 3   | 3        | 3      |
| Better Warmer Homes        |  | 0                              | 1      | 2   | 3        | 3      |
| Markets Follow Up          | ADEQUATE PROGRESS  | 0                              | 0      | 3   | 3        | 3      |
| Follow Up 1                | ADEQUATE OROGRESS  | 1                              | 5      | 0   | 6        | 6      |
| Follow Up 2                | GOOD PROGRESS  | 0                              | 3      | 0   | 3        | 3      |
| Follow Up 3                | ADEQUATE PROGRESS  | 2                              | 4      | 0   | 6        | 6      |

**RSM** Tenon

SOUTH KESTEVEN DISTRICT COUNCIL

Internal Audit Progress Report (2012/13)

Governance and Audit Committee Meeting – 29<sup>th</sup> June 2012

---

**RSM** Tenon

Agenda Item 8

## CONTENTS

| SECTION    | Page  |   |
|------------|---|---|
| 1          | Introduction                                | 1 |
| 2          | Final reports issued                        | 1 |
| 3          | Work in Progress or Planned                 | 1 |
| 4          | Key Findings From Internal Audit Work       | 1 |
| 5          | Liaison with Management                     | 1 |
| 6          | Changes to our Plan                         | 1 |
| Appendix A | Operational Plan Performance 2012/13        | 2 |
| Appendix B | Reports Finalised – Summary of Key Findings | 6 |

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Council and senior management of South Kesteven District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

© 2010 RSM Tenon Limited

RSM Tenon Limited is a member of RSM Tenon Group

RSM Tenon Limited is an independent member firm of RSM International an affiliation of independent accounting and consulting firms. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity.

RSM Tenon Limited (No 4066924) is registered in England and Wales. Registered Office 66 Chiltern Street, London W1U 4GB. England

## 1. INTRODUCTION

- 1.1 The periodic internal audit plan for 2012/13 was approved by the Governance and Audit Committee on the 15<sup>th</sup> March 2012. This report summarises the outcome of work completed to date against that plan, and Appendix A provides cumulative data in support of internal audit performance.

## 2. FINAL REPORTS ISSUED

- 2.1 We have finalised two reports relating to the 2012/13 audit plan; these are in the areas of:

- **Contract Management – Ground & Tree Maintenance; and**
- **Follow Up (1).**

- 2.2 The Follow Up (1) report is being presented to Members as a separate agenda item.

## 3. WORK IN PROGRESS OR PLANNED

- 3.1 There is currently one report out in draft and awaiting management response, which relates to the Elections review. There are a further 24 reviews planned to take place before the financial year end of 31<sup>st</sup> March 2013. Details are shown in Appendix A.

## 4. FINDINGS FROM INTERNAL AUDIT WORK

- 4.1 We have raised 13 recommendations across the two reviews that are being presented to this committee; two recommendations have been classified as 'High' Risk; five recommendations have been classified as 'Medium' risk and the remaining six recommendations have been classified as 'Low' risk. Details of the key findings are shown in Appendix B.

## 5. LIAISON WITH MANAGEMENT

- 5.1 Meetings are held with the Head of Finance, Finance Support Manager (Finance & Risk) and the Governance & Risk Officer on a regular basis, as well as other senior management to discuss the progress of the internal audit work.

## 6. CHANGES TO OUR PLAN

- 6.1 There have currently been no changes to the Internal Audit Plan.

## APPENDIX A: OPERATIONAL PLAN PERFORMANCE 2012/13 – CURRENT REPORTS

Detailed below is a summary of the work undertaken in 2012/13 to date, showing the levels of assurance given and the number of recommendations arising. Reports being considered at this Committee are shown in ***bold and italics***. Definitions with regard to the levels of assurance and the classification of recommendations are provided overleaf.

| Auditable Area  | Start Date             | Debrief date           | Draft report issued    | Responses received     | Final report issued    | Governance & Audit Committee | Audit approach           | Audit Days              | Assurance level given       | Number of Recommendations Made |                 |                 |                  |                  |                  |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------------|--------------------------|-------------------------|-----------------------------|--------------------------------|-----------------|-----------------|------------------|------------------|------------------|
|   |                        |                        |                        |                        |                        |                              |                          |                         |                             | High                           | Medium          | Low             | In Total         | Agreed           |                  |
| <b>Current Reports</b>  |                        |                        |                        |                        |                        |                              |                          |                         |                             |                                |                 |                 |                  |                  |                  |
| <b><i>Contract Management – Ground &amp; Tree Maintenance</i></b> | <b><i>30/04/12</i></b> | <b><i>11/05/12</i></b> | <b><i>21/05/12</i></b> | <b><i>12/06/12</i></b> | <b><i>13/06/12</i></b> | <b><i>June 2012</i></b>      | <b><i>Risk Based</i></b> | <b><i>7</i></b>         | <b><i>RED</i></b>           | <b><i>2</i></b>                | <b><i>2</i></b> | <b><i>6</i></b> | <b><i>10</i></b> | <b><i>10</i></b> |                  |
| <b><i>Follow Up (1)</i></b>                                       | <b><i>08/05/12</i></b> | <b><i>N/A</i></b>      | <b><i>15/05/12</i></b> | <b><i>30/05/12</i></b> | <b><i>30/05/12</i></b> | <b><i>June 2012</i></b>      | <b><i>Follow Up</i></b>  | <b><i>4</i></b>         | <b><i>GOOD PROGRESS</i></b> | <b><i>0</i></b>                | <b><i>3</i></b> | <b><i>0</i></b> | <b><i>3</i></b>  | <b><i>3</i></b>  |                  |
| <b><i>Management</i></b>  | <b><i>-</i></b>        | <b><i>-</i></b>        | <b><i>-</i></b>        | <b><i>-</i></b>        | <b><i>-</i></b>        | <b><i>-</i></b>              | <b><i>-</i></b>          | <b><i>4</i></b>         | <b><i>-</i></b>             | <b><i>-</i></b>                | <b><i>-</i></b> | <b><i>-</i></b> | <b><i>-</i></b>  | <b><i>-</i></b>  |                  |
|   |                        |                        |                        |                        |                        |                              |                          | <b><i>Sub total</i></b> | <b><i>15</i></b>            |                                | <b><i>2</i></b> | <b><i>5</i></b> | <b><i>6</i></b>  | <b><i>13</i></b> | <b><i>13</i></b> |

| Auditable Area   | Start Date | Debrief date | Draft report issued | Responses received | Final report issued | Governance & Audit Committee | Audit approach | Audit Days | Assurance level given | Number of Recommendations Made |        |     |          |        |
|--|------------|--------------|---------------------|--------------------|---------------------|------------------------------|----------------|------------|-----------------------|--------------------------------|--------|-----|----------|--------|
|  |            |              |                     |                    |                     |                              |                |            |                       | High                           | Medium | Low | In Total | Agreed |
| <i>Work in progress or yet to start (including reports still in draft)</i> |            |              |                     |                    |                     |                              |                |            |                       |                                |        |     |          |        |
| Elections  | 28/05/12   | 31/05/12     | 11/06/12            |                    |                     |                              |                | (6)        |                       |                                |        |     |          |        |
| Leases   | 11/06/12   |              |                     |                    |                     |                              |                | (6)        |                       |                                |        |     |          |        |
| Licensing  | 11/06/12   |              |                     |                    |                     |                              |                | (6)        |                       |                                |        |     |          |        |
| Asset Management Plan  | 16/07/12   |              |                     |                    |                     |                              |                | (6)        |                       |                                |        |     |          |        |
| Corporate Governance   | 23/07/12   |              |                     |                    |                     |                              |                | (6)        |                       |                                |        |     |          |        |
| Creditors & Procurement  | 30/07/12   |              |                     |                    |                     |                              |                | (7)        |                       |                                |        |     |          |        |
| Debtors  | 13/08/12   |              |                     |                    |                     |                              |                | (6)        |                       |                                |        |     |          |        |
| Rent Collection & Arrears  | 13/08/12   |              |                     |                    |                     |                              |                | (7)        |                       |                                |        |     |          |        |
| Follow Up (2)  | 14/08/12   |              |                     |                    |                     |                              |                | (4)        |                       |                                |        |     |          |        |
| Housing Benefits   | 03/09/12   |              |                     |                    |                     |                              |                | (7)        |                       |                                |        |     |          |        |
| Council Tax  | 03/09/12   |              |                     |                    |                     |                              |                | (5)        |                       |                                |        |     |          |        |
| NNDR   | 03/09/12   |              |                     |                    |                     |                              |                | (5)        |                       |                                |        |     |          |        |
| Insurance  | 17/09/12   |              |                     |                    |                     |                              |                | (6)        |                       |                                |        |     |          |        |
| Cash & Banking   | 08/10/12   |              |                     |                    |                     |                              |                | (6)        |                       |                                |        |     |          |        |
| General Ledger/ Main Accounting System                                     | 22/10/12   |              |                     |                    |                     |                              |                | (7)        |                       |                                |        |     |          |        |

| Auditable Area                        | Start Date | Debrief date | Draft report issued | Responses received | Final report issued | Governance & Audit Committee | Audit approach | Audit Days       | Assurance level given | Number of Recommendations Made |        |     |          |        |
|---------------------------------------|------------|--------------|---------------------|--------------------|---------------------|------------------------------|----------------|------------------|-----------------------|--------------------------------|--------|-----|----------|--------|
|                                       |            |              |                     |                    |                     |                              |                |                  |                       | High                           | Medium | Low | In Total | Agreed |
| Payroll & Expenses                    | 05/11/12   |              |                     |                    |                     |                              |                | (6)              |                       |                                |        |     |          |        |
| Land Charges                          | 05/11/12   |              |                     |                    |                     |                              |                | (4)              |                       |                                |        |     |          |        |
| Programme Management                  | 26/11/12   |              |                     |                    |                     |                              |                | (7)              |                       |                                |        |     |          |        |
| Refuse Collection & Bulky Waste       | 26/11/12   |              |                     |                    |                     |                              |                | (7)              |                       |                                |        |     |          |        |
| Green Waste                           | 03/12/12   |              |                     |                    |                     |                              |                | (5)              |                       |                                |        |     |          |        |
| Follow Up (3)                         | 12/12/12   |              |                     |                    |                     |                              |                | (4)              |                       |                                |        |     |          |        |
| Risk Management                       | 07/01/13   |              |                     |                    |                     |                              |                | (4)              |                       |                                |        |     |          |        |
| Flexible Working Arrangements         | 04/02/13   |              |                     |                    |                     |                              |                | (6)              |                       |                                |        |     |          |        |
| Anti-Fraud & Corruption – Bribery Act | TBC        |              |                     |                    |                     |                              |                | (7)              |                       |                                |        |     |          |        |
| Data Security                         | TBC        |              |                     |                    |                     |                              |                | (7)              |                       |                                |        |     |          |        |
| Contingency                           | -          | -            | -                   | -                  | -                   | -                            | -              | (17)             | -                     | -                              | -      | -   | -        | -      |
| Management                            | -          | -            | -                   | -                  | -                   | -                            | -              | (11)             | -                     | -                              | -      | -   | -        | -      |
|                                       |            |              |                     |                    |                     |                              |                | <b>Sub total</b> | <b>(175)</b>          |                                |        |     |          |        |
|                                       |            |              |                     |                    |                     |                              |                | <b>Total</b>     | <b>190</b>            |                                |        |     |          |        |

**Recommendation Categorisation**

Our findings and recommendations are categorised as follows:

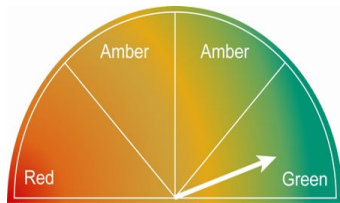
**High (H):** *action is imperative to ensure that the objectives for the area under review are met.*

**Medium (M):** *requires action to avoid exposure to significant risks in achieving the objectives for the area under review.*

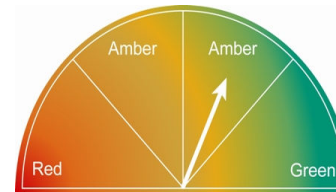
**Low (L):** *action advised to enhance control or improve operational efficiency.*

**ASSURANCE OPINIONS**

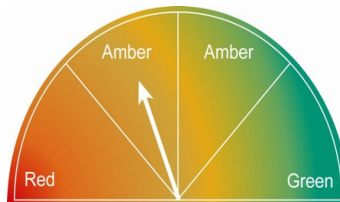
Our opinion will be graphically represented as a speedometer (see below). We have provided guidelines for each segment of the speedometer to provide the Governance & Audit Committee (or equivalent) with some context behind each of the ratings.



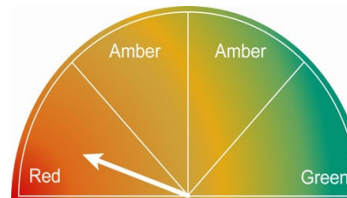
Taking account of the issues identified, the Authority can take substantial assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective.



Taking account of the issues identified, the Authority can take reasonable assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective. However we have identified issues that, if not addressed, increase the likelihood of the risk materialising.



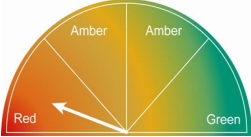
Taking account of the issues identified, whilst the Authority can take some assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied and effective, action needs to be taken to ensure this risk is managed.



Taking account of the issues identified, the Authority cannot take assurance that the controls upon which the organisation relies to manage this risk are suitably designed, consistently applied or effective. Action needs to be taken to ensure this risk is managed.

The Amber assurance level is split into two so that we are able to give you a clear indication of whether we consider the assurance to be “above or below the line”. We hope this will help draw attention to those reports where we are highlighting that although not a negative opinion, the Authority does need to take action to ensure the risk is managed. Similarly the above the line amber opinion reflects that although a positive opinion, there is still room for improvement. During the year our progress reports to Governance & Audit Committee will reflect the opinions given and build up a picture of our findings so that there will be no surprises in our year end annual opinion.

## APPENDIX B: REPORTS FINALISED – SUMMARY OF KEY FINDINGS

| Summary of Audit Findings   | Assurance Level   | No. of Recs. Made and (Accepted) | No. of Recs. Categorised As High Risk | Final Date for Impl. of All Recs | Responsible Officer (s)                                  |
|---|---|----------------------------------|---------------------------------------|----------------------------------|--|
| <p><b><u>Contract Management – Ground &amp; Tree Maintenance – (02.11/12):</u></b></p> <p>An audit of Contract Management – Ground &amp; Tree Maintenance was undertaken as part of the approved internal audit plan and resulted in two ‘High’, two ‘Medium’ and six ‘Low’ risk recommendations being raised; all were accepted by management.</p> <p>The High recommendations were in relation to:</p> <ul style="list-style-type: none"> <li>➤ When a service is retendered, the Council should ensure that resulting contract(s) is/are signed by all parties involved.</li> <li>➤ A program of scheduled inspections of work undertaken by the Contractor should be in place and followed, to ensure that there is an audit trail to evidence the monitoring that the work is being carried to an acceptable standard throughout the District.</li> </ul> <p>The Medium recommendations were in relation to:</p> <ul style="list-style-type: none"> <li>➤ The Order Requests from Tenancy Services for Grounds Maintenance work required in excess of that covered by the contract should be formally signed by the requesting Officer and subject to approval at an appropriate level.</li> </ul> <p>The process for raising and payment of orders for work on graves should be reviewed to ensure that a control is put in place to ensure that Order Requests are checked with Dignity before being entered on the Cedar system.</p> <ul style="list-style-type: none"> <li>➤ While it may not be possible to change procedures for the remainder of the current contract, procedures should be changed so that the Contractor has to undertake the invoice preparation on a monthly basis and Grounds Maintenance staff should be responsible for checking the value each month as part of the payment authorisation process.</li> </ul> |  | 10 (10)                          | 2                                     | July 2013 (relates to a Low rec) | Property Development Manager<br>Team Leader (Operations) |

**RSM** Tenon

A decorative graphic consisting of two parallel blue lines that curve upwards from the left side of the page towards the right side.

South Kesteven District Council

Follow Up of Previous Internal Audit Recommendations

Internal Audit Report (01.12/13)  
May 2012

**FINAL**

## CONTENTS

| Section                                   | Page |
|---|------|
| Executive Summary                         | 1    |
| Action Plan                               | 4    |
| Findings and Recommendations              | 6    |
| Appendix A: Definitions for Progress Made | 15   |
| Appendix B: Data to Support our Opinion   | 156  |
| Appendix C: Review of Completeness        | 18   |

|                      |             |                 |   |
|----------------------|-------------|-----------------|---|
| Debrief meeting:     | N/A         | Auditors:       | Chris Williams, Director                    |
| Draft report issued: | 15 May 2012 |                 | Robert Barnett, Senior Manager              |
| Responses received:  | 30 May 2012 |                 | Amjad Ali, Client Manager                   |
|                      |             |                 | Alan Hetherington, Lead Internal Auditor    |
| Final report issued: | 30 May 2012 | Client sponsor: | Richard Wyles, Head of Finance              |
|                      |             | Distribution:   | Richard Wyles, Head of Finance              |
|                      |             |                 | David Scott, Finance Support Manager        |
|                      |             |                 | Tracey Elliott, Governance and Risk Officer |



This review has been performed using RSM Tenon's bespoke internal audit methodology, **i-RIS**.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, based on the information provided and documentation reviewed, no complete guarantee or warranty can be given with regard to the advice and information contained herein. Our work does not provide absolute assurance that material errors, loss or fraud do not exist.

This report is prepared solely for the use of Members and senior management of South Kesteven District Council. Details may be made available to specified external agencies, including external auditors, but otherwise the report should not be quoted or referred to in whole or in part without prior consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended for any other purpose.

© 2011 RSM Tenon Limited

RSM Tenon Limited is a member of RSM Tenon Group

RSM Tenon Limited is an independent member firm of RSM International an affiliation of independent accounting and consulting firms. RSM International is the name given to a network of independent accounting and consulting firms each of which practices in its own right. RSM International does not exist in any jurisdiction as a separate legal entity.

RSM Tenon Limited (No 4066924) is registered in England and Wales.  
Registered Office 66 Chiltern Street, London W1U 4GB. England

# 1 EXECUTIVE SUMMARY

## 1.1 INTRODUCTION

As part of the approved internal audit periodic plan for 2012/13 we have undertaken a review to follow up progress made by South Kesteven District Council to implement previous internal audit recommendations. Recommendations with dates for implementation not yet due will be followed up later in the year.

At management's request, we have followed up those recommendations classified as High and Medium. Recommendations categorised as Low are to be followed up separately by Council staff. It was also agreed that recommendations made in 'Advisory' reviews would not be followed up.

The following audits were considered as part of the follow up review:

- 09.11/12 Follow Up of Previous Internal Audit Recommendations
- 10.11/12 Officer Travel and Subsistence
- 11.11/12 NNDR
- 13.11/12 Markets
- 15.11/12 Follow Up of Previous Internal Audit Recommendations
- 16.11/12 Council Tax
- 19.11/12 Building Control
- 21.11/12 Cash & Banking

The following reviews had no recommendations meeting the criteria for follow up:

- 12.11/12 Partnerships
- 17.11/12 Treasury Management
- 18.11/12 Disabled Facilities Grants
- 20.11/12 Payroll

The following Advisory reviews were excluded from follow up:

- 14.11/12 Health & Safety
- 22.11/12 Change Management

The 17 recommendations considered in this review comprised two 'high', and 15 'medium' recommendations.

Staff members responsible for the implementation of recommendations were interviewed to determine the status of agreed actions. Where appropriate, audit testing has been completed to assess the level of compliance with this status and the controls in place.

## 1.2 CONCLUSION

Taking account of the issues identified in the remainder of the report and in line with our definitions set out in Appendix A, in our opinion South Kesteven District Council has demonstrated good progress in implementing actions agreed to address internal audit recommendations.

We have reiterated recommendations where these have not yet been implemented. In addition, we have made new recommendations where appropriate; these are detailed in the action plan.

## 1.3 LIMITATIONS TO THE SCOPE OF THE AUDIT

This review only covered audit recommendations previously made and did not review the whole control framework of the areas listed above. Therefore, we are not providing assurance on the entire risk and control framework of those areas.

The follow up has covered only those recommendations rated high or medium.

Where testing has been undertaken, our samples have been selected over the period since actions were implemented or controls enhanced.

Our work does not provide any guarantee or absolute assurance against material errors, loss or fraud.

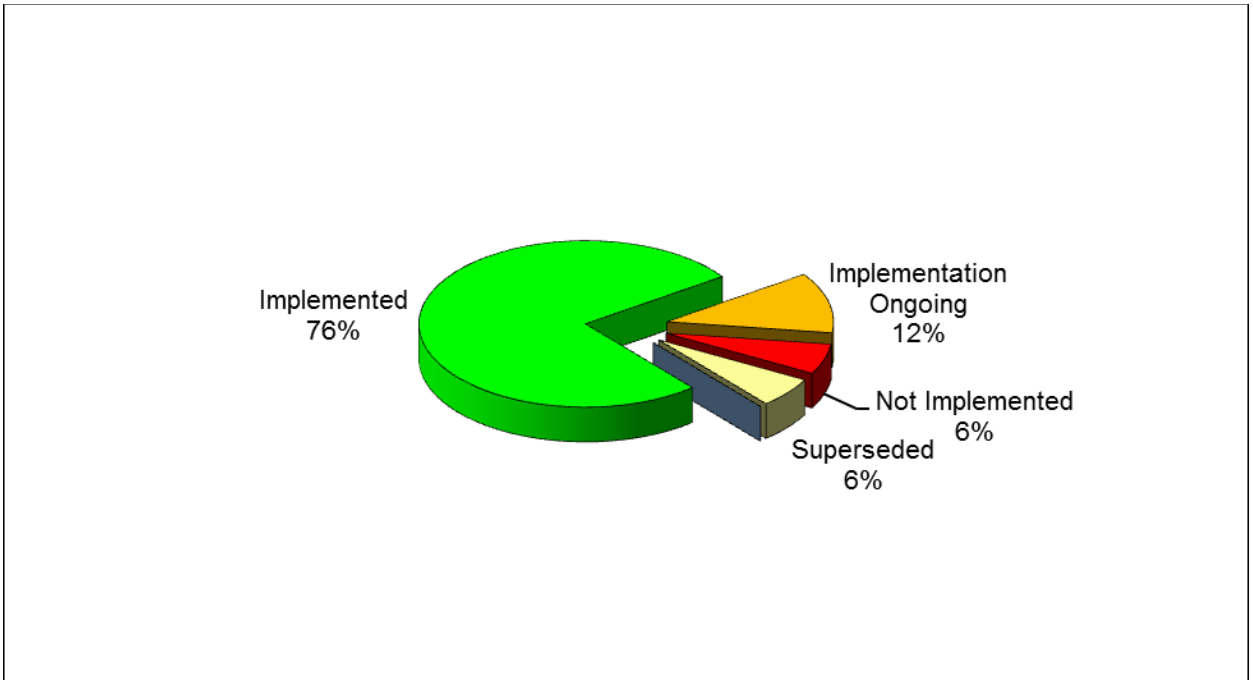
## 1.4 RECOMMENDATIONS TRACKING

Recommendation tracking enhances an organisation's risk management and governance processes. It provides management with a method to record the implementation status of recommendations made by assurance providers, whilst allowing the Audit Committee to monitor actions taken by management.

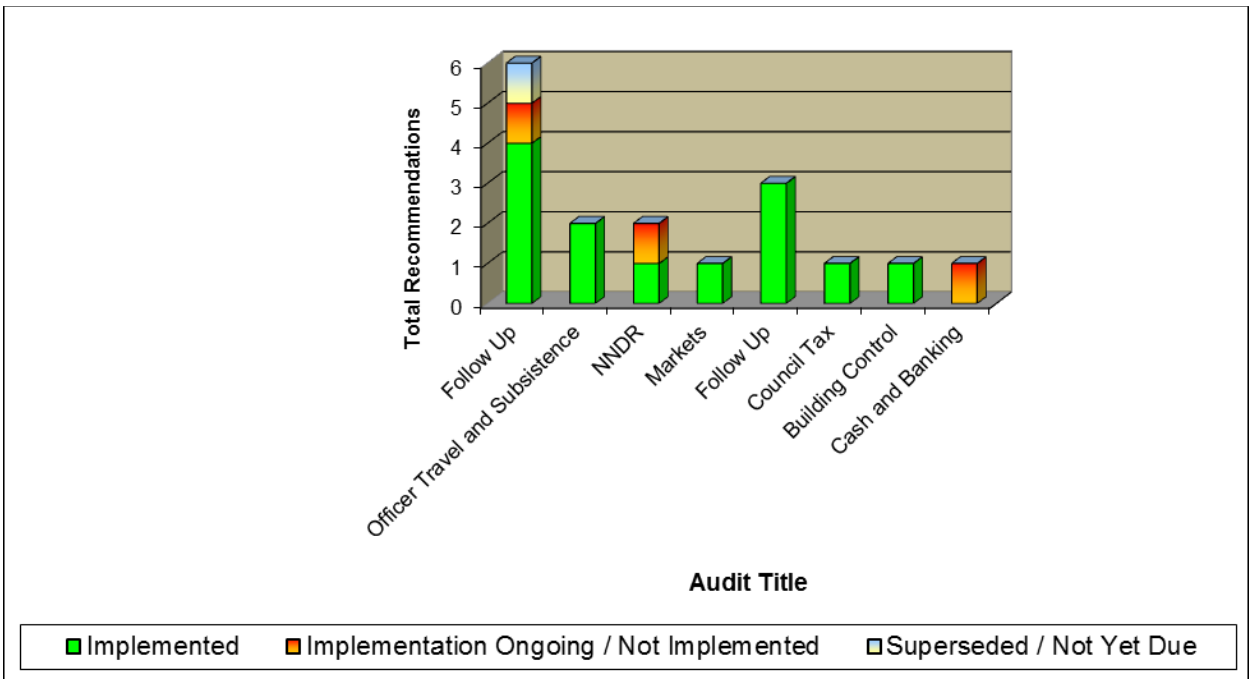
Recommendation tracking is undertaken by South Kesteven District Council's management on a regular basis, with an update provided to the Audit Committee at each meeting. As part of our Follow Up review, we have verified this information and completed audit testing to confirm the level of implementation stated and compliance with controls.

**1.5 ADDITIONAL FEEDBACK**

The pie chart below provides an overview of the status of recommendations that have been followed up as part of this review.



The bar chart below provides an overview of the status of recommendations that have been followed up as part of this review, grouped according to audit area:



## 2 ACTION PLAN

The priority of the recommendations made is as follows:

| Priority:    | High  | Medium | Low | Suggestion   |
|--------------|---|--------|-----|--|
| Description: | Recommendations are prioritised to reflect our assessment of risk associated with the control weaknesses. |        |     | These are not formal recommendations that impact our overall opinion, but used to highlight a suggestion or idea that management may want to consider. |

| Ref   | Recommendation  | Categorisation | Accepted Y/N | Management Comment  | Implementation Date | Manager Responsible          |
|-------|---|----------------|--------------|---|---------------------|------------------------------|
| 3.1   | <b>09.11/12 Follow Up of Previous Internal Audit Recommendations</b>  |                |              |   |                     |                              |
| 3.1.3 | <p><b>26.09/10 Follow Up</b></p> <p><b>04.08/09 Pool Cars</b></p> <p>We recommend that formally documented policies regarding the use of pool cars, hire cars and personal cars are established and effectively communicated to employees.</p> <p>Policies should cover approved use of vehicles; booking procedures; drivers licence checks, disciplinary procedures for contravention of the rules and the duty of care owed by to and from employees. They should also address the issue of using personal cars and hire cars. Guidelines for use of vehicles and the responsibilities of users should form an integral part of the policy.</p> <p>Policies should be reviewed on an annual basis to take into accountancy changing circumstances.</p> | Medium         | Y            | <p>The previous management response captured that there has been no incident of unauthorised use of pool cars to our knowledge and stated, "The establishment of clear policies on the use of pool cars will ensure clarity in what the Authority believes is acceptable use of its vehicles".</p> <p>There appears to have been a lack of corporate ownership in developing and implementing a policy document as envisaged by the previous response to date.</p> <p>There is a review of pool cars currently underway which is defined in the Service Plan for Property Development to be completed in the current year. Pool cars are also a sub project of our Agile Working project and recommendations over the fleet and its usage will be forthcoming from this piece of work within the current year.</p> <p>In the mean time it is the responsibility of each Service Manager to ensure that staff are required to undertake any business travel, whether by pool car or their own car and hold a full and clean driving licence. This is not just an initial check; Service Managers are required to ensure that this information is checked periodically and is up to date. This requirement is monitored by the council's Health and Safety Officer" and therefore the residual risk of not having a Policy in place is in my opinion low.</p> | January 2013        | Property Development Manager |

| Ref        | Recommendation  | Categorisation | Accepted Y/N | Management Comment  | Implementation Date | Manager Responsible                 |
|------------|---|----------------|--------------|---|---------------------|-------------------------------------|
| <b>3.3</b> | <b>11.11/12 NNDR</b>  |                |              |   |                     |                                     |
| 3.3.2      | The Council should inspect all void properties every four months.<br>Staff should use the system notes section to record inspection visits to ensure an adequate audit trail is maintained.   | Medium         | Y            | It has been acknowledged that this area of work has been under resourced during 2011/12 due to staff issues. This has meant that this target has not been achieved all of the time. This will be resolved shortly as additional resources are to be allocated to the role in order to strengthen the NDR visiting capacity within the Revenues service. | 30 June 2012        | Revenues & Benefits Service Manager |
| <b>3.8</b> | <b>21.11/12 Cash &amp; Banking</b>  |                |              |   |                     |                                     |
| 3.8.1      | The list of users with access to the online banking system should be reviewed on a regular basis to ensure that it remains up-to-date.<br>Former employees and staff who no longer require access to the system should be promptly removed from the system or have their access disabled. | Medium         | Y            | An approved list has been created, with a review date. This is printed next to the computer used for this purpose. Staff that have left or not using the system have been removed.  | 31 May 2012         | ICT Service Manager                 |

### 3 FINDINGS AND RECOMMENDATIONS

Each recommendation followed up has been categorised in line with the following:

| Status | Detail  |
|--------|---|
| 1      | The entire recommendation has been fully implemented.                         |
| 2      | The recommendation has been partly though not yet fully implemented.          |
| 3      | The recommendation has not been implemented.                                  |
| 4      | The recommendation has been superseded and is no longer applicable.           |
| 5      | The agreed date for implementing the recommendation has not yet been reached. |

| 3.1   | 09.11/12 FOLLOW UP OF PREVIOUS INTERNAL AUDIT RECOMMENDATIONS   |                   |                      |                                     | FINDINGS |   |
|-------|---|-------------------|----------------------|-------------------------------------|----------|---|
|       | Original Recommendation   | Original Category | Original Impl'n Date | Manager Responsible                 | Status   | Comments / Implications / Recommendations   |
| 3.1.1 | <p><b>18.09/10 HRA - Financial Management Arrangements Follow-up</b></p> <p><b>13.08/09 Financial Management Arrangements - Housing Revenue Account</b></p> <p>Management should ensure that appropriate resources are applied to the raising of invoices for rechargeable works, allowing the current backlog to be cleared and in future, all invoices are raised promptly.</p> | Medium            | August 2011          | Revenues & Benefits Service Manager | 1        | There is now an extra officer in the invoice processing team, and the backlog of invoices has been cleared. |

| 3.1   | 09.11/12 FOLLOW UP OF PREVIOUS INTERNAL AUDIT RECOMMENDATIONS   |                   |                      |                                       | FINDINGS |  |
|-------|---|-------------------|----------------------|---------------------------------------|----------|--|
|       | Original Recommendation   | Original Category | Original Impl'n Date | Manager Responsible                   | Status   | Comments / Implications / Recommendations  |
| 3.1.2 | <p><b>18.09/10 HRA - Financial Management Arrangements Follow-up</b></p> <p><b>13.08/09 Financial Management Arrangements - Housing Revenue Account</b></p> <p>Before full implementation of the new advance payment system for rechargeable repairs; management must ensure that all key processes have been thoroughly tested and that all staff involved is trained and proficient in the new procedures.</p>  | Medium            | December 2011        | Property & Facilities Service Manager | 4        | The rechargeable repairs process is currently undergoing a lean review. Procedures will be revised in accordance with the findings and recommendations of this review.   |
| 3.1.3 | <p><b>26.09/10 Follow Up</b></p> <p><b>04.08/09 Pool Cars</b></p> <p>We recommend that formally documented policies regarding the use of pool cars, hire cars and personal cars are established and effectively communicated to employees.</p> <p>Policies should cover approved use of vehicles; booking procedures; drivers licence checks, disciplinary procedures for contravention of the rules and the duty of care owed by to and from employees. They should also address the issue of using personal cars and hire cars. Guidelines for use of vehicles and the responsibilities of users should form an integral part of the policy.</p> <p>Policies should be reviewed on an annual basis to take into account changing circumstances.</p> | Medium            | March 2012           | Head of Assets<br><br>Head of Finance | 3        | <p>A policy on the pool cars, hire cars and personal vehicles has not been prepared.</p> <p>As part of the Property Development Service Plan for 2012/13 a review of pool cars is planned to be undertaken in September 2012.</p> <p><b>Recommendation restated.</b></p> |

| 3.1   | 09.11/12 FOLLOW UP OF PREVIOUS INTERNAL AUDIT RECOMMENDATIONS  |                   |                      |  | FINDINGS |  |
|-------|--|-------------------|----------------------|--|----------|--|
|       | Original Recommendation  | Original Category | Original Impl'n Date | Manager Responsible                    | Status   | Comments / Implications / Recommendations  |
| 3.1.4 | <p><b>30.09/10 Follow Up - Planning Applications</b><br/><b>02.08/09 Planning Applications Data</b></p> <p>The Planning Department should consider the introduction of a formal monitoring system (i.e. signing in and out of files) for planning application files taken from the store room.</p> <p>A formally documented policy on taking application files off-site should be established and communicated to all relevant Officers.</p> | High              | March 2012           | Development Management Service Manager | 1        | <p>A process is now in place whereby yellow cards (recording the date and name of the officer taking the file) are used to mark where files have been removed from the store room.</p> <p>Current processes are that applications are scanned immediately for publication on the website, while other documents are held as hard copy in the file. When the application is complete the whole file is then scanned.</p> <p>Plans are to have the scanning equipment relocated to the store room and eventually all documents will be scanned as they are received.</p> |
| 3.1.5 | <p><b>06.10/11 Officer Expenses</b></p> <p>The Council should introduce a mobile phone policy that details conditions of use, which is signed up to by staff prior to receiving a mobile phone.</p>  | Medium            | September 2011       | ICT Service Manager                    | 1        | <p>A mobile phone policy has been introduced and issued (using NetConsent) to all staff.</p>   |
| 3.1.6 | <p><b>11.10/11 Follow Up</b><br/><b>22.09/10 Fees &amp; Charges</b></p> <p>Management should ensure that the hire charge rates displayed at sites and on the websites reflect those that are approved in accordance with the Budget Book.</p>  | Medium            | September 2011       | Cultural Services Team Leader          | 1        | <p>Review of the hire charges published on the website for the Guildhall Arts Centre, Stamford Arts Centre and the Bourne Corn Exchange found these to match those included in the 2012/13 budget book. As did the charges quoted in the brochures for room hire and Weddings at the Guildhall Art Centre.</p>   |

| 3.2   | 10.11/12 OFFICER TRAVEL AND SUBSISTENCE   |                   |                      |                         | FINDINGS |   |
|-------|---|-------------------|----------------------|-------------------------|----------|---|
|       | Original Recommendation   | Original Category | Original Impl'n Date | Manager Responsible     | Status   | Comments / Implications / Recommendations   |
| 3.2.1 | When policies, including the Travel & Subsistence Policy are revised and issued to staff, a method of recording the receipt, having read and understood the document should be introduced.  | Medium            | March 2012           | Finance Support Manager | 1        | The Council has introduced the NetConsent system which notifies staff of new policies and records when staff have viewed and agreed to those policies.  |
| 3.2.2 | All staff should be reminded of the importance of completing expense forms in full.<br><br>Claim forms that are not completed in full, including appropriate authorisation should be rejected until all information required is provided.<br><br>When next reviewing the design of the Travel Expense claim form, consideration is given to removing the requirement to declare start and end milometer readings. | Medium            | October 2011         | Finance Support Manager | 1        | Travel & Subsistence Policy has been updated and issued (using NetConsent) to all staff.<br><br>A High importance email was issued to all staff highlighting the findings of the Internal Audit and advising staff of the actions they should take. |

| 3.3   | 11.11/12 NNDR  |                   |                      |  | FINDINGS |   |
|-------|--|-------------------|----------------------|--|----------|---|
|       | Original Recommendation  | Original Category | Original Impl'n Date | Manager Responsible                                      | Status   | Comments / Implications / Recommendations   |
| 3.3.1 | a) A reconciliation should be performed to identify and resolve discrepancies between the Valuation Office schedule and the Academy system.<br><br>b) On a weekly basis the Valuation Office schedule should continue to be reconciled to the Academy system with any discrepancies immediately corrected. | High              | 31 January 2012      | Revenues & Benefits Service Manager/<br>Revenues Manager | 1        | The reconciliation process has been reviewed, and a reconciliation is carried out on a weekly basis, as the schedules from the Valuation Office are received.<br><br>Discrepancies still occur due to changes being actioned on the Council's system as soon as possible, but these can take a long time to be reflected on the VO schedules.<br><br>No further work on this recommendation is planned. |

| 3.3   | 11.11/12 NNDR  |                   |                      |   | FINDINGS |   |
|-------|--|-------------------|----------------------|---|----------|---|
|       | Original Recommendation  | Original Category | Original Impl'n Date | Manager Responsible                                   | Status   | Comments / Implications / Recommendations   |
| 3.3.2 | <p>The Council should inspect all void properties every four months.</p> <p>Staff should use the system notes section to record inspection visits to ensure an adequate audit trail is maintained.</p> | Medium            | Implemented          | Revenues & Benefits Service Manager/ Revenues Manager | 2        | <p>Problems first arose in this area due to the Visiting Officer not complying with procedures.</p> <p>The Visiting Officer went off on long term sick, and temporary staff brought the processes back up to date.</p> <p>However, since then the Visiting Officer returned to work for a short period before handing in their notice.</p> <p>At present the post of Visiting Officer is vacant, consequently inspections are not being undertaken as per the procedures. A Visiting Officer is to be recruited.</p> <p><b>Recommendation restated.</b></p> |

| 3.4   | 13.11/12 MARKETS   |                   |                      |                                     | FINDINGS |   |
|-------|--|-------------------|----------------------|-------------------------------------|----------|---|
|       | Original Recommendation  | Original Category | Original Impl'n Date | Manager Responsible                 | Status   | Comments / Implications / Recommendations   |
| 3.4.1 | The Markets Supervisor follows up promptly, all instances where the trader has either not provided insurance details or where the details provided have expired. | Medium            | Implemented          | Team Leader - Leisure and Amenities | 1        | <p>The weekly attendance sheet used by the Market Supervisor has been amended to include a column showing the date of expiry for the traders insurance.</p> <p>Each week, those insurance due to expiry are highlighted and the Market Supervisor, visits the Trader to request copies of the updated certificate/card.</p> <p>Once obtained, the date on the attendance sheet is updated and the highlight removed.</p> <p>Sheets for weeks 28 April and 5 May 2012 were observed. The highlighted expiry dates were clearly identifiable and it was observed that updated expiry dates had been obtained.</p> |

| 3.5   | 15.11/12 FOLLOW UP OF PREVIOUS INTERNAL AUDIT RECOMMENDATIONS   |                   |                      |                     | FINDINGS |  |
|-------|---|-------------------|----------------------|---------------------|----------|--|
|       | Original Recommendation   | Original Category | Original Impl'n Date | Manager Responsible | Status   | Comments / Implications / Recommendations  |
| 3.5.1 | <p><b>24.10/11 Data Protection</b></p> <p>a) The Council should ensure that all staff have read the Data Protection Policy and are aware of their responsibilities in relation to the act. Evidence should be obtained for all staff such as electronic acceptance to confirm the policy has been read and understood.</p> <p>b) The revised policy should be presented to Cabinet or relevant group such as the Engagement Policy Development Group as a refresher to remind Members of their responsibilities in relation to data protection.</p> | Medium            | November 2011        | Principal Lawyer    | 1        | <p>The Data Protection Policy has been uploaded to the NETConsent system, which can report on which staff have and have not read and accepted the policy. Reminders are issued to those staff who have not accepted.</p> <p>The revised DPA Policy was presented to the Engagement Policy Development Group on 17 November 2011.</p> |

| 3.5   | 15.11/12 FOLLOW UP OF PREVIOUS INTERNAL AUDIT RECOMMENDATIONS   |                   |                      |  | FINDINGS |  |
|-------|---|-------------------|----------------------|--|----------|--|
|       | Original Recommendation   | Original Category | Original Impl'n Date | Manager Responsible                              | Status   | Comments / Implications / Recommendations  |
| 3.5.2 | <p><b>34.10/11 Follow Up</b><br/><b>20.09/10 Housing Strategy</b></p> <p>A review and update of the Housing Partnership Agreements with social housing providers should be undertaken; ensuring all amendments arising from the updated Housing Strategy are fully reflected in the Partnership Agreement.</p> <p>The opportunity should also be taken to review and refresh the list of approved partners (including the admission of new entrants); ensuring that all have the financial and technical resources to contribute fully to the delivery of social housing in the District.</p> | Medium            | March 2012           | Planning Policy and Partnerships Service Manager | 1        | The Affordable Housing Development Partnership Agreement has been updated as required.   |
| 3.5.3 | <p><b>34.10/11 Follow Up</b><br/><b>26.09/10 Follow Up</b><br/><b>12.08/09 Value Added Tax</b></p> <p>We recommend that as part of the review of the way the Anite system is used, management consider the procedures surrounding the processing of income and expenditure subject to VAT on the system, and implement procedures to assure themselves that amounts of VAT paid or claimed in relation to these services are accurate.</p>  | Medium            | April 2012           | Finance Support Manager (Accountancy)            | 1        | <p>In the absence of a bespoke report, a full review was undertaken to assess whether or not the correct treatment of VAT was occurring.</p> <p>This revealed that in some cases relating to lifeline charges, the incorrect rate had been used when the system was set up.</p> <p>The Supported Housing Manager has agreed to amend these, subject to new Lifeline software being installed.</p> <p>No other errors relating to VAT were found, and VAT guidance has been reissued to those involved with processing transactions on Anite.</p> |

| 3.6   | 16.11/12 COUNCIL TAX   |                   |  |                                       | FINDINGS |   |
|-------|--|-------------------|--|---------------------------------------|----------|---|
|       | Original Recommendation  | Original Category | Original Impl'n Date   | Manager Responsible                   | Status   | Comments / Implications / Recommendations   |
| 3.6.1 | <p>a) A full review of system access rights should be undertaken to ensure that only appropriate members of staff are able to authorise system write-offs.</p> <p>b) Write-offs should be independently authorised showing a segregation of duties from the member of staff who processed the write-off as pending authorisation on the system.</p> <p>c) Write-off Forms should be appropriately completed and retained for all write-offs above the agreed threshold (£50.00).</p> | Medium            | <p>November 2011</p> <p>December 2011</p> <p>November 2011</p> | Revenues and Benefits Service Manager | 1        | <p>Access rights within the Council Tax system have been reviewed and changes have been made to add limits the value of write-offs officers can approve electronically.</p> <p>The system now prevents the same officer requesting and approving a write-off.</p> |

| 3.7   | 19.11/12 BUILDING CONTROL  |                   |                      |                     | FINDINGS |  |
|-------|--|-------------------|----------------------|---------------------|----------|--|
|       | Original Recommendation  | Original Category | Original Impl'n Date | Manager Responsible | Status   | Comments / Implications / Recommendations  |
| 3.7.1 | Management should develop and introduce reporting on applications awaiting a decision and cases that are on-going but not completed, as these reports will facilitate monitoring to ensure that statutory time limits are adhered to and will ensure that completion certificates are issued as soon as works are completed. | Medium            | Done 28/11/11        | BC Manager          | 1        | The 'Registered Applications with No Decisions' report is produced on a weekly basis, as is a report of properties requiring inspection (by Parish). |

| 3.8   | 21.11/12 CASH & BANKING  |                   |                      |                     | FINDINGS |  |
|-------|--|-------------------|----------------------|---------------------|----------|--|
|       | Original Recommendation  | Original Category | Original Impl'n Date | Manager Responsible | Status   | Comments / Implications / Recommendations  |
| 3.8.1 | <p>The list of users with access to the online banking system should be reviewed on a regular basis to ensure that it remains up-to-date.</p> <p>Former employees and staff who no longer require access to the system should be promptly removed from the system or have their access disabled.</p> | Medium            | December 2011        | ICT Service Manager | 2        | <p>Two Managers independently identified that some work has been undertaken on reviewing the users with access to the online banking system.</p> <p>However, no evidence of what was reviewed or any changes made could be supplied to support the work done.</p> <p>It was also noted that this recommendation is identified as outstanding on the 4Action system.</p> <p><b>Recommendation restated.</b></p> |

## APPENDIX A: DEFINITIONS FOR PROGRESS MADE

The following opinions are given on the progress made in implementing recommendations.

This opinion relates solely to the implementation of those recommendations followed up and not does not reflect an opinion on the entire control environment.

| Progress in implementing recommendations | Overall number of recommendations fully implemented | Consideration of fundamental/high recommendations   | Consideration of significant/medium recommendations                                     | Consideration of merits attention/low recommendations   |
|--|---|---|---|---|
| Good                                     | 75% +   | None outstanding.   | None outstanding.   | All merits attention/low recommendations outstanding are in the process of being implemented. |
| Adequate                                 | 51 - 75%  | None outstanding.   | 75% of significant/medium recommendations made are in the process of being implemented. | 75% of merits attention/low recommendations made are in the process of being implemented.     |
| Little                                   | 30 - 50%  | All fundamental/high recommendations outstanding are in the process of being implemented. | 50% of significant/medium recommendations made are in the process of being implemented. | 50% of merits attention/low recommendations made are in the process of being implemented.     |
| Poor                                     | < 30%   | Unsatisfactory progress has been made to implement fundamental/high recommendations.      | Unsatisfactory progress has been made to implement significant/medium recommendations.  | Unsatisfactory progress has been made to implement merits attention/low recommendations.      |

## APPENDIX B: DATA TO SUPPORT OUR OPINION

## IMPLEMENTATION STATUS BY REVIEW

| Review                                | Total No. of recs agreed. | Status of Recommendation   |             |                        |                 |            | Audit work confirmed as completed or no longer necessary | No of recs carried forward for follow up at next review |
|---------------------------------------|---------------------------|----------------------------|-------------|------------------------|-----------------|------------|--|---|
|                                       |                           | Not due for implementation | Implemented | Implementation Ongoing | Not Implemented | Superseded |  |   |
|                                       |                           | (5)                        | (1)         | (2)                    | (3)             | (4)        |  |   |
| 09.11/12 Follow Up                    | 6                         | 0                          | 4           | 0                      | 1               | 1          | 5  | 1   |
| 10.11/12 Officer Travel & Subsistence | 2                         | 0                          | 2           | 0                      | 0               | 0          | 2  | 0   |
| 11.11/12 NNDR                         | 2                         | 0                          | 1           | 1                      | 0               | 0          | 1  | 1   |
| 13.11/12 Markets                      | 1                         | 0                          | 1           | 0                      | 0               | 0          | 1  | 0   |
| 15.11/12 Follow Up                    | 3                         | 0                          | 3           | 0                      | 0               | 0          | 3  | 0   |
| 16.11/12 Council Tax                  | 1                         | 0                          | 1           | 0                      | 0               | 0          | 1  | 0   |
| 19.11/12 Building Control             | 1                         | 0                          | 1           | 0                      | 0               | 0          | 1  | 0   |
| 21.11/12 Cash & Banking               | 1                         | 0                          | 0           | 1                      | 0               | 0          | 0  | 1   |
| <b>Total</b>                          | <b>17</b>                 | <b>0</b>                   | <b>13</b>   | <b>2</b>               | <b>1</b>        | <b>1</b>   | <b>14</b>  | <b>3</b>  |
|                                       | <b>100%</b>               | <b>0%</b>                  | <b>76%</b>  | <b>12%</b>             | <b>6%</b>       | <b>6%</b>  | <b>82%</b>   | <b>18%</b>  |

**IMPLEMENTATION STATUS OF RECOMMENDATIONS BY CATEGORY**

| Review       | Total No. of recs agreed. | Status of Recommendation   |             |                        |                 |            | Audit work confirmed as completed or no longer necessary | No of recs carried forward for follow up at next review |
|--------------|---------------------------|----------------------------|-------------|------------------------|-----------------|------------|--|---|
|              |                           | Not due for implementation | Implemented | Implementation Ongoing | Not Implemented | Superseded |  |   |
|              |                           | (5)                        | (1)         | (2)                    | (3)             | (4)        |  |   |
| High         | 2                         | 0                          | 2           | 0                      | 0               | 0          | 2  | 0   |
| Medium       | 15                        | 0                          | 11          | 2                      | 1               | 1          | 12   | 3   |
| <b>Total</b> | <b>17</b>                 | <b>0</b>                   | <b>13</b>   | <b>2</b>               | <b>1</b>        | <b>1</b>   | <b>14</b>  | <b>3</b>  |
|              | <b>100%</b>               | <b>0%</b>                  | <b>76%</b>  | <b>12%</b>             | <b>6%</b>       | <b>6%</b>  | <b>82%</b>   | <b>18%</b>  |

## APPENDIX C: REVIEW OF COMPLETENESS

### 2010/11 REPORTS

All recommendations agreed in 2010/11 Reports have been followed up.

### 2011/12 REPORTS FOLLOWED UP

| Review   | Total Number of Agreed Recommendations | Follow Up Report Reference | Number of Recommendations Followed Up |
|--|--|----------------------------|---------------------------------------|
| 01.11/12 Grants for Better Warmer Homes        | 3                                      | 29.11/12                   | 1*                                    |
| 02.11/12 Follow Up - Markets                   | 3                                      | 13.11/12                   | 3                                     |
| 03.11/12 Pollution Control - Contaminated Land | 3                                      | 29.11/12                   | 2*                                    |
| 04.11/12 Insurance                             | 6                                      | 29.11/12                   | 3*                                    |
| 05.11/12 Retention and Redeployment            | 1                                      | 29.11/12                   | 0*                                    |
| 06.11/12 Housing Benefits                      | 6                                      | 29.11/12                   | 3*                                    |
| 07.11/12 Budgetary Control and Budget Setting  | 1                                      | 29.11/12                   | 0*                                    |
| 08.11/12 Carbon Management                     | 5                                      | 29.11/12                   | 0 (Advisory)                          |
| 09.11/12 Follow Up (August 2011)               | 6                                      | This Review                | 6                                     |
| 10.11/12 Officer Travel & Subsistence          | 6                                      | This Review                | 2*                                    |
| 11.11/12 NNDR                                  | 5                                      | This Review                | 2*                                    |
| 12.11/12 Partnerships                          | 1                                      | This Review                | 0*                                    |
| 13.11/12 Markets                               | 2                                      | This Review                | 1*                                    |
| 14.11/12 Health & Safety                       | 11                                     | This Review                | 0 (Advisory)                          |
| 15.11/12 Follow Up (October 2011)              | 3                                      | This Review                | 3                                     |
| 16.11/12 Council Tax                           | 2                                      | This Review                | 1*                                    |
| 17.11/12 Treasury Management                   | 0                                      | This Review                | 0                                     |
| 18.11/12 Disabled Facilities Grants            | 3                                      | This Review                | 0*                                    |
| 19.11/12 Building Control                      | 4                                      | This Review                | 1*                                    |
| 20.11/12 Payroll                               | 4                                      | This Review                | 0*                                    |
| 21.11/12 Cash & Banking                        | 2                                      | This Review                | 1*                                    |
| 22.11/12 Change Management                     | 8                                      | This Review                | 0 (Advisory)                          |

\* As per the agreement with management, only those recommendations categorised as Fundamental, High, Significant and Medium have been followed up. Merits Attention and Low recommendations will be followed up as part of the Council's internal recommendation tracking process.

# Recommendation(s) to be followed up as part of the review of the audit area included in the Internal Audit Strategic Plan for 2011/12.

**2011/12 REPORTS YET TO BE FOLLOWED UP**

| Review                        | Total Number of Agreed Recommendations | Follow Up Report Reference | Number of Recommendations To Be Followed Up |
|-------------------------------|--|----------------------------|---|
| 23.11/12 Development Control  | 9                                      | N/A                        | 2*  |
| 24.11/12 Housing Allocations  | 2                                      | N/A                        | 0 (Advisory)                                |
| 25.11/12 Corporate Governance | 3                                      | N/A                        | 0*  |
| 26.11/12 MOT Service          | 2                                      | N/A                        | 1*  |
| 27.11/12 ICT Strategy         | 2                                      | N/A                        | 0 (Advisory)                                |
| 28.11/12 Risk Maturity        | 0                                      | N/A                        | 0   |
| 29.11/12 Follow Up            | 6                                      | N/A                        | 6   |

**2012/13 REPORTS YET TO BE FOLLOWED UP**

| Review   | Total Number of Agreed Recommendations | Follow Up Report Reference | Number of Recommendations To Be Followed Up |
|--|--|----------------------------|---|
| 01.12/13 Follow Up                                       | Only at Draft Stage                    | N/A                        |   |
| 02.12/13 Contract Management – Ground & Tree Maintenance | Only at Draft Stage                    | N/A                        |   |

\* As per the agreement with management, only those recommendations categorised as Fundamental, High, Significant and Medium have been followed up. Merits Attention and Low recommendations will be followed up as part of the Council's internal recommendation tracking process.

# Recommendation(s) to be followed up as part of the review of the audit area included in the Internal Audit Strategic Plan for 2011/12.

## REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF: HEAD OF FINANCE**

**REPORT NO: HOF196**

**DATE: 29<sup>th</sup> June 2012**

|   |   |                                  |
|---|---|----------------------------------|
| <b>TITLE:</b>                                     | <b>LOCAL CODE OF CORPORATE GOVERNANCE<br/>JUNE 2012</b>   |                                  |
| <b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b> | None  |                                  |
| <b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>    | Cllr Paul Carpenter<br>Governance and Communication Portfolio Holder  |                                  |
| <b>CONTACT OFFICER:</b>                           | David Scott<br>Finance Support Manager (Finance and Risk)<br><a href="mailto:d.scott@southkesteven.gov.uk">d.scott@southkesteven.gov.uk</a><br>Tel: (01476) 406218            |                                  |
| <b>INITIAL IMPACT ASSESSMENT:</b>                 | Carried out and Referred to in paragraph (7) below:   | Full impact assessment Required: |
| <b>Equality and Diversity</b>                     | N/A   | No                               |
| <b>FREEDOM OF INFORMATION ACT:</b>                | This report is publicly available via the Your Council and Democracy link on the Council's website:<br><a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a> |                                  |
| <b>BACKGROUND PAPERS</b>                          | CHFCS113 – Local Code of Corporate Governance   |                                  |

### 1. RECOMMENDATION

It is recommended that Committee approve the updated Local Code of Corporate Governance.

### 2. PURPOSE OF THE REPORT

The Council is committed to ensuring good governance and in maintaining an up to date Local Code of Corporate Governance that clearly sets out how the Council applies the principles of good governance and how these are evidenced. The attached Code updates the previous version adopted in 2010 and provides greater transparency of governance and contributes towards the achievement of the Council's Priorities and strategic objectives.

As part of the updated terms of reference agreed by Council in April 2011 the Governance and Audit committee are now charged with the approval of the Local Code of Corporate Governance which was previously endorsed by Council.

### **3. DETAILS OF REPORT**

The Local Code of Corporate Governance has been developed in accordance with the 2007 CIPFA/SOLACE<sup>1</sup> framework “Delivering Good Governance in Local Government” but the content is very much the Council’s own. Whilst the adoption of a Local Code is not a statutory requirement, it represents best practice and is a key element of the Council’s overarching governance arrangements.

The Code also takes account of the Application Note to Delivering Good Governance in Local Government: a Framework published in March 2010. This note has been developed to advise on the application of the CIPFA Statement on the Role of the Chief Financial Officer (CFO) in Local Government under the CIPFA/SOLACE framework. It illustrates how the governance requirements support the principles in the CFO Statement and need to be reflected in the Local Code.

#### **Core Principles of Good Governance**

The CIPFA/SOLACE Framework sets out the following six core principles on which good governance is based and forms the basis of the Council’s Local Code of Corporate Governance:

- Focusing on the purpose of the Authority and the outcomes for the community and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting the Council’s values and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective; and
- Engaging with local people and other stakeholders to ensure robust public accountability.

Various supporting principles are described in the framework which also underpin these core elements.

The updated Code demonstrates that the Council is substantially complying with the framework recommended by CIPFA/SOLACE through its policies and procedures and so demonstrates that the Council meets the principles of good corporate governance.

---

<sup>1</sup> Framework developed jointly by the Chartered Institute for Public Finance and Society of Local Authority Chief Executives.

**4. OTHER OPTIONS CONSIDERED**

None

**5. RESOURCE IMPLICATIONS**

This report has no direct impact on the Council's resources, including finance/ budget, people, land/property etc.

**6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)**

Risks have been considered as part of this report of which there are no high level risks associated with this.

**7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT**

None

**8. CRIME AND DISORDER IMPLICATIONS**

None

**9. COMMENT OF FINANCIAL SERVICES**

There are no specific financial comments arising from this report.

**10. COMMENT OF LEGAL AND DEMOCRATIC SERVICES**

The revision of the Code is essential to ensure it is up to date and fit for purpose sufficient to maintain the principles of good governance and that ethical standards are adopted. The revised Code has been developed in accordance with guidance issued by CIPFA/SOLACE on the delivery of good governance in Local Government and updated to include changes introduced by the Localism Act 2011.

**11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER**

None

**12. APPENDICES:**

Appendix A – Revised Local Code of Corporate Governance June 2012

**SOUTH KESTEVEN DISTRICT COUNCIL**

**LOCAL CODE OF CORPORATE  
GOVERNANCE  
June 2012**

**DRAFT**

# Contents

|   | Page No. |
|---|----------|
| <b>Introduction</b>   | 4        |
| <b>Core Principles of Good Governance</b>   | 4        |
| <b>What is “Governance”</b>   | 5        |
| <b>How important is it?</b>   | 5        |
| <b>How does it work in practice</b>   | 5        |
| <b>How the council applies the six core principles of good corporate governance</b>   | 6        |
| <b>THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE:-</b>  |          |
| <b>Principle 1 Focusing on the Council’s purpose and on outcomes for the community and creating and implementing a vision for the local area</b>  | 7 - 9    |
| <ul style="list-style-type: none"><li>• Exercising strategic leadership by developing and clearly communicating the authority’s vision and its intended outcome for citizens and service users.</li><li>• Ensuring that users receive a high quality of service whether directly, or in partnership or by commissioning.</li><li>• Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money</li></ul>  |          |
| <b>Principle 2 Members and officers working together to achieve a common purpose with clearly defined functions and roles</b>   | 10 -13   |
| <ul style="list-style-type: none"><li>• Ensuring effective leadership throughout the authority and being clear about executive and non-executive functions and of the roles and responsibilities of the scrutiny function.</li><li>• Ensuring that a constructive working relationship exists between elected members and officers and that the responsibilities of authority members and officers are carried out to a high standard.</li><li>• Ensuring relationships between the authority, its partners and the public are clear so that each know what to expect of the other.</li></ul> |          |
| <b>Principle 3 Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct behaviour</b>   | 14 -15   |
| <ul style="list-style-type: none"><li>• Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance.</li><li>• Ensuring that organisational values are put into practice and are effective.</li></ul>   |          |

**Principle 4 Taking informed and transparent decisions which are subject to effective scrutiny and managing risk** 16 - 20

- Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny.
- Having good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs.
- Ensuring that an effective risk management system is in place.
- Using their legal powers to the full benefit of the citizens and communities in their area.

**Principle 5 Developing the capacity and capability of members and officers to be effective** 21 -23

- Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles.
- Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group.
- Encouraging new talent for membership of the authority so that best use can be made of resources in balancing continuity and renewal.

**Principle 6 Engaging with local people and other stakeholders to ensure robust public accountability** 24 -27

- Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders including partnerships, and develops constructive accountability relationships.
- Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority or in partnership.
- Making best use of resources by taking an active and planned approach to meet responsibility to staff.

## **1. Introduction**

South Kesteven District Council is committed to meeting best practice standards for good governance. This Local Code of Corporate Governance provides a public statement that sets out the way in which the Council will meet and demonstrate that commitment. The Code was last updated in May 2010 and in line with the annual work plan of the Governance and Audit Committee it has been reviewed to ensure it remains fit for purpose.

The Local Code of Corporate Governance has been developed in accordance with the 2007 CIPFA/SOLACE framework “Delivering Good Governance in Local Government” but the content is very much the Council’s own. Whilst the adoption of a Local Code is not a statutory requirement, it represents best practice and is a key element of the Council’s overarching governance arrangements.

The Code also takes account of the Application Note to Delivering Good Governance in Local Government: a Framework published in March 2010. This note has been developed to advise on the application of the CIPFA Statement on the Role of the Chief Financial Officer (CFO) in Local Government under the CIPFA/SOLACE framework. It illustrates how the governance requirements to support the principles in the CFO Statement need to be reflected in the Local Code.

## **2. Core Principles of Good Governance**

The CIPFA/SOLACE Framework sets out the following six core principles on which good governance is based and forms the basis of the Council’s Local Code of Corporate Governance:

- Focusing on the purpose of the Authority and the outcomes for the community and creating and implementing a vision for the local area;
- Members and officers working together to achieve a common purpose with clearly defined functions and roles;
- Promoting the Council’s values and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
- Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk;
- Developing the capacity and capability of members and officers to be effective; and
- Engaging with local people and other stakeholders to ensure robust public accountability.

Various supporting principles are described in the framework that also underpin these core elements.

### **3. What is “Governance”?**

Governance has been defined by South Kesteven as “a well run Council who provides high quality services by ensuring that the Council listens and engages with its community. This will mean it can demonstrate the best value for money in achieving the right outcomes for our customers giving special consideration to those who may be vulnerable or hard to reach”.

Good governance leads to good management, good performance and good stewardship of public money. It therefore enables the Council to effectively implement its vision in accordance with its values and to engage effectively with its citizens and service users to ensure good outcomes for them. The Council is here to provide services its residents need and want and to plan for the future. It's the Council's role to help protect and enhance the special qualities of South Kesteven that make it one of the best places to live, work and do business

### **4. How important is it?**

South Kesteven recognises that all good governance relies on high standards of probity. When conduct and behaviour are corrupt or improper it erodes confidence in the way the Council does business. South Kesteven has a strong reputation for high standards of governance and probity, however the local community's expectations are always increasing and it is important for the future wellbeing of the District and local democracy that these standards are not only maintained, but improved in the future.

For individuals who contribute to the Council either as members or as staff, strong corporate governance is also a means of safeguarding and protecting their own reputation.

### **5. How does it work in practice?**

South Kesteven District Council, like every other local authority, operates through a governance framework which brings together an underlying set of legislative requirements, governance principles and management processes. Over the last few years, the Council has put considerable effort into codifying its principles and processes. Perhaps the clearest manifestation of this is the Council's constitution, which is regularly reviewed and updated. No less effort has gone into the development of protocols for the Council's internal policies and procedures, which are also reviewed regularly; such as the Counter Fraud, Bribery and Corruption Framework and financial regulations.

The Local Code of Corporate Governance brings all these practices together into one document and makes them open and explicit. It identifies areas where further action is required to meet changing circumstances and/or to ensure that the Council follows best practice in all aspects of governance. The Code will be reviewed annually and will support the Annual Governance Statement.

## **6. How the council applies the six core principles of good corporate governance**

Whilst adoption of a Local Code of Corporate Governance is not a statutory requirement, it represents best practice and is a key element of the Council's overarching governance arrangements.

The Council cannot achieve its aim of providing high quality services to our residents, without the bedrock of sound governance and the commitment of members and officers to maintaining high standards of probity. We hope that, by making explicit the underlying principles and processes, the Code will assist members and officers to sustain high standards both now and in the future.

The following section shows in detail how the Council applies the six principles of good corporate governance.

# HOW SOUTH KESTEVEN DISTRICT COUNCIL APPLIES THE PRINCIPLES OF GOOD CORPORATE GOVERNANCE

**PRINCIPLE 1: FOCUSING ON THE PURPOSE OF THE AUTHORITY AND ON OUTCOMES FOR THE COMMUNITY AND CREATING AND IMPLEMENTING A VISION FOR THE LOCAL AREA**

**Supporting Principles:**

- *Exercising strategic leadership by developing and clearly communicating the authority’s purpose, vision and its intended outcome for citizens and service users.*
- *Ensuring that users receive a high quality of service whether directly, or in partnership or by commissioning.*
- *Ensuring that the authority makes best use of resources and that tax payers and service users receive excellent value for money.*

| Ref | How we apply the principles   | How this is evidenced  |
|-----|---|--|
| 1.1 | We have determined and published our vision and long term priorities for South Kesteven.  | <ul style="list-style-type: none"> <li>• Corporate Plan 2011-2015</li> <li>• Annual Report</li> <li>• Four Priority themes :                             <ul style="list-style-type: none"> <li>-Grow the Economy</li> <li>-Clean, Green and Healthy</li> <li>-Promote Leisure, Arts and Culture</li> <li>-Support Good Housing for all</li> </ul> </li> </ul> |
| 1.2 | We have developed a long term strategy for the local area with our partners. It is based on consultation with local people about the sort of place they want the area to be. The strategy co-ordinates the actions of the public, private, voluntary and community sectors. | <ul style="list-style-type: none"> <li>• Governance Framework (Local Code of Corporate Governance)</li> <li>• Partnership policy</li> <li>• Development of Customer Access Strategy</li> <li>• Establishment of a Community drop-in</li> </ul>   |

|      |   | session (bi-annually)  |
|------|---|--|
| 1.4  | Our corporate planning framework ensures that the Council's operational activities are complementary to the delivery of our community aspirations and legal and statutory responsibilities.   | <ul style="list-style-type: none"> <li>• Corporate Plan 2011-2015</li> <li>• Service Plans</li> <li>• Project Delivery documentation and plans</li> </ul>  |
| 1.5  | We publish a summary of our annual financial statements on the Council's website.   | <ul style="list-style-type: none"> <li>• Summary of Accounts</li> <li>• Annual Report</li> </ul>   |
| 1.6  | We aim to ensure that the purchase or commissioning of goods, services and works required to deliver services represent value for money and are in accordance with our Strategic Priorities.  | <ul style="list-style-type: none"> <li>• Lincolnshire Procurement Strategy and Improvement Plan</li> <li>• Contract Procedure Rules for procuring goods, services and works</li> <li>• Procurement Lincolnshire Annual Work plans</li> <li>• Supporting local business through providing access to contract opportunities</li> <li>• Working with Procurement Lincolnshire to begin development of local Purchase Action Plan</li> </ul> |
| 1.7  | We have established a range of performance indicators used to measure progress against our key priorities which are reported to Cabinet , Scrunity Committee and monitored by Management through its Performance and Project Board. | <ul style="list-style-type: none"> <li>• Quarterly performance monitoring reports to cabinet and Scrutiny</li> <li>• Monthly Reporting to the Project and Performance Board</li> </ul>   |
| 1.8  | We have established arrangements to ensure that services provided, whether directly or by contractors, partners or the voluntary sector, are delivered to a high standard.  | <ul style="list-style-type: none"> <li>• Contract management procedures</li> </ul>   |
| 1.9  | We have effective procedures to respond to customer feedback. .   | <ul style="list-style-type: none"> <li>• Customer feedback process</li> <li>• Customer access strategy</li> <li>• Corporate complaints procedure</li> </ul>  |
| 1.10 | We have developed arrangements to ensure that critical service delivery can be mainined or recovered during an emergency  | <ul style="list-style-type: none"> <li>• Business Continuity Plans</li> <li>• Emergency planning arrangements</li> <li>• Business Continuity Annual Report</li> </ul>  |
| 1.11 | Underpinning our 4 priority themes is the ethos of a well run Council which includes effective financial management to achieve efficiencies and savings   | <ul style="list-style-type: none"> <li>• Medium Term Financial Plan</li> <li>• Annual Revenue Budget</li> <li>• Annual Report</li> <li>• Transformation and Savings Programme</li> </ul>   |
| 1.12 | There is a strategy that formalises what we can do to ensure that we make the most of the resources available to continue to improve services and provide positive benefits for the people of South Kesteven.                       | <ul style="list-style-type: none"> <li>• Efficiency Strategy</li> <li>• Service Plans reflect efficiency improvements</li> </ul>   |
| 1.13 | We have established arrangements to ensure that financial resources are directed to   | <ul style="list-style-type: none"> <li>• Medium Term Financial Plan</li> </ul>   |

|      |   |  |
|------|---|--|
|      | our priorities.   | <ul style="list-style-type: none"> <li>• Capital Strategy &amp; Capital Programme</li> <li>• Treasury Management Strategy</li> <li>• Revenue budget process</li> <li>• Quarterly budget monitoring and forecasting</li> <li>• Project and Performance Project Board</li> </ul>   |
| 1.14 | We have an internal audit function that provides a continuous audit of the Council's activities. It examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of resources. | <ul style="list-style-type: none"> <li>• 3 year Internal Audit Strategy</li> <li>• Annual Internal Audit Plan</li> <li>• Internal Audit assignment reports</li> <li>• Internal Audit progress and follow up reports</li> <li>• Internal Audit advisory reports</li> <li>• Recommendation tracking system in place monitor compliance with Internal Audit actions</li> </ul>  |
| 1.15 | Our external auditors provide an annual assessment on how well we are managing the resources the Council has available and delivering value for money to achieve better and sustainable outcomes for local people.  | <ul style="list-style-type: none"> <li>• Audit Commission Annual Governance Report</li> <li>• Audit Commission Annual audit letter</li> <li>• Audit Commission Annual report on certification of claims and returns</li> </ul>   |
| 1.16 | We have developed robust procedures to respond positively to the findings and recommendations of external auditors and statutory inspectors.  | <ul style="list-style-type: none"> <li>• Action plans developed in response to external inspections</li> </ul>   |
| 1.17 | We have established arrangements to minimise the risk of fraud and corruption.  | <ul style="list-style-type: none"> <li>• Counter Fraud, Corruption and Bribery Framework – rolled out via the Council policy management software</li> <li>• Whistle-blowing Policy (Confidential Reporting Code) –Intranet</li> <li>• A Benefits Investigation Unit whose primary task is to detect Housing Benefit and Council Tax Benefit fraud and take appropriate legal action against people who commit this type of fraud.</li> <li>• An internal audit function which is alert to the risk of fraud and corruption when reviewing the Council's systems and processes.</li> <li>• Fraud Response Plan</li> <li>• Anti-Money Laundering Policy</li> <li>• Engagement with the Audit Commission National Fraud Initiative</li> <li>• Supporting the Audit Commission Annual Fraud and Corruption survey</li> </ul> |

DRAFT

**PRINCIPLE 2: MEMBERS AND OFFICERS WORKING TOGETHER TO ACHIEVE A COMMON PURPOSE WITH CLEARLY DEFINED FUNCTIONS AND ROLES**

**Supporting Principles:**

- ***Ensuring effective leadership throughout the authority and being clear about the executive and non-executive functions and of the roles and responsibilities of the scrutiny function.***
- ***Ensuring that a constructive working relationship exists between elected members and officers and that the responsibilities of authority members and officers are carried out to a high standard.***
- ***Ensuring relationships between the authority, its partners and the public are clear so that each know what to expect of the other.***

| <b>Ref</b> | <b>How we apply the principles</b>  | <b>How this is evidenced</b>   |
|------------|---|--|
| 2.1        | <p>We have produced a documented framework that sets out how the Council operates, how decisions are made and the procedures which are followed to make sure that these are efficient, transparent and accountable to local people.</p> <ul style="list-style-type: none"> <li>• This framework sets out the roles and responsibilities and accountability of: The Cabinet, the Leader and other Members as well as senior officers and of the leadership team and its members individually;</li> <li>• Policy &amp; Performance Panels, which advise Cabinet and Council on its policies, budgets and service delivery;</li> <li>• The committees established to fulfil the Council's regulatory and other functions.</li> </ul> | <ul style="list-style-type: none"> <li>• The Council's Constitution</li> <li>• Constitution committee who monitor and review application of the constitution and work with the Monitoring Officer / CEX and PDG's over any proposed changes. This would cover areas such as scheme of delegation and annual work plans for the committee itself.</li> <li>• Performance and Programme Panels Terms of Reference</li> </ul> |
| 2.2        | <p>We have documented protocols governing relationships between members and officers.</p>   | <ul style="list-style-type: none"> <li>• Member / Officer Protocol</li> </ul>  |
| 2.3        | <p>We have clearly defined the relative roles and responsibilities of Members and senior</p>  | <ul style="list-style-type: none"> <li>• The Council Constitution –Scheme of Delegation</li> </ul>   |

|     |   |   |
|-----|---|---|
|     | officers.   | <ul style="list-style-type: none"> <li>• Dedicated website section 'your Council and Democracy' has specific information on Member role profiles</li> <li>• Officers job descriptions</li> <li>• Corporate Training and development programme which includes members and corporate induction</li> </ul>   |
| 2.4 | Functions are delegated by Council and the Cabinet to committees and officers. Certain functions are reserved for decision by Full Council as detailed in Local Authority functions (England) Regs.   | <ul style="list-style-type: none"> <li>• The Council Constitution</li> </ul>  |
| 2.5 | The Chief Executive is responsible for and accountable to the Council for all aspects of operational management.  | <ul style="list-style-type: none"> <li>• The Council Constitution</li> </ul>  |
| 2.6 | The Strategic Director Corporate Focus as the s151 Officer appointed under the 1972 Local Government Act, carries overall responsibility for the financial administration of the Council.   | <ul style="list-style-type: none"> <li>• Strategic Director Corporate Focus is a professionally qualified accountant and has direct access to the Chief Executive, Leader of the Council and other Cabinet Members as well as direct access to the Governance &amp; Audit Committee and external audit</li> <li>• Strategic Director Corporate Focus has a line of professional accountability for all finance staff in the Council.</li> <li>• The Council has established robust arrangements to manage its finances, including a Medium Term Financial Plan, quarterly and annual budget processes and compliance with CIPFA's Codes and Guidance on a Prudential Framework for Capital Finance, Treasury Management and the management of reserves etc.</li> <li>• The Council maintains an effective internal audit service and effective risk management system.</li> </ul> |
| 2.7 | The Monitoring Officer (Head of Legal and Democratic Services) carries overall responsibility for legal and regulatory compliance. The Monitoring Officer is required to report to Members should any proposal, decision or omission give rise to unlawfulness/maladministration. | <ul style="list-style-type: none"> <li>• The Council Constitution</li> </ul>  |
| 2.8 | We have developed a protocol to ensure effective communication between members and officers in their respective roles.  | <ul style="list-style-type: none"> <li>• Member/Officer protocol</li> </ul>   |
| 2.9 | We have clearly set out terms and conditions for the remuneration of members and officers and there is an effective structure for managing the process.   | <ul style="list-style-type: none"> <li>• Independent Remuneration Panel</li> <li>• Members Allowance Scheme</li> </ul>  |

|      |  |  |
|------|--|--|
| 2.10 | We have established a range of mechanisms to communicate our service objectives and to monitor performance.  | <ul style="list-style-type: none"> <li>• Pay and Grading + Job Evaluation Scheme</li> <li>• Annual Report</li> <li>• Corporate Plan</li> <li>• Operational Service Plans</li> <li>• Performance and Project Programme Board</li> <li>• National and local performance indicators</li> <li>• Corporate Performance Management Framework</li> <li>• Customer satisfaction surveys</li> <li>• Corporate feedback process</li> <li>• Line management responsibilities</li> </ul>   |
| 2.11 | We have developed our vision, strategic plans, priorities and measures through robust mechanisms, and in consultation with the local community and other key stakeholders. We ensure that they are clearly articulated and disseminated. | <ul style="list-style-type: none"> <li>• Corporate Plan 2011-2015</li> <li>• Four Priority themes</li> <li>• Communities and stakeholders are consulted through: <ul style="list-style-type: none"> <li>• Residents' survey</li> <li>• Community focus forum</li> <li>• Stakeholder consultation</li> <li>• Neighbourhood Groups</li> <li>• Tenants conferences</li> <li>• Community Engagement (e.g. C.Tax payers, Business Community)</li> </ul> </li> <li>• Communities and stakeholders are kept in touch through: <ul style="list-style-type: none"> <li>• Council magazine - SK Today</li> <li>• Community drop in sessions for the public</li> <li>• The Council's website</li> <li>• The Council's partners' websites</li> <li>• Stakeholder groups</li> </ul> </li> </ul> |
| 2.12 | We will ensure that when Members are working in partnerships that they are clear about their roles and responsibilities both individually and collectively in relation to the partnership and to the Council.                            | <ul style="list-style-type: none"> <li>• Partnership protocol awareness training is available for Members</li> </ul>   |
| 2.13 | All joint or partnering arrangements with other bodies are subject to consultation with the Strategic Director and Monitoring Officer.   | <ul style="list-style-type: none"> <li>• Procurement and Contract Procedure Rules</li> <li>• Partnership Policy</li> <li>• Partnership Agreements</li> <li>• Annual Report on Partnerships is presented to Governance and Audit Committee</li> </ul>   |
| 2.14 | Our significant partnerships have been identified with protocols to ensure appropriate governance arrangements are in place.   | <ul style="list-style-type: none"> <li>• Register of significant partnerships with separate risk registers held at partnership level</li> </ul>  |

- 
- The work of Internal Audit
  - Partnership toolkit (Lincs.CC)
- 

DRAFT

**PRINCIPLE 3: PROMOTING VALUES FOR THE AUTHORITY AND DEMONSTRATING THE VALUES OF GOOD GOVERNANCE THROUGH UPHOLDING HIGH STANDARDS OF CONDUCT AND BEHAVIOUR**

**Supporting Principles:**

- *Ensuring authority members and officers exercise leadership by behaving in ways that exemplify high standards of conduct and effective governance.*
- *Ensuring that organisational values are put into practice and are effective.*

| Ref | How we apply the principles   | How this is evidenced  |
|-----|---|--|
| 3.1 | We have defined and communicated the standards of conduct and personal behaviour expected of Members and employees through codes of conduct and protocols.  | <ul style="list-style-type: none"> <li>• Members' Code of Conduct</li> <li>• Staff code of Conduct</li> <li>• Member/Officer Protocol</li> <li>• Counter Fraud, Bribery and Corruption Framework</li> <li>• Financial Regulations</li> <li>• Anti-Money Laundering Policy</li> <li>• Procurement and Contract Procedure Notes</li> <li>• Member Training Programme</li> <li>• Induction procedures</li> <li>• Members' Information Bulletin</li> <li>• Use of Policy Management system to ensure all staff have access to and read policies</li> </ul> |
| 3.2 | We have put into place arrangements to ensure that Members and employees are not influenced by prejudice, bias or conflicts of interest in dealing with different stakeholders. We have also established appropriate processes to ensure that they continue to operate in practice. | <ul style="list-style-type: none"> <li>• Registers of Interests</li> <li>• Standing Orders</li> <li>• Registers of Gifts &amp; Hospitality</li> <li>• Whistle-blowing Policy (Confidential Reporting Code)</li> <li>• Systems to report and deal with any incidents of fraud and corruption</li> </ul>   |

|     |   |  |
|-----|---|--|
|     |   | <ul style="list-style-type: none"> <li>• Grievance procedures</li> <li>• Internal Audit</li> </ul>   |
| 3.3 | <p>We have developed and maintain shared values and behaviours, including leadership values, for both the organisation and employees that reflect public expectations. We communicate these values to Members, employees, the community and our partners.</p> | <ul style="list-style-type: none"> <li>• Corporate Plan</li> <li>• Unlocking our potential initiative</li> <li>• Induction procedures</li> <li>• Human Resources policies</li> <li>• Publication of an Annual Governance Statement</li> </ul>  |
| 3.4 | <p>We have put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards and we monitor their continuing effectiveness in practice.</p>  | <ul style="list-style-type: none"> <li>• The Council has established robust arrangements to manage its financial affairs in conformity with appropriate ethical standards.</li> <li>• The Council maintains an effective internal audit service and effective risk management system.</li> <li>• Monitoring Officer role</li> <li>• Governance &amp; Audit Committee</li> <li>• Corporate customer feedback process</li> <li>• Staff Performance Development Review procedures, Performance Management Strategy</li> </ul> |

DRAFT

**PRINCIPLE 4: TAKING INFORMED AND TRANSPARENT DECISIONS WHICH ARE SUBJECT TO EFFECTIVE SCRUTINY AND MANAGING RISK**

**Supporting Principles:**

- *Being rigorous and transparent about how decisions are taken and listening and acting on the outcome of constructive scrutiny.*
- *Having and good quality information, advice and support to ensure that services are delivered effectively and are what the community wants/needs.*
- *Ensuring that an effective risk management system is in place.*
- *Using their legal powers to the full benefit of the citizens and communities in their area.*

| <b>Ref</b> | <b>How we apply the principles</b>  | <b>How this is evidenced</b>  |
|------------|---|---|
| 4.1        | We operate an open and effective process for decision-making. We publish key decisions in the Council's Forward Plan. Our Council meetings are open to the public with the exception of where confidential or personal matters may be disclosed. We publish minutes of all Council meetings on our website. | <ul style="list-style-type: none"> <li>• The Council Constitution</li> <li>• Forward Plan</li> <li>• Minutes of Council meetings published on our website</li> </ul>  |
| 4.2        | We have an established Scrutiny Committee to provide an effective scrutiny function that encourages constructive challenge and enhances the Council's performance.  | <ul style="list-style-type: none"> <li>• Scrutiny Terms of Reference</li> <li>• Minutes of Scrutiny Committee meetings</li> <li>• Policy Development Groups</li> <li>• An effective internal audit service is resourced and maintained</li> </ul> |
| 4.3        | We have put into place arrangements to safeguard Members and employees against conflicts of interest.   | <ul style="list-style-type: none"> <li>• Registers of Interests</li> <li>• Registers of Gifts &amp; Hospitality</li> <li>• Declarations of personal or prejudicial interests at the start of each meeting in which discussions</li> </ul>         |

|     |   |   |
|-----|---|---|
|     |   | involve a matter in which a Member has an interest.   |
|     |   | <ul style="list-style-type: none"> <li>• The Monitoring Officer may be approached to advise on conflicts of interest.</li> <li>• Annual declaration of related party transactions as part of Statement Accounts</li> </ul>  |
| 4.4 | We have established a Governance and Audit Committee (GAC). The Committee is independent of the executive and scrutiny functions. Its terms of reference are consistent with CIPFA guidance on Audit Committees.  | <ul style="list-style-type: none"> <li>• The Council Constitution</li> <li>• GAC Terms of Reference</li> <li>• Minutes of GAC meetings</li> <li>• The Strategic Director Corporate Focus has direct access to the Governance &amp; Audit Committee and External Audit</li> <li>• Private meetings held with both Internal and External Audit with Governance and Audit Committee</li> <li>• Annual Report to Council on work activity of the committee</li> </ul>   |
| 4.5 | We have established effective, transparent and accessible arrangements to deal with complaints.   | <ul style="list-style-type: none"> <li>• Corporate Customer Feedback process</li> </ul>   |
| 4.6 | We have established, and are continuing to develop, sound systems for providing management information for performance measurement and decision-making purposes.  | <ul style="list-style-type: none"> <li>• Performance and Programme Board monitor and review performance alongside project delivery</li> <li>• Performance Management Framework</li> <li>• Data Quality Strategy</li> <li>• Performance Management System</li> </ul>   |
| 4.7 | We provide decision-makers with information that is fit for purpose. This includes ensuring that decision-makers are provided with clear explanations of legal, financial and technical issues and their implications. We provide training to Members to ensure that we have a strong basis for quality decision-making especially for quasi-judicial committees. | <ul style="list-style-type: none"> <li>• The Cabinet report template requires information to be provided explaining the legal and financial implications of decisions, as well as implications for each of the corporate priorities.</li> <li>• The Council has established robust arrangements to manage its finances, including a medium Term Financial Plan, monthly and annual budget processes and compliance with CIPFA's Codes and Guidance on a Prudential Framework for Capital Finance, Treasury Management and the management of reserves etc.</li> <li>• Advice on financial, legal and technical issues is provided by the s151 Officer, the Monitoring Officer and other officers as required and in line with good practice guidance –LAAP (Local</li> </ul> |

---

Authority Reserves and Balances).

- Budget monitoring reports are issued to budget managers monthly and they also have on-line access to budget data, Heads of Service receive group budget reports monthly to discuss with their Strategic Directors, Management Team receive monthly financial information and quarterly forecast reports which also go to the Resources Policy Development Group. Governance and Audit Committee receive annual outturn report.
- Financial Services routinely provide advice to budget holders with dedicated accountancy support for each service area.
- Reports are sent to decision-makers with the agenda of meetings on a timely basis.
- Committee Report template includes impacts such as “Resource Implications”, “Risk and Mitigation (Including Health & Safety & Data Quality)”, “Crime & Disorder”, “Equality” and Comments of Section 151 and Monitoring Officer.
- The Council publishes a Forward Plan listing key decisions to be taken. Policy is evidence based.

---

4.8 We have put in place risk management systems, including systems of internal control and an internal audit function, which are continually being developed. Members and officers at all levels recognise that risk management is part of their jobs.

- Risk Management Strategy and Protocol
  - Corporate and Service Risk Registers
  - Risk Management system is used to monitor / track risk
  - Partnership risk register
  - Project Risk Registers
  - Significant partnerships each hold an individual risk register
  - Member and officer training on risk management
  - The Cabinet report template contains a section to consider the ‘risk implications’ of any decisions
  - The Governance and Audit Committee reviews the Internal Audit work programme and oversees the implementation of audit recommendations.
  - The Governance and Audit Committee receives regular briefings on corporate risks.
  - The Risk Management Group meets bi-monthly
-

|      |   |  |
|------|---|--|
|      |   | <ul style="list-style-type: none"> <li>to discuss mainly Service based risk issues.</li> <li>Internal audit monitor the effectiveness of risk management.</li> <li>Health and safety policies and procedures</li> <li>The Council has established robust arrangements to manage its finances and systems of internal control.</li> </ul> |
| 4.9  | We have established effective arrangements for 'whistle-blowing'  | <ul style="list-style-type: none"> <li>Whistleblowing policy/procedure (on Intranet) and via policy management software</li> <li>Fraud telephone hotline</li> <li>Benefit fraud referral form for staff and public</li> </ul>  |
| 4.10 | We actively recognise the limits of lawful activity placed on the Council but also strive to utilise our legal powers to the full benefit of the community.   | <ul style="list-style-type: none"> <li>One of the functions of the Monitoring Officer is to ensure the lawfulness and fairness of decision making.</li> </ul>  |
| 4.11 | We recognise the limits of lawful action and observe both the specific requirements of legislation and the general responsibilities placed on local authorities by public law.  | <ul style="list-style-type: none"> <li>The Cabinet report template contains a section to consider the 'legal implications' of any decisions.</li> <li>Legal Services produces as required advice to update officers on relevant changes in legislation.</li> </ul>   |
| 4.12 | We observe all specific legislative requirements placed upon the Council, as well as the requirements of general law and, in particular, integrate the key principles of good administrative law – rationality, legality and natural justice – into our procedures and decision-making processes. | <ul style="list-style-type: none"> <li>Involvement of the Council's legal advisors in all major issues.</li> <li>Member and officer training</li> </ul>  |

## PRINCIPLE 5: DEVELOPING THE CAPACITY AND CAPABILITY OF MEMBERS AND OFFICERS TO BE EFFECTIVE

### Supporting Principles:

- *Making sure that members and officers have the skills, knowledge, experience and resources they need to perform well in their roles.*
- *Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group.*
- *Encouraging new talent for membership of the authority so that best use can be made of resources in balancing continuity and renewal.*

| Ref | How we apply the principles  | How this is evidenced  |
|-----|--|--|
| 5.1 | We provide induction programmes tailored to individual needs and opportunities for Members and Officers to update their knowledge on a regular basis.  | <ul style="list-style-type: none"> <li>• Member and employee induction programmes</li> <li>• Member training as required</li> <li>• Staff and member training and development programme</li> <li>• Leadership and development programme for managers</li> </ul>  |
| 5.2 | We ensure that the Council's statutory and other officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are understood throughout the Council. | <ul style="list-style-type: none"> <li>• The Strategic Director Corporate Focus is a professionally qualified accountant and has direct access to the Chief Executive, Leader of the Council and other Cabinet Members as well as direct access to the Governance &amp; Audit Committee and external audit</li> <li>• Strategic Director Corporate Focus has a line of professional accountability for all finance staff in the Council.</li> <li>• The Council has established robust arrangements to manage its finances and sound systems of</li> </ul> |

|  |   |
|--|---|
|  | <p>internal control.</p> <ul style="list-style-type: none"> <li>• Qualified Monitoring Officer</li> <li>• Adherence to professional standards</li> <li>• Service Plans reflect human resource requirements</li> <li>• Staff Performance Development Review procedure</li> <li>• Corporate learning and development Programme linked to PDR's and development areas.</li> <li>• One to ones and team meetings</li> <li>• Development of a Road Map for the Council to unlock staff potential</li> <li>• Job descriptions and person specifications have been produced for all posts</li> <li>• Recruitment and appointment policies and procedures</li> <li>• Reports from inspectorates and regulators</li> <li>• Systems exist to cascade information to Members and employees</li> <li>• Publication of the Constitution in the intranet and Council website</li> </ul> |
| <p>5.3 We assess the skills required by Members and employees and are committed to developing those skills to enable roles to be carried out effectively.</p>                        | <ul style="list-style-type: none"> <li>• Member induction programme</li> <li>• Corporate (employee) induction programme</li> <li>• Training provided to members prior to issue of financial statements.</li> <li>• Ad-hoc financial training including governance, risk and treasury management.</li> <li>• Training on budget monitoring provided</li> <li>• Dedicated democratic support to provide guidance to members.</li> <li>• Behavioural framework in placed for managers</li> <li>• Reflections process to assess managers against performance framework</li> </ul>   |
| <p>5.4 We develop skills on a continuing basis to improve performance, including the ability to scrutinise and challenge, and to recognise when outside expert advice is needed.</p> | <ul style="list-style-type: none"> <li>• Training opportunities for members individually and collectively, including a programme of seminars on topical matters</li> <li>• Key Members identified and provided training to develop scrutiny skills (e.g. Scrutiny and</li> </ul>  |

|     |   |  |
|-----|---|--|
|     |   | <ul style="list-style-type: none"> <li>Governance and Audit Committee)</li> <li>The Council has identified for members and relevant committees core training areas which they must attend</li> <li>Additional support to members such as the Policy Development groups through dedicated resource</li> </ul>   |
| 5.5 | We ensure that arrangements are in place for reviewing the performance of the executive as a whole.   | <ul style="list-style-type: none"> <li>Joint training with other Districts for both Members &amp; Officers</li> <li>Members Scrutiny &amp; Policy Development Handbook</li> <li>Development Reviews</li> </ul>   |
| 5.6 | We have established arrangements to encourage individuals from all sections of the community to engage with, contribute to, and participate in the work of the Council. | <ul style="list-style-type: none"> <li>Individuals are encouraged to participate in the work of the Council through consultation on plans and strategies.</li> <li>The Council's magazine and website informs the community of forthcoming meetings, events and items in which the community are able to participate.</li> <li>Community Focus Group Established</li> <li>Community engagement events established</li> <li>Dedicated consultation on key issues</li> <li>Roadshows to attract prospective members</li> </ul> |
| 5.7 | We will ensure that career structures are in place for Members and employees to encourage participation and development.  | <ul style="list-style-type: none"> <li>Formal Member training and development programme under consideration</li> <li>Employee Annual Performance and Development and Review process</li> <li>Workforce development plan integrated into people and workforce strategy</li> <li>Implementation of a road map for the council to unlock staff potential</li> <li>Staff encouraged to be involved in corporate work outside their service area.</li> </ul>  |

**PRINCIPLE 6: ENGAGING WITH LOCAL PEOPLE AND OTHER STAKEHOLDERS TO ENSURE ROBUST PUBLIC ACCOUNTABILITY**

**Supporting Principles:**

- *Exercising leadership through a robust scrutiny function which effectively engages local people and all local institutional stakeholders, including partnerships, and develops constructive accountability relationships.*
- *Taking an active and planned approach to dialogue with and accountability to the public to ensure effective and appropriate service delivery whether directly by the authority or in partnership.*
- *Making best use of resources by taking an active and planned approach to meet responsibility to staff.*

| Ref | How we apply the principles                          | How this is evidenced   |
|-----|--|---|
| 6.1 | We are accountable to local people and stakeholders. | <ul style="list-style-type: none"> <li>• Elected Members are democratically accountable to their local area and this provides a clear leadership role in building sustainable communities.</li> <li>• The Corporate Plan is published on the Council's website.</li> <li>• The 'call in' procedure allows members to examine in detail decisions made by the Cabinet. Decisions may be 'called in', which means that implementation does not take place immediately to allow an opportunity for further consideration.</li> <li>• An annual report on the activity of the Scrutiny function is taken to and considered by full Council</li> <li>• Our financial statements are audited and published on the Council website.</li> <li>• Our External Auditor provides an annual assessment of the Council's performance.</li> </ul> |

|     |  |   |
|-----|--|---|
|     |  | <ul style="list-style-type: none"> <li>• We receive reports from inspectorates and regulators throughout the year.</li> <li>• We are subject to, and report on performance against, a range of national and local indicators.</li> </ul>  |
| 6.2 | We ensure that clear channels of communication are in place with all sections of the community and other stakeholders.   | <ul style="list-style-type: none"> <li>• Communication Strategy</li> <li>• Council website</li> <li>• Council minutes and agendas</li> <li>• Staff -weekly news letter (e-mail) .Public magazine (SKtoday), Council tenants magazine (Skyline) Consultation toolkit available for formal consultation arrangements.</li> <li>• Informal consultation arrangements include contact via our website and magazine based customer surveys.</li> <li>• Community and voluntary sector representatives have decision-making roles on the South Kesteven Local Strategic Partnership at both strategic and operational level.</li> <li>• Neighbourhood Groups.</li> <li>• Tenants conferences</li> </ul> |
| 6.3 | We hold Council meetings in public, unless there are good reasons for confidentiality, and we allow the public the opportunity to speak.   | <ul style="list-style-type: none"> <li>• Public are allowed to attend all committee meetings including Council, Cabinet etc and are able to raise questions to members</li> <li>• Council meeting minutes and agendas available via council website</li> </ul>  |
| 6.4 | We have arrangements in place to engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and establish explicit processes for dealing with these competing demands. | <ul style="list-style-type: none"> <li>• Area Forums</li> <li>• Strategies, policies and other publications are available in alternative formats upon request.</li> </ul>   |
| 6.5 | We have established a clear policy on the types of issues that the public and service users will be consulted on. This includes providing a feedback mechanism for those consultees to demonstrate what has changed as a result.                                   | <ul style="list-style-type: none"> <li>• Consultation &amp; Engagement Strategy</li> <li>• The Consultation Calendar forms a central register for recording all engagement activities across the Council.</li> <li>• Information regarding community engagement is clearly articulated on a dedicated section of the South Kesteven website.</li> </ul>   |
| 6.6 | We publish performance information that gives information on the Council's vision, strategy, plans and financial statements. We also publish information about outcomes,   | <ul style="list-style-type: none"> <li>• We publish an annual summary of performance information and our financial statements. Key</li> </ul>   |

|     |  |  |
|-----|--|--|
|     | <p>achievements and service user satisfaction.</p>   | <p>messages on performance issues are included in the magazine which is delivered to every household –e.g. recycling performance</p> <ul style="list-style-type: none"> <li>• Performance information and performance reports are published on the Council's website.</li> <li>• Corporate Plan 2011-2015</li> <li>• Customer Access Strategy</li> <li>• Council Tax leaflet</li> </ul>                                  |
| 6.7 | <p>The Council as a whole is open and accessible to the community, service users and employees. We have a commitment to openness and transparency in all our dealings, including partnerships, subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.</p> | <ul style="list-style-type: none"> <li>• Council agendas and minutes are published on the Council's website</li> <li>• Freedom of Information Publication Scheme</li> </ul>  |
| 6.8 | <p>We have developed and maintain a clear policy on how employees and their representatives are consulted and involved in decision-making.</p>   | <ul style="list-style-type: none"> <li>• Trade Unions consultation through Joint Consultative and Negotiating Group</li> <li>• Staff surveys</li> <li>• Staff Development Reviews</li> <li>• Open door to discuss issues with the Chief Executive and strategic directors</li> <li>• Staff suggestion scheme</li> <li>• Weekly e-mail newsletter to staff (Insight)</li> <li>• Establishment of a staff forum</li> </ul> |

## REPORT TO GOVERNANCE AND AUDIT COMMITTEE

### REPORT OF: HEAD OF FINANCE

REPORT NO.: HOF197

DATE: 29<sup>th</sup> June 2012

|   |   |                                      |
|---|---|--------------------------------------|
| <b>TITLE:</b>                                     | <b>ANNUAL GOVERNANCE STATEMENT (DRAFT) 2011-12</b>  |                                      |
| <b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b> | N/A   |                                      |
| <b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>    | Cllr Paul Carpenter<br>Governance and Communication Portfolio Holder  |                                      |
| <b>CONTACT OFFICER:</b>                           | Richard Wyles, Head of Finance<br><a href="mailto:r.wyles@southkesteven.gov.uk">r.wyles@southkesteven.gov.uk</a><br>01476406210   |                                      |
| <b>INITIAL IMPACT ASSESSMENT:</b>                 | Carried out and Referred to in paragraph (7) below:<br>N/A  | Full impact assessment Required: N/A |
| <b>Equality and Diversity</b>                     |   |                                      |
| <b>FREEDOM OF INFORMATION ACT:</b>                | This report is publicly available via the Your Council and Democracy link on the Council's website:<br><a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>   |                                      |
| <b>BACKGROUND PAPERS</b>                          | Agendas and Minutes of Governance & Audit Committee Meetings 2010-11 and other related documents - available via the Your Council and Democracy link on the Council's website: <a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a> |                                      |

### 1. RECOMMENDATION

It is recommended that the Committee reviews the contents of the Draft Annual Governance Statement and provide feedback based on its work and findings during the last financial year.

### 2. PURPOSE OF THE REPORT

The Council is required to produce an Annual Governance Statement in accordance with the CIPFA/SOLACE framework "Delivering Good Governance in Local Government" to meet the statutory requirement set out in Regulation 4(3) of the Accounts and Audit Regulations 2011. The Statement is an open and transparent

review of the effectiveness of the Council's system of governance, risk management and internal control, including performance across all of its activities.

The Statement also takes account of the Application Note to Delivering Good Governance in Local Government: a Framework published in March 2010. This note has been developed to advise on the application of the CIPFA Statement on the Role of the Chief Financial Officer (CFO) in Local Government under the CIPFA/SOLACE framework. It illustrates how the governance requirements to support the principles in the CFO Statement need to be reflected in the Local Code of Governance and hence the Annual Governance Statement. The Application Note has been prepared as interim guidance prior to a full review of the CIPFA/SOLACE framework.

### **3. DETAILS OF REPORT**

The draft Statement, attached in the Appendix A incorporates the findings contained in the Annual Internal Audit Report and key reports published by the Audit Commission, including the Annual Governance Report and Annual Audit Letter, etc. In some respects, the Statement is forward looking because it makes reference to proposed legislative changes that will most likely impact on the Council's developing policies and procedures, e.g. Localism Act (2011). It can be further amended to reflect any feedback from the Governance and Audit Committee prior to its submission for approval alongside the Statement of Accounts 2011-12.

Members of this Committee, being "those charged with governance" on behalf of the Council, are asked to review and scrutinise the contents of the Appendix based on their work undertaken during the last financial year.

### **4. OTHER OPTIONS CONSIDERED**

The production of an Annual Governance Statement is a statutory requirement so no other options are available.

### **5. RESOURCE IMPLICATIONS**

The report has no direct impact on the Council's resources, including finance/budget, people, land/property, etc.

### **6. RISK AND MITIGATION**

If an AGS is not included within the Statement of Accounts the Council is at risk of having its accounts qualified for non compliance with its statutory responsibilities.

### **7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT**

N/A

### **8. CRIME AND DISORDER IMPLICATIONS**

N/A

## **9. COMMENTS OF FINANCIAL SERVICES**

Good corporate governance arrangements are vitally important to all tax payers and residents. The Annual Governance Statement is an open and transparent document which clearly demonstrates the work the Council is undertaking to ensure good governance arrangements remain in place.

## **10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

The draft Annual Governance Statement has been developed in accordance with guidance issued by CIPFA and SOLACE on the delivery of good governance in Local Government. Any feedback given by the Committee will be incorporated in the final draft statement where appropriate and, if approved by the Leader and Chief Executive, will be reported alongside the Statement of Accounts for 2010-11.

## **11. COMMENTS OF OTHER RELEVANT SERVICES**

N/A

## **12. APPENDIX**

Appendix A - Draft 2011-12 Annual Governance Statement

**SOUTH KESTEVEN DISTRICT COUNCIL  
ANNUAL GOVERNANCE STATEMENT 2011/2012**

**Introduction**

The Council is committed to ensuring good governance principles and management practices are adopted throughout the Council. This Annual Governance Statement (AGS) conforms with the governance requirements of the CIPFA Statement on the Role of the Chief Financial officer in Local Government as set out in the Application Note to the “Delivering Good Governance in Local Government: Framework” and meets the statutory requirement set out in Regulation 4(3) of the Accounts and Audit (England) Regulations 2011.

The statement is an open and honest review of the effectiveness of the Council’s system of internal control, including performance across all of its activities. It is inevitable that during a rigorous and robust review of the Council’s operations issues will be identified to be addressed. Therefore, a key element of good governance is to ensure that there is a clear action plan for addressing these issues and this reflects the approach taken by this Council, i.e. the AGS sets out the actions being taken or required in the future to address areas of concern identified.

The AGS covers all significant corporate systems, processes and controls, spanning the whole range of the Council’s activities, including the following:

- The Council’s policies are implemented in practice
- High quality services are delivered efficiently and effectively
- The Council’s values and ethical standards are met
- Laws and regulations are complied with
- Required processes are adhered to
- Financial statements and other published performance information are accurate and reliable
- Human, financial, environmental and other resources are managed efficiently and effectively.

The self-assessment contained within this statement has been produced taking into account reports by Internal Audit together with a wide range of external sources, including the Audit Commission’s Annual Audit Letter and Annual Governance Report that feature the results of the annual audit of the accounts and the Council’s arrangements for securing value for money in its use of resources. The statement has also been prepared by taking into account assurances from both Heads of Service and Service Managers from across the organisation together with regular reviews of risk management. In preparing this statement account has been taken of both the statutory codes and the ethical governance tool-kit produced by the IDEA<sup>1</sup> and the CIPFA Financial Advisory Network.

---

<sup>1</sup> IDEA – Improvement and Development Agency

### **The Importance of Good Governance**

Good governance leads to good management, good performance, good stewardship of public money, good public engagement and ultimately, good outcomes for residents and service users. Good governance enables the Council to pursue its vision effectively as well as underpinning that vision with mechanisms for control and management of risk.

Good governance means:

- Focusing on the purpose of the Council and outcomes for the community and creating and implementing a vision for the local area
- Members and officers working together to achieve a common purpose with clearly defined functions and roles
- Promoting the values of the Council and demonstrating the values of good governance through upholding high standards of conduct and behaviour
- Taking informed and transparent decisions which are subject to effective scrutiny and managing risk
- Developing the capacity and capability of members and officers to be effective
- Engaging with local people and other stakeholders to ensure robust public accountability.

### **Scope of responsibility**

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Council is responsible for putting in place proper arrangements for the governance of its affairs including the management of risk. Whilst the Cabinet and Senior Managers are responsible for delivering the Council's services and activities within these arrangements, the Governance and Audit Committee is responsible for reviewing the effectiveness of these arrangements on behalf of the Council. It is also responsible for making any recommendations necessary as a result of its review together with any issues identified as a result of reports from external review bodies such as the Audit Commission or the Local Government Ombudsman.

The Council has approved and adopted a Local Code of Corporate Governance the most recent version was reviewed, updated and approved by the Governance and Audit Committee at its meeting on 29<sup>th</sup> June 2012. The Code is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". A copy of the Code is available on our website at [www.southkesteven.gov.uk](http://www.southkesteven.gov.uk).

### **Purpose of the Governance Framework**

The governance framework comprises the systems and processes, and culture and values by which the Council is directed and controlled and through which it accounts to, engages with, and leads the community. It enables the Council to monitor the extent to which it has delivered on its corporate priorities and to consider whether this has led to the delivery of appropriate cost-effective services.

The Council's system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives. It evaluates the likelihood of those risks coming to fruition and their impact should they do so, and identifies ways to manage them efficiently, effectively and economically.

The governance framework has been in place throughout the financial year which ended on 31 March 2012 and continues to be in place up to the date of the approval of the Statement of Accounts.

### **The Governance Framework**

During the year the Council has realigned its visions and priorities for the future by establishing a 2021 vision for South Kesteven which is a place that has vibrant communities where people want to live, work and invest (healthier, wealthier, happier, safer people). Underpinning the Council's vision is the new corporate plan for 2011-15 which was approved by Council at its meeting on 3<sup>rd</sup> March 2012 and provides the strategic direction over the coming years.

Putting customers at the heart of all we do is the focus of the Council's priorities which encompass 4 themes: Grow the Economy, Keep SK Clean, Green and Healthy, Promote Leisure, Arts and Culture and Support Good Housing for All. These themes allow us to focus on what really matters to local residents and businesses and to deliver on the things that make a difference to them. We will continue to consult and engage with the local community to make sure we focus on creating the right environment to deliver the Council's vision which is all underpinned by the ethos of a Well Run Council.

Progress against these priorities is monitored by both the Cabinet and the Management Team, through a process of regular monitoring and reviewing key performance measures and data. A Programme and Performance board has been established, strengthening performance management for all Council activities. This will take ownership for the achievement of the Business Transformation Plan objectives, and will also address the Corporate Priority Programme as it progresses. Governance arrangements have been developed to ensure that the necessary controls and assurance processes are in place to support successful delivery of the Programme. The Programme and Performance Management Office (PMO) provides monitoring, control and reporting across the programmes of activity.

The Council publishes an Annual Report which provides an overall view of performance. Feedback on the report is encouraged and the form and content is changed taking into account the needs of local residents. In addition, a summary of accounts is produced annually that is simple for residents to understand.

### Measuring the quality of services for users

Following consultation with users the Council specifies service standards for those aspects of service delivery which are reflected in new Corporate Service Plans. Satisfaction surveys are undertaken by key services following the provision of services. In the preparation of the corporate service plans, Head of Service and Service Managers have established a key number of value for money monitor the efficiency of service delivery. Alongside this all service areas have undertaken Equality Impact Assessments on delivery of their services with high impact customer focused areas having been through a peer challenge undertaken by the Community Focus Forum. The Council has also been through a self assessment and peer challenge were it successfully gained an *achieving* level standard as set out in the Equality Framework for Local Government.

The Council also has in place a customer feedback process which monitors the level of both positive and negative comments from residents in the delivery of council services. This is tracked through the corporate performance management system in order to provide meaningful data to the management team. The added benefit of using this system is to identify common themes, specific areas of improvement but to also celebrate success in the positive way we do things. During 2012/13 the Council is looking to enhance and compliment this through the development of an over arching Customer Access Strategy.

The budget process for 2012/13 built on the detailed public consultation undertaken during 2010 and was supplemented by community drop in sessions during the early part of 2012 which was designed to establish the areas that local people were most likely to agree to service changes should the need arise. This also gave the Council important and detailed information on what services were most valued by its customers. As a result of the listening to residents feedback when formulating the councils plans the 'Cleaner, Greener, Safer' campaign came out as a key focus area which has subsequently become one of our four key priorities under the 'Keep SK Clean, Green and Healthy'.

Against the background of the economic downturn, recession and the increasing demand for its services, the financial position of the Council remains challenging. Following the 2010 Comprehensive Spending Review, the Council suffered a significant reduction in central government funding together with a reduction in income from fees and charges and growth in costs in some areas. In addition, the impact of the economic climate continues to place a higher demand on particular services in relation to social care and well being, specifically benefit advice and support and homelessness. Despite this and the prospect of further cuts in government funding in future years with the proposals around Business Rate retention and Universal credit, the Council is doing everything it can to continue to provide high quality services to local residents whilst maintaining a sound financial base. For 2012/13, a balanced budget was achieved with zero council tax increase (for the second year in a row) and no reduction in the level or quality of services.

According to the Audit Commission in its 2010/11 Annual Audit Letter published in December 2011, "the Council has demonstrated leadership in a difficult economic climate and has responded positively to the Comprehensive spending review. The financial resilience is robust and has taken appropriate action through the year to maintain an appropriate medium term financial plan."

## APPENDIX A

Despite a large cut in the Councils grant from central government the Council has been working hard to minimise the impact on local people through a carefully managed programme of spending reduction. There have been substantial changes to the way we operate, streamlining management and 'back office' costs, as well as delivering services differently, including joining up with the other councils to share management expertise. The regeneration of our towns (growing the economy) continues to be an important focus with over £5m being allocated to redevelopment of projects within Grantham and Bourne. Some of our key achievements are:

- Improved street and environmental cleanliness
- 96% of Council homes are now classed as meeting decent standard which exceeded the target for the year and was a 5% improvement on the previous year.
- 94% of customers are now seen within 10 minutes of their appointment time.
- All levels of planning applications have seen a significant increase in their processing times compared to 2010/11
- Over 387,000 people visited the council's website during 2011/12 which was a 74% increase on the previous year.
- There has been a 6.5% increase in the number of visitors to the councils leisure centres
- A survey of leisure centre users found that 95% are satisfied with their facilities
- Nearly 90% of all local suppliers are paid within 10 working days which again is an improvement when compared to 2010/11

The Council has established an ambitious Corporate Plan which sets out our Strategic direction over the coming years and reflects the four focus priorities areas. A copy of the corporate is available on our website at [www.southkesteven.gov.uk](http://www.southkesteven.gov.uk). We will also continuously monitor our progress against delivery to ensure ongoing service quality and value for money in the delivery of local services. In order to support the successful achievement of our ambitions the Councils has strengthened its performance management framework through the establishment of a Performance Programme Board.

### *Value for Money*

During 2011, the Audit Commission assessed the Council's corporate arrangements and concluded that, overall, the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. More specifically, it reported that the Council:

- Have a history of good financial controls and have maintained these arrangements
- Demonstrated leadership in a difficult economic climate and responded positively to the Comprehensive Spending Review
- Has a clear understanding of the financial position and a number of cost saving initiatives have been successfully implemented
- Has significant reserves in place to help it deliver its plans
- The medium term financial plan is in line with Councils Strategy
- Understands the impact of reductions in government funding and has plans in place to respond
- Resources are prioritised in line with the vision, using consultation and reporting
- Benchmarking data shows South Kesteven to be a low cost council
- Decision making is underpinned by good financial information and reporting
- Works well in partnership and is exploring new ways to help meet the future funding gaps

The Council has plans in place to secure continuous improvement in all these areas. It is tackling the issues that local people recognise as priorities and has plans in place for improving services and performance that are actively monitored. As part of the new corporate service plans developed by Heads of Service these contain VFM indicators to measure the efficiency of service areas. Performance and progress is also monitored in monthly one to ones meetings between each Head of Service and a Strategic Director.

Alongside the performance measures outlined in the corporate service plans a suite of performance measures are also being collated as part of the SK Business Plan which is being developed and are aligned to each of the priorities they will be used monitor our performance to ensure our direction of travel is moving positively towards improving our district. The Council's Corporate Performance Management system is being effectively used as a tool to manage performance data; risk; and the project management of key projects.

### **The roles and responsibilities of members and officers.**

The Council's Constitution defines the responsibilities of the members and officers involved in building and maintaining high standards of governance. Also, the Constitution defines the role of the various Member forums, including the role of the Cabinet, Policy Development Groups, Scrutiny Committee and the Governance and Audit Committee. During the year these have been clearly communicated to both members and officers through training and development sessions. These will continue to be developed to reflect the changing needs and requirements of the Council. There is a specific area on the council's website on 'becoming a councillor' which contains information on what they do and the role of councillors in general.

### **Standards of behaviour for members and staff**

The Council has adopted codes of conduct for both members and staff and these are detailed within the Council's Constitution. Compliance with the member's Code of Conduct is currently monitored by the Standards Committee. With the announcement that the Standards Board regime is to be abolished during 2012 (although we are still awaiting the final details regarding regulations etc), the Council will ensure appropriate arrangements are put in place at a local level to maintain high levels of conduct and ethical behaviour amongst its members. This includes adopting a new code of conduct which is consistent with the 7 principles of standards in public life and the introduction of 'Disclosable Pecuniary Interests'.

The Council has approved and adopted a Local Code of Corporate Governance. The most recent version was reviewed, updated and approved by the Governance and Audit Committee at its meeting in June 2012.

### **The Constitution, Financial Regulations, Scheme of Delegation and Contract Procurement Procedure Rules**

The Council's Constitution is reviewed and updated to ensure it remains fit for purpose and reflects legislative change, etc. Various amendments have been considered and approved by the Council based on the recommendations of the Constitution Committee. In April 2011, the Committee considered a number of amendments to the terms of reference of the Governance & Audit Committee. These were approved by Council in May 2011.

The Council's Financial Regulations are regularly reviewed and updated by the Head of Finance to ensure they remain fit for purpose. These were updated during the course of 2011 with the proposed amendments being endorsed by the Governance and Audit Committee prior to formal sign off by Council at its meeting on the 20<sup>th</sup> October 2011.

During 2011/12 the council also took the opportunity to update its Contract and Procurement Procedure Rules to ensure they were in line with current best practice and supported the Council in making efficient and effective procurement decisions. Again these proposed amendments were endorsed by the Governance and Audit Committee prior to formal sign off by Council at its October 2011 meeting.

Both of the policies reviewed above were rolled out to the relevant officers via the councils corporate policy management software.

### **Ensuring the Council's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010)**

The Council's financial management arrangements complied in all respects with the governance requirements of the above Statement. In particular:

- the role of the Chief Financial Officer (CFO) was undertaken by the Strategic Director – a professionally qualified accountant with direct access to the Chief Executive, Leader of the Council and other Cabinet Members. They also have direct access to the Governance and Audit Committee and external audit
- through the Head of Finance, who is also a professionally qualified accountant, the CFO has a line of professional accountability for all finance staff and the finance function is fit for purpose
- the Council has established robust arrangements to manage its finances, including, a Medium Term Financial Plan, annual budget process and compliance with CIPFA's Codes and Guidance on a Prudential Framework for Capital Finance; Treasury Management; and the management of reserves, etc.
- the Council maintains an effective internal audit service and an effective risk management system is in place

### **Undertaking the core functions of an Audit Committee.**

The Governance and Audit Committee was established by the Council in March 2007 and its terms of reference were prepared to ensure that it complies fully with the guidance provided by CIPFA<sup>2</sup>. The key areas covered by the committee's terms of reference are Audit Activity; Risk Management, Governance, Regulatory Framework; Accounts and Financial Reporting; and Ombudsman. More recently, further amendments to the terms of reference were approved by Council in May 2011 in order to bring them into line with best practice and the Council's developing needs. These included:

- The committee, led by the chairman may request private meetings with both the internal and external auditors (a private meeting with Internal Audit was held in December 2011)
- Incorporate the changes regarding the Bribery Act 2010 as part of its Counter Fraud remit
- Review an annual report for Health & safety, Business Continuity and partnerships.
- To produce a Chairman's Annual Report on the activities of the Committee and present to Council (this was presented to Council at its meeting on 3<sup>rd</sup> May 2012)
- To consider the outcome of a self-assessment of the effectiveness of the Committee's work (at least bi-annually)

Members of the Committee are required to undertake some mandatory training including training on the role of an effective Audit Committee and its terms of reference. In line with its revised terms of reference, members of the Committee have also received training during the course of the year in specific areas, including treasury management, risk management and counter fraud.

At the meeting of Council in May 2012, members considered the Chairman of the Committee's Annual Report on the key outcomes arising from the work of the Governance and Audit Committee for 2011/12. Members acknowledged that these outcomes had helped to improve and strengthen the Council's overarching control environment and governance arrangements. In line with best practice and to ensure that Members become better informed and therefore engaged with the work of the Committee, an indicative annual work plan and timetable was also presented to Council in May 2011. It was also noted by the Audit Commission in their Annual Governance Report that the Governance and Audit Committee provides robust challenge of financial assumptions and plans.

### **Compliance with laws, regulations and internal policies and procedures**

Matters arising in respect of Governance regularly received and discussed with senior offices for the council at its management team meetings. Reports to Council, Cabinet, Policy and Development Groups, Governance and Audit Committee, Scrutiny Committee and Portfolio holders for non key decisions contain comments from Legal & Democratic Services and from Financial Services. Reports are also reviewed for compliance with internal policies. The Member Report Template for key and non-key decisions is regularly reviewed and updated to ensure it remains fit for purpose.

---

<sup>2</sup> Audit Committees – Practical Guidance for Local Authorities published 2005

The Council has procedures in place to identify and implement new and changing legislation. More specifically, changes to policies and procedures as a result of the Localism Act (2011) are being closely monitored at service and corporate level which actions being taken to implement the requirements. These include the publishing of a pay policy statement and the abolition of the Housing Revenue Account (HRA).

Service managers and corporate heads have continued to complete Quarterly Assurance Statements in relation to the effectiveness or otherwise of the systems and controls in operation on a day to day basis. The outcomes of these are discussed in the monthly one to one meetings with heads of service and strategic directors. Where required these will be escalated to management team by exception.

### **Whistle-blowing and Investigating complaints from the public.**

The Council's Counter Fraud, Corruption & Bribery Framework was reviewed, updated and approved by the Governance & Audit Committee in March 2011 with specific reference to the new requirements relating to the Bribery Act 2010 and the addition of a fraud response plan. This incorporated the following 5 key elements:

- Seven principles of public life
- Whistle-blowing Policy
- Housing Benefit & Council Tax – Counter Fraud Policy
- Fraud Response Plan
- Anti-Money Laundering Policy (revised June 2009)

The Council's whistle-blowing policies and any complaints from the public regarding governance matters are considered, where appropriate, by the Management Team. Training is provided as part of the Induction programme for new employees on Counter Fraud and Whistle blowing. The latest version of the framework was rolled out to all staff via the council's policy management software to ensure they have been read and understood.

During 2011/12, the Council completed the implementation of the final recommendations arising from a fraud thematic review previously undertaken by internal audit which showed that compared to good practice, the Council's arrangements are sound. They also suggested areas which the council look at which would strengthen further the current arrangements, including fraud awareness. This was achieved through the launch of a new intranet site specifically focused on Governance and Risk issues and in particular a whole section around Counter Fraud.

The Council also takes part in the Audit Commission's National Fraud Initiative and has set procedures in place for dealing with any highlighted data matches identified by this process.

A range of customer information is produced, including the level of customer feedback received in connection with various services in order that issues of concern can be addressed and lessons learnt. The number of enquiries and complaints received by the Ombudsman has fallen to a relatively low level in recent years of which the last report stated there were no findings of maladministration. There has also been a marked improvement in response times with the Council recognising that it needs to do all that it can to ensure enquiries are dealt with efficiently and effectively and complaints resolved as quickly as possible.

### **Training for members and senior officers**

During 2011/12 relevant members of Council Committees have attended training courses that deal with corporate governance as well as other corporate issues. The Council has recognised that it is important to ensure that all Members are actively engaged in helping to improve and strengthen the Council's governance arrangements in all areas of their work for the local community. In May 2011 the council saw an influx of new members following the elections which required them to undertake core mandatory training as part of their new roles and also induction training for the 24 newly elected members

The training needs of all employees are formally assessed through their Performance Development Reviews with specific training has been provided for officers in respect of risk management and understanding the governance framework.

### **Communication and consultation**

Under the Localism Act (2011), there is a greater requirement for consultation and engagement with local communities. One of the main provisions resulting from the act is the ability for the public to require a local referendum to be held on any issue that they thought important, specifically around Council Tax increases.

The Council is already committed to consulting and engaging with the local community and has a Consultation Strategy and toolkit in place to facilitate this. There is a clear framework for consulting with its communities through resident drop in sessions held during the year which have also been supplemented by specific consultation events on key issues such as the Southern Quadrant. There are also various community events which the Council attend to provide an opportunity to engage with residents which are all outlined in the councils Consultation Calendar.

Following the call on local authorities to provide greater openness and transparency, all elements of the transparency agenda, including the publishing of payments to suppliers over £500, member's allowances and headcount of staff are now published on the website each month so that the public can access the information.

The Council's newspaper "SK Today" is the principal method for communicating with the Council's 131,200 residents on the roles and responsibilities of the Council. According to the Audit Commission, the Council communicates well with residents, as it uses consultation with stakeholders to prioritise resources in line with South Kesteven vision. Telephone answering has improved with more calls being answered with 28 seconds by staff thanks to targeted training which has meant the customer services team answered over 162,000 calls. A joint customer access point is being set up with partners in Bourne which will provide customers with a range of council services alongside the County Council and Town Council.

The Council's improved communications with tenants has been maintained and the resident involvement strategy has been updated. Involvement of all individuals is monitored and checked against base line tenant data to ensure they are representative and any under-represented groups are identified and targeted to ensure that there is a fair access for all customers. No barriers to involvement were identified in a recent equality impact assessment. Work is ongoing to comply with the localism act and tenant scrutiny obligations and increase on-line remote accessibility.

The Council will continue to develop external accountability through continuing to seek stakeholder views and incorporate information in relation to the Council's environmental footprint. It will also continue to improve the way information is made more accessible to customers by developing its website publication scheme and consulting on the form and content of the information provided.

### **Governance arrangements for partnerships**

The Council has participated in a number of partnerships aimed at improving the services it provides to the community such as the South Lincolnshire Community Safety Partnership, Grantham Growth Point and Town Centre Management Partnerships.

The Council has incorporated the impact of joint plans and partnerships within the Medium Term Financial Plan (MTFP) which was reviewed as part of the 2012/13 budget setting process.

When drawing together different partners with varying organisational cultures and methodologies for handling governance issues, it is important that clear protocols are established at an early stage to minimise and manage risk. Accordingly, a Protocol on Partnerships was approved by the Governance and Audit Committee and adopted in December 2008.

The Council routinely reviews the performance of partnerships to ensure that they are achieving their aims and objectives but further work is required to ensure they are providing good value for money and remain fit for purpose. The Lincolnshire Bridge partnership tool is used for assessing partnerships and the Council produces an annual report on the performance of partnerships, including an action plan.

The Council has in place procedures for assessing the risks of partnerships, including the compilation of joint plans and joint risk registers. Following a recommendation by Internal Audit the Council also strengthened its reporting arrangement on partnerships with the production of a Partnerships Annual Report. This was reviewed by Governance and Audit Committee at its meeting on the 30<sup>th</sup> June 2011.

With the gradual introduction of Local Enterprise Partnerships, some of the Council's partnership arrangements may be subject to change. Governance, performance reporting, data quality and information sharing for significant partnerships will continue to be reviewed in light of future requirements.

### **Internal and External Audit**

Internal audit files and reports for key financial systems are reviewed annually by the Audit Commission in order for them to place reliance on this work. As in previous years, it is expected that they will be able to place full reliance on the work of internal audit and any recommendations made by the Audit Commission will be consistent with those made by internal audit.

New arrangements for the recording, tracking and follow-up of internal audit recommendations have been introduced through the implementation of a recommendation tracking software. This has facilitated more accurate monitoring and reporting of the progress made by service managers in implementing audit recommendations. It is also used by our Internal Auditors to support a more efficient follow up review process with service areas.

The Council has responded to the Government's Consultation Paper on the future of local public audit following the planned abolition of the Audit Commission in 2012/13. Members of the Governance and Audit Committee have been kept informed of developments throughout the year and were also involved in the formulating the consultation response.

In January 2012 DCLG published the government's response to the consultation, which confirmed there was still some further work to do in a number of areas. In the Queen's Speech in May 2012 the government confirmed its intention to publish a draft Bill on the future arrangements for local public audit for further scrutiny and comment. The draft Bill will outline how the current audit regime and the Audit Commission will be replaced.

In July 2011 DCLG confirmed their preference for transferring the Audit Commission's in-house Audit Practice to the private sector by outsourcing contracts. Subsequently a procurement exercise has been undertaken which means all of the Commission's in-house work will be outsourced in time for the audit of 2012/13 accounts.

### **Risk Management**

The Council has in place a process for identifying, assessing, managing and reviewing the key areas of risk and uncertainty that could impact on the achievement of its objectives and priorities. In particular, risk management is an integral part of the corporate, service and budget planning process. The current risk management strategy was revised and updated and approved by the Governance & Audit Committee in June 2012.

There are risk registers in place for corporate, service, project and partnership risk and these are updated on a regular basis. The Governance & Audit Committee receives a regular briefing on corporate risks and the latest Annual Report will be presented in June 2012 together with an updated version of the Corporate Risk Register. This report details the activity undertaken and provides a summary of the direction risk management will take for the financial year 2011/12. The committee also received regular updates on risk management during the course of the year.

During 2011/12 the risk management group met on a number of occasions with discussions focusing on implementing the Risk Management Road Map covering areas such as corporate risk intelligence and prioritisation, benchmarking and maintaining the service risk profile.

The Council has a service level agreement (SLA) with the Lincolnshire County Council Emergency Planning Unit for the provision of an emergency planning service; this provides the council with a dedicated officer who carries out Emergency Planning and Business Continuity work. The SLA also makes provisions for the support of the County Emergency Planning Team during emergencies and exercises, including gold standard training for strategic level officers.

No significant Business Continuity or Declared Emergency incidents arose during the year 2011/12. During 2012/13 there is a focus on ensuring service managers are committed to the continual review of their business plan. Business Continuity plans are currently being reviewed to ensure that the council is able to respond in the event of an incident. The council's Emergency Plan has also recently been reviewed and updated and is due to be issued in June 2012. During the course of the year a Business Continuity Annual Report was presented to the Governance and Audit Committee at its meeting on the 30<sup>th</sup> June 2011.

**Review of effectiveness**

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is determined by the work of the senior managers within the Council who have responsibility for the development and maintenance of the governance environment. The review is also informed by the Internal Audit Annual Report, comments by the External Auditors and other review agencies and inspectorates.

**The process applied in maintaining and reviewing the effectiveness of the governance framework**

The key players in the process may be summarised as:

| Key Players  | Role and Activity during the year  |
|--|--|
| Council  | <ul style="list-style-type: none"> <li>○ Approve Constitution including Codes of Conduct;</li> <li>○ Approve the budget and policy framework</li> </ul>  |
| Cabinet  | <ul style="list-style-type: none"> <li>○ Priority setting in line with the council's vision and recommending the budget proposals to council that underpin their delivery.</li> <li>○ Financial, performance and risk management of service delivery within the Budget and Policy Framework set by Council</li> <li>○ At least monthly public meetings</li> <li>○ Monthly briefings and development days</li> </ul>  |
| Governance and Audit Committee   | <ul style="list-style-type: none"> <li>○ Five scheduled meetings per annum to:                             <ul style="list-style-type: none"> <li>○ review Financial Regulations and Contract Procedure Rules</li> <li>○ review and scrutinise the Council's governance arrangements, including the outcome of Internal and External audit reports and those of other external agencies such as the Ombudsman</li> <li>○ review the arrangements for managing risk throughout the Council</li> <li>○ scrutinise and approve the Financial Statements on behalf of the Council</li> </ul> </li> </ul> |
| Scrutiny Committee   | <ul style="list-style-type: none"> <li>○ To provide a "critical friend" challenge to the Executive as well as external authorities and agencies</li> <li>○ To reflect the voice and concerns of the public and its communities</li> </ul>  |
| Standards Committee (subject to change following announcement of abolishment during 2012/13) | <ul style="list-style-type: none"> <li>○ Consider allegations of breaches to the Member Code of Conduct</li> <li>○ Undertake the statutory functions of the Standards Committee as set out in the Local Government Act 2000</li> </ul>   |

## APPENDIX A

|   |   |
|---|---|
| Strategic Director (s151 Officer) and Head of Finance (Deputy s151 Officer) | <ul style="list-style-type: none"> <li>○ Overseeing financial strategy and operations and contributing to the effective corporate management and governance of the Council</li> </ul>   |
| Internal Audit  | <ul style="list-style-type: none"> <li>○ Set overall internal audit strategy to meet the Council's overall strategic direction</li> <li>○ Undertake an annual programme of audits</li> <li>○ Present progress reports against the plan</li> <li>○ Make recommendations for improvement in systems and controls and value for money</li> </ul> |
| Management Team   | <ul style="list-style-type: none"> <li>○ Monthly review of budget, performance and risk management</li> <li>○ Consider issues arising out of: <ul style="list-style-type: none"> <li>○ the assurance statements</li> <li>○ review of risk registers</li> </ul> </li> </ul>  |
| Performance and Programme Board   | <ul style="list-style-type: none"> <li>○ Monthly review of projects including: <ul style="list-style-type: none"> <li>○ Progress against milestones</li> <li>○ Resource allocation</li> <li>○ Risks</li> <li>○ Performance measures</li> </ul> </li> <li>○ Evaluation of new and emerging projects</li> </ul>                                 |
| Risk Management Group   | <ul style="list-style-type: none"> <li>○ Officer meetings (membership drawn from service areas) to review operational risks and business continuity</li> </ul>  |
| Service Managers & Heads of Service   | <ul style="list-style-type: none"> <li>○ Complete Quarterly Assurance statements covering: Risk Management; Staff - PDRs, risk and fraud awareness, and awareness and access to core governance documents and guidance; Health Safety; Business Continuity; External reviews; and performance monitoring arrangements</li> </ul>              |

Accordingly, we have been advised of the result of the review of the effectiveness of the governance framework by the Governance and Audit Committee and a plan to address the weaknesses and ensure continuous improvement of the system of internal control is in place. In particular, we have been advised by the Council's Head of Internal Audit (HIA) of the issues highlighted in his Annual Report to the Governance & Audit Committee in June 2012.

In accordance with the Accounts and Audit Regulations and CIPFA Code of Practice on Internal Audit, the HIA is required to provide an opinion on the overall adequacy and effectiveness of the Council's risk management, control and governance processes and this is set out below.

### Significant governance issues:

#### **Internal Audit:**

Internal Audit has completed the program of internal audit work for the year ended 31 March 2012 comprising 19 reviews (plus 6 advisory reviews and 4 follow-up reviews). Overall, this resulted in 14 'Substantial' assurance opinions (green) and 5 'Reasonable' assurance opinions (amber-green). From the 19 reports a total of 63 recommendations were put forward of which all were accepted by management.

Accordingly, based on the work undertaken, the HIA opinion regarding the adequacy and effectiveness of the Council's arrangements for governance, risk management and internal control is as follows:

- **Governance** – the Council received effective assurance in relation to its governance arrangements as only 3 'low' recommendations were identified as part of the committee and reporting structure review. In addition, the assurance opinion on governance is assessed according to the extent to which recommendations are accepted and implemented by management. During 2011/12 the council has continued to make progress to implement the recommendations made by internal audit.
- **Risk Management** – the Council received effective assurance. An advisory Risk Maturity review was undertaken which resulted in no recommendations being made with the key findings showing the Council is achieving Risk Managed Status.
- **Control** – based on the 19 reviews undertaken of the control environment, the Council received effective assurance overall. More specifically, this resulted in 14 positive assurance opinions and no negative assurance opinions. Compared to the previous year which had 2 'no' assurance and 3 with only 'some' assurance opinions the HIA has recognised the marked improvement made during 2011/12

The HIA also commented on their satisfaction with the support given by the Council to internal audit in order to allow them to deliver the plan and provide their overall formal opinion which they have granted permission to use within this AGS.

#### **Other Issues**

In addition, the review underpinning this Governance Statement has identified the following key areas for improvement and these will be addressed during 2012/13. Accordingly, there is a need to:

- Keep under review the relationship between performance and costs as part of Medium Term Financial Planning and further potential cuts in Government grant funding.
- Further improve the procurement of goods and services in accordance with the Council's contract procedure rules and through engagement with Procurement Lincolnshire on the delivery of their 2012/13 work plan.
- Strengthen the links between the overarching corporate plan and service delivery plans with the development of an annual South Kesteven Business Plan to support officers internally in delivery of the required outcomes.
- Further improve the learning and development of members and staff - linked to corporate priorities and staff roles in the 'unlocking their potential' programme.

## APPENDIX A

- Continue to improve and strengthen the engagement and service delivery models to meet customer demand and expectation through the development of a customer access strategy.
- Take into account and respond to the outcome of the review on the Local Code of Corporate Governance which is currently being undertaken by CIPFA.
- Improve the arrangements for tackling fraud by engaging with the Fighting Fraud Locally initiative which has been developed through a Local Government Fraud Strategy.
- Keep under review the issues flowing from the Localism Act and consider the impact on the Council's policies and procedures
- Keep under review the proposed changes featured in the Government's Consultation Papers on Localisation of Business Rates and Universal credit.
- Continue to monitor the outcomes of the Future of public audit requirements following the abolition of the Audit Commission

### **Our commitment to continuous improvement**

The challenges and changes faced by the Council over the next few years will require the maintenance of sound and effective governance arrangements. The overarching assurance framework, including the Governance & Audit Committee is working well but improvements can still be made to further enhance and mitigate the risks of further significant change and uncertainty.

Against this background, we propose over the coming year to take steps to address all of the above areas where improvement is required to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

We give our assurance that the Council as a whole is committed to continuous improvement and believe that we have established the excellent foundations on which to build further capacity to enable us to continue to further develop and strengthen our governance arrangements.

**Signed:**

**Cllr Mrs L. Neal, Leader of the Council**

**Signed:**

**B. Agass, Chief Executive**

## REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF: HEAD OF FINANCE**

**REPORT NO: HOF 198**

**DATE: 29th June 2012**

|   |   |                                  |
|---|---|----------------------------------|
| <b>TITLE:</b>                                     | <b>Annual Report on Treasury Management Activity<br/>2011/12</b>  |                                  |
| <b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b> | None  |                                  |
| <b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>    | Councillor Mike Taylor<br>Well Run Council Portfolio Holder   |                                  |
| <b>CONTACT OFFICER:</b>                           | David Scott, Finance Support Manager<br>01476 406218<br>Email: <a href="mailto:d.scott@southkesteven.gov.uk">d.scott@southkesteven.gov.uk</a>   |                                  |
| <b>INITIAL IMPACT ASSESSMENT:</b>                 | Carried out and Referred to in paragraph (7) below:   | Full impact assessment Required: |
| <b>Equality and Diversity</b>                     | N/A   | No                               |
| <b>FREEDOM OF INFORMATION ACT:</b>                | This report is publicly available via the Your Council and Democracy link on the Council's website:<br><a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>   |                                  |
| <b>BACKGROUND PAPERS</b>                          | HOF148 – Budget 2011/12 3 <sup>rd</sup> March 2011.<br>HOF174 – Treasury Management 2011/12 mid-year review 1 <sup>st</sup> December 2011<br>HOF 177 - 2011/12 Treasury Management Strategy Update 1 <sup>st</sup> December 2011<br>HOF 183 - 2011/12 Treasury Management Strategy Update 8 <sup>th</sup> December 2011 |                                  |

### 1. RECOMMENDATION

Members are asked to note and approve the contents of the annual report on Treasury Management Activity for 2011/12.

### 2. PURPOSE OF THE REPORT

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2011/12. This report meets the requirements of

both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2011/12 the Council adhered to the suggested minimum reporting requirements as members received the following reports:

- an annual treasury strategy in advance of the year (Council 3<sup>rd</sup> March 2011)
- a mid-year (minimum) treasury update report (Governance and Audit Committee 1<sup>st</sup> December 2011)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

Governance and Audit Committee has delegated powers from Council to deal with matters relating to the Councils Treasury Management activities. Specifically it has the responsibility to monitor, review and amend as appropriate the Council approved Treasury Management Strategy during the course of the financial year. During the course of 2011/12 the committee has exercised in part its delegated powers by reviewing and recommending to Council an updated Treasury Management Strategy at its meeting on 1 December 2011 (HOF177).

Recent changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

### **3. DETAILS OF REPORT**

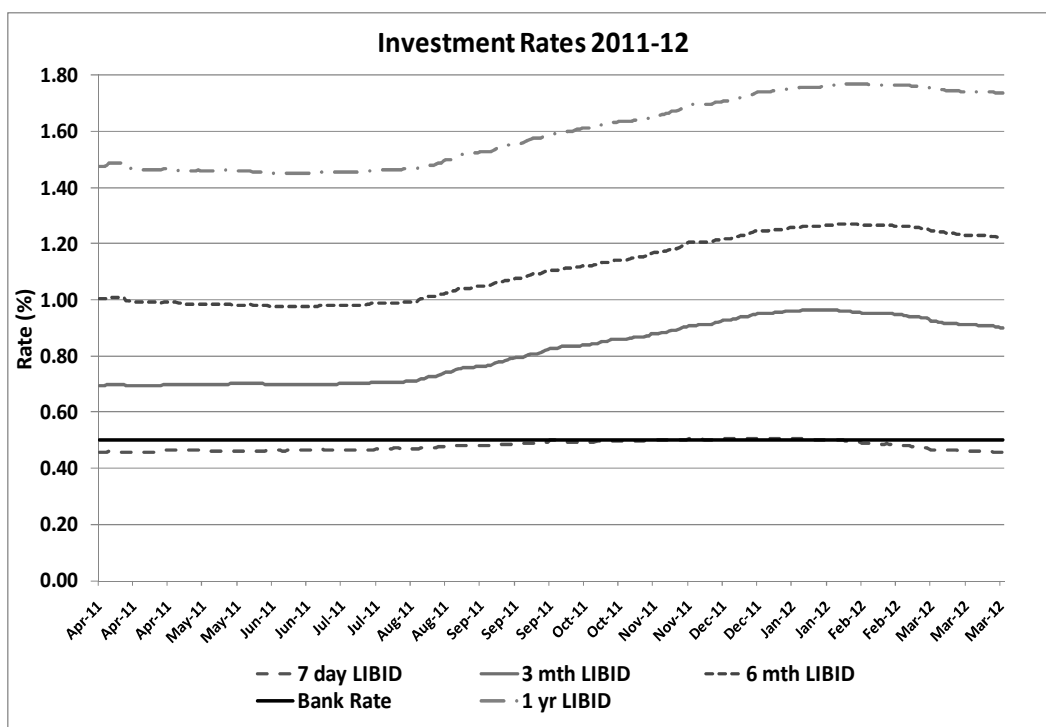
#### The Economy

The financial year 2011/12 continued the challenging investment environment of previous years, namely low investment returns and continuing heightened levels of counterparty risk. The original expectation for 2011-12 was that Bank Rate would start gently rising from quarter 4 2011. However, GDP growth in the UK was disappointing during the year under the weight of the UK austerity programme, a lack of rebalancing of the UK economy to exporting and weak growth in our biggest export market - the EU. The EU sovereign debt crisis grew in intensity during the year until February when a second bailout package was eventually agreed for Greece and more recently a package for Spain has also been agreed. Weak UK growth resulted in the Monetary Policy Committee increasing quantitative easing by £75bn in October and another £50bn in February. Bank Rate therefore ended the year unchanged at 0.5% while CPI inflation peaked in September at 5.2% but then fell to 3.4% in February, with further falls expected to below 2% over the next two years.

#### Interest Rates

During the course of 2011/12 the official Bank Rate remained at 0.5% for the whole of the financial year. Monetary policy was left on hold as the Bank of England looked to promote recovery in economic activity and facilitate the continued improvement to the

UK financial system. The table below highlights the impact of interest rates on investment returns



During the year the Council experienced short term fixed term investment rates ranging from 1.12% to 3.10%, and long term at 2.8%.

### Treasury Position at 31 March 2012

A summary of the Councils position for 2011/12 was as follows:

| Actual borrowing position            | 31 March 2011    |               | 31 March 2012    |               |
|--------------------------------------|------------------|---------------|------------------|---------------|
|                                      | Principal        | Average Rate  | Principal        | Average Rate  |
| <b>Fixed Interest Rate Debt</b>      | <b>£2.500 m</b>  | <b>9.975%</b> | <b>£124.152m</b> | <b>2.960%</b> |
| Capital Financing Requirement        | £6.986m          |               | £128.707m        |               |
| Over/(Under) borrowing               | (£4.486m)        |               | (£4.555m)        |               |
| Investment position                  | 31 March 2011    |               | 31 March 2012    |               |
|                                      | Principal        | Average Rate  | Principal        | Average Rate  |
| <b>Fixed Interest Investments</b>    | <b>£30.000 m</b> | <b>2.48%</b>  | <b>£26.400 m</b> | <b>1.33%</b>  |
| <b>Variable Interest Investments</b> | <b>£1.410m</b>   | <b>0.81%</b>  | <b>£6.605 m</b>  | <b>0.76%</b>  |
| Total Investments                    | £31.410m         | 1.94%         | £33.005m         | 1.24%         |
| Net borrowing position               | (£28.910m)       |               | £91.147m         |               |

## The Strategy Agreed for 2011/12

The strategy for 2011/12 was approved by Council on 3<sup>rd</sup> March 2011. However, in light of the HRA self-financing payment made on 28<sup>th</sup> March 2012 it was necessary to update the strategy to reflect the increase in borrowing. Under Part 1 of the Local Government Act 2003, the Council is required to have regard to the Prudential Code for Capital Finance including the setting of Prudential Indicators. Therefore, as the Council's borrowing position changed significantly in March 2012 the relevant treasury management indicators were updated to reflect this and allow the required borrowing to take place.

In addition to the above and in conjunction with the Council's Treasury Management advisors a review was undertaken during the year on the Treasury Management Practice relating to credit and Counterparty risk management. This led to one change being made to include the criterion of allowing investments to be placed with part-nationalised institutions, as these counterparties would fall within the specified investment category to reflect their high credit quality as they are part owned by the Government.

These changes were incorporated into an amended Treasury Management Strategy which was approved by Council on 8<sup>th</sup> December 2012.

## Borrowing Requirement and Debt

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

The implementation of housing finance reform at the end of the year 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 re-allocation is that this Council made a capital payment to the Department of Communities and Local Government of £121.652m. This resulted in an increase in the CFR of £128.707m at the end of the year which was financed by internal borrowing of £4.555m and external borrowing of £124.152m. There has been no impact on HRA revenue finances in 2011/12 due to compensating adjustments being made in the HRA determination.

|                       | <b>31 March<br/>2011<br/>Actual</b> | <b>31 March<br/>2012<br/>Revised</b> | <b>31 March<br/>2012<br/>Actual</b> |
|-----------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| CFR General Fund (£m) | <b>£4.827m</b>                      | <b>£4.663m</b>                       | <b>£4.534m</b>                      |
| CFR HRA (£m)          | <b>£2.159m</b>                      | <b>£124.480m</b>                     | <b>£124.173m</b>                    |
| Total CFR             | <b>£6.986m</b>                      | <b>£129.143m</b>                     | <b>£128.707m</b>                    |

## Actual debt management activity during 2011/12

**Long Term Borrowing** – £121.652m Additional long term borrowing was required in the period ended 31 March 2012 in relation to the HRA self financing payment and £2.5m PWLB (Public Work Loans Boards) loans are long term debt, outstanding at 31 March 2012.

**Short-Term/Temporary Borrowing** - No short term borrowing was outstanding in the period ended 31 March 2012.

**Debt rescheduling** - No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

## Investment Outturn for 2011/12

**Investment Policy** – The Council's investment policy is governed by Communities for Local Government (CLG) Guidance, which has been implemented in the annual investment strategy approved on 3<sup>rd</sup> March 2011 and subsequently revised on 8<sup>th</sup> December 2011. The investment activity during the year complied to the approved strategy.

As at 31 March 2012 the Council held both long term investments of £3 million and short term investments of £30.005 million. Council's policy is to hold not more than 25% of investments as long term.

**Short Term Fixed Deposits** –In the year short term fixed deposits were made on 6 separate occasions for amounts ranging from £2 million to £6 million. £21 million of deposits were being lent out as at 31 March 2012. There was also £9.005m being invested in instant access deposit accounts including Money Market Funds.

**Long Term Fixed Deposits** –In the year long term fixed deposits were made on 1 occasion for £3 million. £3 million of deposits were being lent out as at 31 March 2012.

The average rate of our portfolio is 1.24%, compared with a budget assumption of average investment balances of £28.405m at 1.5% investment return. Whilst overall the performance rates were lower due to the depressed markets the actual amount of investment income generated was £399k compared to the budget figure of £230k. This is due to the average investment balance being higher than anticipated due to a realignment in the spend profiles across capital schemes. Also, for the 4<sup>th</sup> quarter of 2011/12 the average investment rate had risen to 1.71%.

## Performance Indicators set for 2011/12

This service has set the following performance indicators:

- Debt – Average rate movement year on year
  - 2010/11 of 9.975% compared with 2011/12 average rate of 2.960%
- Investments – Internal returns above the 7 day LIBID rate
  - The Council exceeded the target 7 day LIBID rate of 0.48% through achieving average returns on short term deposits of 1.43%.

Appendix 1 provides more details of the prudential and treasury indicators for 2011/12

As part of role performed by our treasury advisors we are also provided with benchmarking comparative information across all their clients which helps the council understand how its investment portfolio is performing in relation to others. For the quarter ending 31<sup>st</sup> March 2012 our average weight of return was 1.71% compared to 1.39% for other district councils. This reflects the positive work undertaken within the team to maximise our investment returns whilst balancing the exposure to risk.

## Expected Future Activity

The treasury advisors view is for the first increase in bank rate to be in April 2014. With low growth predictions for the UK, and financial markets unconvinced that politicians have resolved the Eurozone sovereign debt crisis, we are likely to continue to experience high levels of volatility. The Monetary Policy Committee is currently split on whether there needs to be another increase in QE in 2012, after some reasonably encouraging economic statistics, indicating that the fall in Gross Domestic Product in Q4 2011 looks like being a one off, rather than the start of a new trend towards recession.

The outlook for the global economy remains clouded with uncertainty. The UK economy has struggled to generate a sustained recovery so this offers little hope for a strong recovery in 2012, and possibly even into 2013. Consumer and business confidence levels are generally low and it is not easy to see potential for a significant increase in the growth rate in the short term.

Given the weak outlook for economic growth, Sector sees the prospects for any interest rate changes before early 2014 as very limited. There is potential for the start of Bank Rate increases to be even further delayed if growth disappoints.

Locally an updated Treasury Management Strategy for 2012/13 was presented to Council on the 1<sup>st</sup> March 2012 taking into consideration the current and future economic climate, whilst maintain the balance between Risk and Returns.

## Summary

Despite a very challenging year given the continued nature of the economic climate the Council's Treasury Management functions have operated effectively during 2011/12 and have successfully achieved the following;

- Repayment of principals have been secured in all deposits;
- Council's cash liquidity requirement has been met throughout the financial year;
- Investment income levels have been higher than predicted;
- Complied with all prudential indicators set for 2011/12;
- Robust management of the Council's debt position;
- Performance Indicators set for 2011/12 have been achieved.
- Benchmarking information shows we are achieving a higher average weight of return compared to the group average.

#### **4. OTHER OPTIONS CONSIDERED**

None

#### **5. RESOURCE IMPLICATIONS**

These are stated in the report.

#### **6. RISK AND MITIGATION (INCLUDING HEALTH & SAFETY AND DATA QUALITY)**

Risk has been considered as part of this report and no exceptional / high risks have been identified.

#### **7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT**

None – this report is retrospective.

#### **8. CRIME AND DISORDER IMPLICATIONS**

None

#### **9. COMMENTS OF FINANCIAL SERVICES**

These are included in the report.

## **10. COMMENTS OF LEGAL AND DEMOCRATIC SERVICES**

This report provides details of the Councils performance in respect of Treasury Management against policy set out as part of the Budget and Policy Framework. Members should note the performance and scrutinise any elements to assist the role of the Governance and Audit Committee in its review of the Treasury Management Strategy.

## **11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER**

None

## **12. APPENDICES:**

Appendix 1 – Prudential and Treasury Indicators 2011/12

## APPENDIX 1 – PRUDENTIAL AND TREASURY INDICATORS 2011/12

During 2011/12, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

| Actual prudential and treasury indicators                    | 2010/11 Actual<br>£000 | 2011/12 Revised<br>£000 | 2011/12 Actual<br>£000 |
|--|------------------------|-------------------------|------------------------|
| <b>Capital expenditure</b>                                   |                        |                         |                        |
| • General Fund   | £4.962m                | £2.337M                 | £2.639m                |
| • HRA  | £3.086m                | £5.410M                 | £4.717m                |
| • Total  | £8.048m                | £7.747M                 | £7.356m                |
| <b>Capital Financing Requirement:</b>                        |                        |                         |                        |
| • General Fund   | £4.827m                | £4.663m                 | £4.534m                |
| • HRA  | £2.159m                | £2.159m                 | £2.159m                |
| • HRA due to housing finance reform ( <i>if applicable</i> ) |                        | £122.321m               | £122.014m              |
| • Total  | £6.986m                | £129.143m               | £128.707m              |
| <b>Net borrowing</b>   | (£28.910m)             | £95.148m                | £91.147m               |
| <b>External debt</b>   | £2.500m                | £122.484m               | £124.152m              |
| <b>Investments</b>   |                        |                         |                        |
| • Longer than 1 year   | £4.000m                | n/a                     | £3.000m                |
| • Under 1 year   | £27.410m               | n/a                     | £30.005m               |
| • Total  | £31.410m               | n/a                     | £33.005m               |

**Net borrowing and the CFR** - 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 2011/12 and 2012/13 from financing the capital programme. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2011/12.

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2011/12 the Council has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

|                                  | 2011/12 pre housing finance reform | 2011/12 post housing finance reform |
|----------------------------------|------------------------------------|-------------------------------------|
| Authorised limit                 | £18.0m                             | £148.0m                             |
| Maximum gross borrowing position | £15.5m                             | £145.5m                             |
| Operational boundary             | £4.0m                              | £133.0m                             |
| Average gross borrowing position | £2.5m                              | n/a                                 |

| Ratio of financing costs to net revenue stream | 31 March.2011 actual | 2011/12 original limits | 31 March.2012 actual |
|--|----------------------|-------------------------|----------------------|
| General Fund                                   | (0.23%)              | (0.51%)                 | %                    |
| HRA (applies only to housing authorities)      | (0.36%)              | (0.60%)                 | %                    |

Summary of

| TABLE 1                 | 31 March 2011 Principal | Rate/ Return | 31 March 2012 Principal | Rate/ Return |
|-------------------------|-------------------------|--------------|-------------------------|--------------|
| Total debt              | £2.500m                 | 9.975%       | £124.152m               | 2.960%       |
| CFR                     | £6.986m                 |              | £128.707m               |              |
| Over/ (under) borrowing | (£4.486m)               |              | (£4.555m)               |              |
| Total investments       | £31.410m                | 1.94%        | £33.005m                | 1.24%        |
| Net debt                | (£28.910m)              |              | £91.147m                |              |

The maturity structure of the debt portfolio was as follows:

|                                | 31 March.2011 actual | 31 March.2012 actual |
|--------------------------------|----------------------|----------------------|
| Under 12 months                | £0.000m              | £0.000m              |
| 12 months and within 24 months | £0.000m              | £1.000m              |
| 24 months and within 5 years   | £1.500m              | £0.500m              |
| 5 years and within 10 years    | £1.000m              | £26.000m             |
| 10 years and above             | £0.000m              | £96.652m             |

The exposure to fixed and variable rates was as follows:

|                                       | 31 March 2011 Actual | 31 March 2012 Actual |
|---------------------------------------|----------------------|----------------------|
| Fixed rate (principal or interest)    | £30.000m             | £26.400m             |
| Variable rate (principal or interest) | £1.410m              | £6.605m              |

## REPORT TO GOVERNANCE AND AUDIT COMMITTEE

**REPORT OF: HEAD OF FINANCE**

**REPORT NO: HOF201**

**DATE: 29 June 2012**

|   |  |                                  |
|---|--|----------------------------------|
| <b>TITLE:</b>                                     | <b>Risk Management Annual Report 2011/12 and Risk Register Update</b>  |                                  |
| <b>KEY DECISION OR POLICY FRAMEWORK PROPOSAL:</b> | None   |                                  |
| <b>PORTFOLIO HOLDER: NAME AND DESIGNATION:</b>    | Councillor Mike Taylor<br>Well Run Council Portfolio Holder  |                                  |
| <b>CONTACT OFFICER:</b>                           | David Scott<br>Finance Support Manager (Finance and Risk)<br><a href="mailto:d.scott@southkesteven.gov.uk">d.scott@southkesteven.gov.uk</a><br>Tel: (01476) 406218   |                                  |
| <b>INITIAL IMPACT ASSESSMENT:</b>                 | Carried out and Referred to in paragraph (7) below:  | Full impact assessment Required: |
| <b>Equality and Diversity</b>                     | N/A  | No                               |
| <b>FREEDOM OF INFORMATION ACT:</b>                | This report is publicly available via the Your Council and Democracy link on the Council's website:<br><a href="http://www.southkesteven.gov.uk">www.southkesteven.gov.uk</a>                              |                                  |
| <b>BACKGROUND PAPERS</b>                          | HOF167–Risk Management Update 29 <sup>th</sup> September 2011<br>HOF181 – Risk Register Update 1 <sup>st</sup> December 2011<br>HOF188 – Governance and Risk Management Update 15 <sup>th</sup> March 2012 |                                  |

### 1. RECOMMENDATION

The Governance & Audit Committee is requested to:

- i) note the contents of this report
- ii) note the latest version of the Corporate Risk Register

### 2. PURPOSE OF THE REPORT

In accordance with the terms of reference of the Committee it has been agreed to produce an annual report on the risk management arrangement in place and activities undertaken. The report being presented covers the 2011/12 period and details the various aspects of work delivered during the course of the year.

### **3. DETAILS OF REPORT**

#### **Risk Management Strategy:**

Risk management, including the implementation of the strategy is a key element of the Council's overall governance arrangements. In June 2011, the strategy was reviewed, updated and the methodology aligned with current best practice. This brought together all key processes involving risk at strategic and service level, including partnerships, project management, health and safety, business continuity, etc. It also sought to clarify the various roles, responsibilities and governance structures. The next update of this strategy is likely to be undertaken in 2013 to ensure it remains fit for purpose and in line with the Councils risk management requirements.

#### **Risk Management Improvement Plan**

In order to ensure the council continued to improve and develop risk management across the authority an updated Risk Management Improvement Plan was approved by the committee in September 2011 to ensure the continued delivery of effective risk management within the Council. This improvement plan included the formulation of a Risk Management Development roadmap which outlined a set of key activities to be completed over the coming 12 months that would add value to the existing risk management arrangements of the Council. The activities outlined in the road map focus on enabling the Council to make better use of its existing risk management intelligence and therefore assist with understanding the implications to the Council as well as contribute to more informed decision making.

#### Maintaining the Service Risk Profile

A refresh exercise on the service risk register was undertaken with service managers in December 2011. This focused on service areas taking their current risk registers and assessing if:

- a) All the previous risks identified were still relevant
- b) How well are these risks being managed and what controls we had in place
- c) Are there any emerging risks that needed to be included

The review focused on 'exceptional risks' which are those scored as high and also covered the most important 'business as usual' risks. The updated service risk register was presented to the Risk Management Group in January 2012 for peer challenge to ensure the scoring and weighting was in line with other areas. These risks were incorporated into the service planning process for 2012/13 and are being managed through the Council's corporate risk management system.

Another development area identified in the improvement plan was to place greater emphasis on the risk commentary within committee reports. Currently, there is a risk section within the reports which potentially isn't utilised effectively as it could be, therefore we have established some guidance for officers on how to make the best use of the risk section in order to ensure members have the access to the relevant risk information where required. This will ensure all decisions are made on a fully informed basis as the aim of the section will be to provide the report

recipient with an understanding of the 'overall' risk profile associated with the report recommendation in the context of the Councils objectives.

Risk Measuring, Reporting and Monitoring

As part of the risk register analysis the use of risk categorisation has been further developed in line with the Risk Management Strategy to assist with identifying risk interdependency. This can assist with improving the robustness of actions being taken to manage risks and where there are similar category type risks, these can be managed together more effectively. This has been incorporated in both the recent service and corporate risk register reviews with risk categories covering:

- Strategic risk
- Operational risk
- Regulatory risk
- Financial risk
- Reputational risk
- Information & data quality risk
- People & management risk
- Health & safety risk
- Legal Risk

Another development around the risk registers was to introduce the use of heat-map reporting which helps to give an overview of where risks sit in the scoring matrix in a user friendly way to supplement the more detailed risk registers. The corporate risk heat map was presented to the committee for the first time at its meeting in December 2011 and was well received.

Alongside the corporate and service risk registers the Council has other types of risk namely; Project, Health & Safety and Partnerships. In order to ensure the Council can effectively manage these and understand how the risks are monitored, an exercise has been undertaken to review how they feed into the risk management framework. This has helped to clarify where the above types of risk are being reported and monitored which in summary are:

| <b>Type of Risk</b>     | <b>Where and how are these monitored</b>  |
|-------------------------|---|
| Project risks           | The exceptional risks will be captured / managed through the Councils corporate risk management system and reported to the Performance and Programme Board as part of the new project management methodology. All other risks will be captured on the project risk log and managed as part of the project delivery process. |
| Health and Safety risks | These will also be captured and included on the corporate risk management system and discussed at the health and safety meetings which correlate with the Risk management group.  |
| Partnership risks       | There is a partnership register for all the significant partnerships the Council engages in and this will capture the relevant risks. These will then be reported into the risk management group.   |

One of the other areas identified to assist the Council is ensuring risks are joined up to service delivery and Council objectives by undertaking a risk triangulation / risk mapping process. The triangulation would take the Council priorities, risk (whether project, corporate etc) and performance indicators to fully understand the how the delivery of priorities are achieved and provide an early warning system if something is falling short of expected targets. Alongside this, mapping each corporate risk against a priority to aid the understanding of the correlation between each risk and priority project. This is an area which is being developed alongside the Programme and Performance Management Office who support the Councils performance and project reporting in order to triangulate and join up the different information flows across the Council.

### Benchmarking

As part of the both the service and corporate risk register reviews the Council also took into consideration benchmarking risks against other local authorities that may be relevant to South Kesteven. The review showed the Council is well positioned in its risk management and appears to have captured all the main risk areas when compared to others. It did assist with providing some more detailed information on risk actions for common categories which have been shared with service areas.

### **Risk Management Group**

Issues relating to health and safety, business continuity, insurance and internal audit are also considered at these meetings as they are all integral elements for services areas in managing their risk profile.

Recently, the risk management group considered the outcome of an internal review of risk management processes, including roles and responsibilities, the risk register system software, and risk identification for service plans and partnerships.

Officers have reviewed current and emerging risks within service plans for 2012/13. In this regard, specific resources was targeted at working with service managers to develop their risk profiles in order to inform their service plans and to generally help to develop the agenda for risk management across the authority.

### **Guidance and Support**

During 2011/12, the council continued to support and provide guidance to officers on the approach to risk management with the development of a dedicated area on the intranet for all risk information. Risk awareness training continues to feature in the corporate training programme for all new staff to ensure that they have an awareness of the Authority's attitude to risk management and an understanding of the methodology used.

In terms of members risk featured as a core area of the induction training and was also covered in bespoke Governance training for the members of the Governance and Audit Committee.

## Risk Maturity Review

During the course of the year and as part of the internal audit work plan for 2011/12 an advisory review was undertaken on the effectiveness of the Risk Management arrangements in place across the Council. The review took into account all aspects of how the Council manages risk including the areas outlined in the risk management improvement plan. A positive conclusion was given overall on how the Council is managing risk effectively and reflects the resource and focus allocated to this area over the past year.

## Corporate Risk Registers

One of the key activities with the Risk Management Improvement Plan was to undertake a refresh of the Corporate Risk Register in conjunction with a number of other areas that would enhance the use of the risk register itself, these included:

- Making use of bespoke risk categories such as economic, reputational, legislative in order to help group risks into areas which may have interdependency's in line with the Risk Management Strategy Categorisation of risks.
- Apply weighting to the Corporate Risks in order to identify the most significant risks that may impact of the Council delivering against its priorities.
- Make use of a heat-map for overall risk reporting to supplement the Corporate Risk Register.

These enhancements to the corporate risk register have enabled the council to have a greater understanding of its risk profile whilst also providing a informative 'snapshot' of the level of risks being faced through the application of heat maps. This is something that was found particularly beneficial by members of the committee when the corporate risk register was presented to them in December 2011 when it was last updated.

In order to ensure the risk register is up to date and fit for purpose for the current environment a recent review has been undertaken in conjunction with Heads of Services and management team to refresh existing risks to ensure they remain relevant and identify any other emerging risks. The resulting and updated Corporate Risk Register can be found at Appendix A. This has resulted in three new risks being included which are:

- **IT infrastructure** – Ability for ICT infrastructure and support systems to be adapted and configured in order to provide a resilient framework, specifically to meet the challenges of agile working and customer information databases.
- **Introduction of Civil Parking Enforcement (CPE)** - Ability to respond to residents parking solutions following the introduction of CPE
- **Tree Stock Condition** – insufficient information relating to the current tree stock condition that is within the responsibility of South Kesteven DC and the inactivity of the incumbent contractor to undertake tree stock condition survey

## **Conclusion**

Members have been kept informed during the course of the year on the Risk Management activities being undertaken which this annual report has brought together to provide an overview of the achievements. These include:

- Having in place a 'fit for purpose' Risk Management Strategy
- Delivery of the Risk Management Improvement Plan and associated Development Road Map
- Internal engagement and guidance for officers through the Risk Management Group
- Continued training and support for both officers and members
- Having in place effective risk management arrangements as independently reviewed by Internal Audit.
- Review and enhancement of both the service and corporate risk register reviews to ensure they are up to date and relevant.

In summary, the Council has made good progress with the continued development and embedding of risk management across the Council. 2011/12 has seen the strengthening of arrangements in place with the delivery of the Risk Management Improvement plan with resources targeted at the actions and outcomes required to ensure continuous improvement. With internal audit supporting the view that the council has in place effective risk management the focus for the coming year will be to maintain the building blocks put in place.

## **4. OTHER OPTIONS CONSIDERED**

None

## **5. RESOURCE IMPLICATIONS**

This report has no direct impact on the Council's resources, including finance/ budget, people, land/property etc.

## **6. RISK AND MITIGATION (INCLUDING HEALTH AND SAFETY AND DATA QUALITY)**

None

## **7. ISSUES ARISING FROM EQUALITY IMPACT ASSESSMENT**

None

## **8. CRIME AND DISORDER IMPLICATIONS**

None

## **9. COMMENT OF FINANCIAL SERVICES**

These are contained within the report.

## **10. COMMENT OF LEGAL AND DEMOCRATIC SERVICES**

Members of the Committee are responsible on behalf of the Council for monitoring actions taken by Cabinet and Management Team to identify corporate business risks and assess whether they are being effectively managed. It is essential they are kept up to date with details of the risks and how they have been mitigated.

## **11. COMMENTS OF OTHER RELEVANT SERVICE MANAGER**

None

## **12. APPENDICES:**

Appendix A – Corporate Risk Register – June 2012

# Corporate Risk Register

June 2012



| Risk Ref | Risk & Risk Category   | Risk Description  | Responsibility Level & Portfolio Holder   | Risk Factors   | Potential Effect  | Controls   | Residual |            |            | Actions   |
|----------|--|---|---|--|---|--|----------|------------|------------|---|
|          |  |   |   |  |   |  | Impact   | Likelihood | Risk Score |   |
| 1        | <b>Economic/<br/>Financial Climate</b><br><br>Financial Risk | 1a<br>Failure to achieve a sustainable Medium Term Financial Plan (MTFP) in response to legislative changes, specifically localisation of council tax benefit and business rate retention | Strategic Director – Corporate Focus<br><br>Head of Finance<br><br>Well Run Council Portfolio Holder<br><br>Good Housing Portfolio Holder | <ul style="list-style-type: none"> <li>Proposed changes to formula grant distribution methodology (Non Domestic Rate)</li> <li>Localisation of council tax benefit changes</li> <li>New homes bonus</li> </ul> | <ul style="list-style-type: none"> <li>Reduction in grant over medium term which could compromise the delivery of council priorities</li> </ul> | <ul style="list-style-type: none"> <li>Scenario planning in order to model potential national changes</li> <li>MTFP underpinning delivery of corporate plan in order to ensure priority actions are deliverable and affordable</li> </ul>  | 3        | 2          | 6          | <ul style="list-style-type: none"> <li>Continue to keep under review all existing and emerging risks and assumptions set out in the MTFP, including linkages to other key strategies and priorities</li> <li>Transformational programme being developed with key actions aimed at ensuring annual balanced budget and medium term financial sustainability</li> </ul> |
| 2        | <b>Partnership Funding</b><br><br>Partnership Risk           | Risk that a loss of partnerships/ Service Level Agreements (SLA), income or grant funding could result in financial implications and a decline in service delivery                        | Strategic Director – Corporate Focus<br><br>Head of Finance<br><br>Strategic Partnerships Portfolio Holder                                | <ul style="list-style-type: none"> <li>Ongoing projects or priority plans which have a dependency on external financial support</li> </ul>   | <ul style="list-style-type: none"> <li>Resource issues to deliver partnership driven projects or increase in financial pressures</li> </ul>     | <ul style="list-style-type: none"> <li>Keep abreast of Government plans and ensure coordinated and managed approach</li> <li>Ensure regular monitoring of SLA's, partnerships and funding</li> <li>Ensure performance information is regularly monitored, reviewed and reported.</li> <li>Ensure effective communication and regular liaison with</li> </ul> | 3        | 2          | 6          | <ul style="list-style-type: none"> <li></li> </ul>  |

| Risk Ref | Risk & Risk Category   | Risk Description   | Responsibility Level & Portfolio Holder  | Risk Factors  | Potential Effect   | Controls  | Residual |            |            | Actions   |
|----------|--|--|--|---|--|---|----------|------------|------------|---|
|          |  |  |  |   |  |   | Impact   | Likelihood | Risk Score |   |
|          |  |  |  |   |  | partners, funding bodies and staff etc  |          |            |            |   |
| 3        | <b>Town Centre Regeneration</b><br><br>Economic Risk         | Failure to deliver on the priorities of the organisation due to prevailing economic and market conditions  | Strategic Director – Development and Growth<br><br>Head of Development and Growth<br><br>Grow the Economy Portfolio Holder | <ul style="list-style-type: none"> <li>Economic uncertainty</li> <li>Lack of certainty with retailers</li> <li>No tradition as an office market location</li> <li>Failure to respond positively to opportunities as they arise</li> <li>Insufficient funding for public sector interventions</li> </ul> | <ul style="list-style-type: none"> <li>Out-migration of businesses to alternative locations</li> <li>Lost opportunity for inward investment and growth of indigenous companies</li> <li>Loss of market share in retailing</li> <li>Difficulty in selling Grantham as a retail destination to investors and shoppers</li> <li>Unemployment</li> </ul>       | <ul style="list-style-type: none"> <li>Ensure key projects are realistically assessed having regard to funding and local economic/ market factors</li> <li>Ensure views of key partners and stakeholders are sought</li> <li>Provide targeted support to projects</li> <li>Provide a framework to set out opportunities in the town centre</li> </ul> | 3        | 2          | 6          | <ul style="list-style-type: none"> <li>Seek funding opportunities</li> <li>Promote town centre through events and festivals</li> <li>Continue investment in public realm to improve attractiveness of the town centre</li> <li>Marketing opportunities for investment in Grantham and provide Development Team to assist enquiries</li> <li>Roll-out shop front scheme</li> </ul> |
| 4        | <b>Performance of the Local Economy</b><br><br>Economic Risk | Failure to identify and implement actions to support the community and businesses to minimise where possible the effects of the economic downturn. | Strategic Director – Development and Growth<br><br>Head of Development and Growth<br><br>Grow the Economy Portfolio Holder | <ul style="list-style-type: none"> <li>Unable to respond adequately to the failure of a large employer or the potential of national and local industrial action</li> </ul>  | <ul style="list-style-type: none"> <li>Unemployment leading to increased cost pressures such as housing benefits</li> <li>Breakdown of supply chain</li> <li>Loss of revenue linked to proposed changes to Non Domestic Rate grant distribution methodology</li> <li>Poor perception of the viability of the District as a place to do business</li> </ul> | <ul style="list-style-type: none"> <li>Business relationship management</li> <li>Protocols in place with partner organisations</li> <li>Destination SK project scoped to attract new business</li> </ul>  | 3        | 2          | 6          | <ul style="list-style-type: none"> <li>Ensure appropriate support available to residents, local community, local businesses and the Council itself</li> <li>Ensure key actions and interventions of council and partners are effectively communicated and managed</li> <li>Ensure the vibrancy of market towns through local economic initiatives</li> </ul>                      |
| 5        | <b>Business or Service Disruptions</b><br><br>Environmental  | Failure to have robust plans and contingency arrangements in place to deal with the impacts of severe weather                                      | All  | <ul style="list-style-type: none"> <li>Failure in provision of service</li> </ul>   | <ul style="list-style-type: none"> <li>Staff shortages</li> <li>Diminished service provision</li> <li>Failure to meet customer's needs</li> <li>Unable to respond to blue light services</li> </ul>  | <ul style="list-style-type: none"> <li>Corporate Business Continuity Plan (BCP)</li> <li>Service BCPs</li> <li>Staff training and awareness</li> <li>Emergency Plan</li> <li>Extra guidance for</li> </ul>  | 3        | 2          | 6          | <ul style="list-style-type: none"> <li>Ensure BCPs and emergency plans are regularly reviewed and updated</li> <li>Ensure action to be taken is clearly communicated to</li> </ul>  |

| Risk Ref | Risk & Risk Category  | Risk Description   | Responsibility Level & Portfolio Holder   | Risk Factors   | Potential Effect  | Controls   | Residual |            |            | Actions  |
|----------|---|--|---|--|---|--|----------|------------|------------|--|
|          |   |  |   |  |   |  | Impact   | Likelihood | Risk Score |  |
|          | Risk<br>Physical Risk   | conditions or industrial action  |   |  |   | industrial action circulated to key staff  |          |            |            | relevant staff and the local community   |
| 6        | <b>Workforce Planning</b><br><br>Reputational Risk (Internal)                               | 6a<br>Failure to recruit, retain and develop staff to an adequate standard                                       | Strategic Director – Corporate Focus<br><br>Head of People, Projects & Performance  | <ul style="list-style-type: none"> <li>Failure to develop workforce strategy and inability to harness skills analysis, resource gap analysis and development of key resources</li> </ul> | <ul style="list-style-type: none"> <li>Poor service delivery</li> <li>Low staff morale</li> <li>High turnover</li> </ul>  | <ul style="list-style-type: none"> <li>Learning &amp; Development Plan principles now agreed to be delivered during year</li> <li>Workforce plan is being developed for whole organisation</li> <li>Leadership programme in place</li> </ul> | 2        | 1          | 2          | <ul style="list-style-type: none"> <li>Tactical response is in place and this has led to 'its all about people' programme including H&amp;S and other generic skills</li> <li>Development and delivery of a corporate learning and development training programme on the back of detailed service plans for 2012/13</li> <li>Workforce delivery plans to be established to develop staff and harness skills across the organisation</li> </ul> |
|          |   | 6b<br>Reduction in staff morale due to organisational change etc   | Well Run Council Portfolio Holder   | <ul style="list-style-type: none"> <li>Failure to manage the communication of organisational change</li> </ul>   | <ul style="list-style-type: none"> <li>Loss of capacity</li> <li>Increased levels of stress and sickness</li> <li>Reduced service delivery</li> <li>Failure to deliver priorities</li> <li>Industrial action</li> </ul> | <ul style="list-style-type: none"> <li>The Council has developed an "Unlocking Our Potential" culture change programme to incorporate leadership, management, customer focus and performance management/delivery</li> </ul>                  | 2        | 2          | 4          | <ul style="list-style-type: none"> <li>Continue to develop the culture change programme</li> </ul>   |
| 7        | <b>Corporate Performance Management Framework</b><br><br>Reputational Risk<br>Customer Risk | Failure to integrate new localised performance framework together with local measures linked to priority actions | Strategic Director – Corporate Focus<br><br>Head of People, Projects & Performance<br><br>Well Run Council Portfolio Holder | <ul style="list-style-type: none"> <li>Inability to evidence performance</li> </ul>  | <ul style="list-style-type: none"> <li>Missed targets</li> <li>Damaged reputation</li> <li>Poor service delivery</li> <li>Poor Value for Money (VFM)</li> </ul>   | <ul style="list-style-type: none"> <li>Establishment of Performance &amp; Programme Management Board</li> <li>Establishment of Programme &amp; Performance Management Office who monitor and</li> </ul>                                      | 3        | 1          | 3          | <ul style="list-style-type: none"> <li>Comprehensive review of the Performance Management Framework being linked to ensuring key priority actions are delivered</li> </ul>   |

| Risk Ref | Risk & Risk Category  | Risk Description                       | Responsibility Level & Portfolio Holder   | Risk Factors  | Potential Effect   | Controls   | Residual |            |            | Actions   |
|----------|---|--|---|---|--|--|----------|------------|------------|---|
|          |   |  |   |   |  |  | Impact   | Likelihood | Risk Score |   |
|          | Financial Risk  |  |   |   |  | <ul style="list-style-type: none"> <li>report on exceptions</li> <li>• Clear project methodology and performance measures in place</li> </ul>  |          |            |            |   |
| 8        | <b>Reputation &amp; Community Liaison</b><br><br>Reputational Risk<br>Customer Risk | Failure to keep the community informed | Strategic Director – Corporate Focus<br><br>Head of People, Projects & Performance<br><br>Localism Portfolio Holder | <ul style="list-style-type: none"> <li>• Increased media scrutiny</li> <li>• Erosion in trust or confidence in the Council</li> <li>• Failure to match social and political expectations</li> <li>• Failure to deliver minimum standards of service to the community</li> </ul> | <ul style="list-style-type: none"> <li>• Loss of public trust and confidence</li> <li>• Failure to deliver on corporate priorities due to perception of the Council</li> <li>• Unable to deliver core services</li> <li>• Additional processes to reassure the public</li> </ul> | <ul style="list-style-type: none"> <li>• Ensure effective communication with media/staff/members</li> <li>• Monitor media coverage and establish strong relationships with media</li> <li>• Communications Plan based on priorities/projects</li> <li>• Partnership working with Community Focus Group on major projects to gain feedback</li> <li>• Consultation feedback on satisfaction with how we communicate with our residents</li> <li>• Regular engagement with our customers to ensure we focus on what is important to them</li> <li>• Our messages are published/promoted through our own magazine SKToday</li> <li>• Members newsletter – Members’ News</li> <li>• Staff newsletter – Insight</li> <li>• Website is closely monitored, updated and improved</li> <li>• Citizen’s panel being</li> </ul> | 3        | 2          | 6          | <ul style="list-style-type: none"> <li>• Ensure effective arrangements are in place in accordance with the requirements of the Localism Bill</li> <li>• Ensure both the Communication Plan and Consultation and Engagement Strategy are in line with our priorities and commitment to better engage with our community</li> <li>• Establish stronger relationships with our parish councils to improve overall communication with them and the public in general. This will involve new ‘drop-in’ sessions across the district and a regular e-newsletter</li> <li>• Continue to develop Community Events to promote the council’s priorities and listen to what is important to our residents</li> <li>• Ensure we continually seek the views of our staff/members to improve internal communications (newsletters)</li> </ul> |

| Risk Ref | Risk & Risk Category   | Risk Description   | Responsibility Level & Portfolio Holder  | Risk Factors   | Potential Effect  | Controls  | Residual |            |            | Actions  |
|----------|--|--|--|--|---|---|----------|------------|------------|--|
|          |  |  |  |  |   |   | Impact   | Likelihood | Risk Score |  |
|          |  |  |  |  |   | considered  |          |            |            | <ul style="list-style-type: none"> <li>Continue to improve our website so residents can better access our services</li> </ul>  |
| 9        | <b>ICT Infrastructure</b><br><br>Technological Risk<br>Customer Risk                   | Ability for ICT infrastructure and support systems to be adapted and configured in order to provide a resilient framework, specifically to meet the challenges of agile working and customer information databases | Strategic Director – Corporate Focus<br><br>Head of Finance<br><br>Well Run Council Portfolio Holder   | <ul style="list-style-type: none"> <li>Failure to implement and sustain a robust ICT infrastructure that is resilient and flexible enough to meet the challenge of the delivery of an agile workforce</li> <li>Aging ICT hardware and network which is inflexible and costly to support</li> </ul> | <ul style="list-style-type: none"> <li>Pressures on ICT platform causing difficulties to deliver quality services and creating an inflexible ICT infrastructure</li> </ul>  | <ul style="list-style-type: none"> <li>ICT strategy setting out roadmap for development</li> <li>Close linkages to corporate priorities</li> <li>Review of service resourcing and opportunities for partnerships</li> </ul>                     | 3        | 1          | 3          | <ul style="list-style-type: none"> <li>ICT strategy developed and improved</li> <li>Review of service area and ways of working</li> <li>Focus on delivery of priorities through delivery of service plan</li> <li>ICT audit of systems including resilience and capacity</li> </ul>                                |
| 10       | <b>Civil Parking Enforcement (CPE) within SK</b><br><br>Reputational Risk              | Ability to respond to residents and visitors to SK following the introduction of CPE   | Strategic Director – Corporate Focus<br><br>Head of Property Development<br><br>Well Run Council Portfolio Holder<br><br>Grow the Economy Portfolio Holder | <ul style="list-style-type: none"> <li>Increased media scrutiny</li> <li>Organisational reputation</li> </ul>  | <ul style="list-style-type: none"> <li>Residents unable to park close to their property</li> <li>On street parking occupied by residents or commuting workers displacing shoppers with potential effects on economic viability of town centres</li> </ul> | <ul style="list-style-type: none"> <li>Develop a resident parking scheme</li> <li>Develop parking strategy to make best use of off street parking facilities</li> </ul>   | 3        | 3          | 9          | <ul style="list-style-type: none"> <li>Continue to work closely with Lincolnshire County Council over implementation of CPE</li> <li>Engage with representatives of Resident Groups and Chamber of Trade to ensure any resident parking scheme that is introduced is fair to all potential stakeholders</li> </ul> |
| 11       | <b>Tree Stock Condition</b><br><br>Economic Risk<br>Customer Risk<br>Reputational Risk | Insufficient information relating to the current tree stock condition that is within the responsibility of South Kesteven DC and the inactivity of the incumbent contractor to undertake tree                      | Strategic Director – Corporate Focus<br><br>Head of Property Development<br><br>Green, Clean & Healthy Portfolio Holder                                    | <ul style="list-style-type: none"> <li>Risk of damage to property from inappropriately sited trees</li> <li>Risk of damage to property from trees that are dead, dying or dangerous</li> <li>Risk of injury to public from trees that are dead, dying or</li> </ul>                                | <ul style="list-style-type: none"> <li>Significant insurance claims from damage caused or sustained injuries</li> <li>Loss of public trust and confidence in our operations and contractor</li> </ul>   | <ul style="list-style-type: none"> <li>Carry out stock condition survey of all trees within the responsibility of South Kesteven District Council</li> <li>Develop a management plan to deal with the trees assessed as highest risk</li> </ul> | 3        | 2          | 6          | <ul style="list-style-type: none"> <li>Act upon the findings of the stock condition survey</li> </ul>  |

| Risk Ref | Risk & Risk Category | Risk Description       | Responsibility Level & Portfolio Holder | Risk Factors | Potential Effect | Controls   | Residual |            |            | Actions |
|----------|----------------------|------------------------|---|--------------|------------------|--|----------|------------|------------|---------|
|          |                      |                        |   |              |                  |  | Impact   | Likelihood | Risk Score |         |
|          |                      | stock condition survey |   | dangerous    |                  | <ul style="list-style-type: none"> <li>Carry out felling and tree surgery works to illuminate risk as far as possible</li> </ul> |          |            |            |         |

DRAFT

# Heat Map – Residual risk scores

|  |   |                 |                 |                        |                |           |
|--|---|-----------------|-----------------|------------------------|----------------|-----------|
| <b>I<br/>M<br/>P<br/>A<br/>C<br/>T</b> | <b>CRITICAL</b><br>None or very low tolerance to the risk | <b>4</b>        | <b>4</b>        | <b>8</b>               | <b>12</b>      | <b>16</b> |
|  | <b>MAJOR</b><br>Some tolerance to the risk                | <b>3</b>        | 7 9<br><b>3</b> | 1 2 3<br>4 6<br>5 8 11 | 10<br><b>9</b> | <b>12</b> |
|  | <b>MINOR</b><br>Risk can be tolerated in most cases       | <b>2</b>        | 6a<br><b>2</b>  | 6b<br><b>4</b>         | <b>6</b>       | <b>8</b>  |
|  | <b>NEGLIGIBLE</b><br>Risk can be tolerated                | <b>1</b>        | <b>1</b>        | <b>2</b>               | <b>3</b>       | <b>4</b>  |
|  |   |                 | <b>1</b>        | <b>2</b>               | <b>3</b>       | <b>4</b>  |
|  |   | <b>UNLIKELY</b> | <b>POSSIBLE</b> | <b>LIKELY</b>          | <b>CERTAIN</b> |           |

## LIKELIHOOD