

# MINUTES

GOVERNANCE AND AUDIT  
COMMITTEE  
THURSDAY, 15 MARCH 2012



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## 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)

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## 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.