

MEETING OF THE GOVERNANCE AND AUDIT COMMITTEE

THURSDAY, 18 MARCH 2010 1.00 PM



COMMITTEE MEMBERS PRESENT

Councillor Stuart Farrar (Vice-Chairman)	Councillor Reg Lovelock MBE.
Councillor Maureen Jalili	(Chairman)
Councillor Vic Kerr	Councillor Andrew Moore

OFFICERS

Finance and Risk Management Service
Manager (Malcolm Gorringe)
Finance Support Service Manager (David
Scott)
Finance Support Service Manager
(Nicola Lovely)
Financial Assistant (Tracy Elliot)
Committee Support Officer (David
Lambley)

OTHER PEOPLE PRESENT

Chris Harris (Internal Audit)
Simon Lacey (District Audit)

55. MEMBERSHIP

Councillor Mrs Jalili was substituting for Councillor Joynson and Councillor Vic Kerr was substituting for Councillor Dawson for this meeting only.

56. APOLOGIES

An apology was received from Councillor Taylor, the Portfolio Holder for Resources and Assets. The Committee sent its best wishes to Councillor Taylor.

57. DECLARATIONS OF INTEREST

No declarations of interest were made.

58. MINUTES OF THE MEETING HELD ON 3 DECEMBER 2009

The minutes of the meeting of 3 December 2010 were agreed to be a correct record of the meeting.

59. UPDATES FROM PREVIOUS MEETING

There were no updates from the last meeting.

60. CIPFA AUDIT TRAINING

Councillor Lovelock updated the Committee on the Advanced Audit Committee training he had recently undertaken in London. He reported that it had been a very good training session, covering good topics and with excellent presentation. Copies of the working notes had been circulated to each member.

61. INTERNAL AUDIT PLAN 2009/10 - PROGRESS REPORT

The Committee considered the Internal Audit Progress Report, which was introduced by Chris Harris from RSM Tenon, the Council's Internal Auditors

- The Committee noted the companies name change. They had been acquired by the Tenon Group and were now known as RSM Tenon. This was now the seventh largest accountancy firm in the country. There was no change to the staff who worked for the Council.
- Twelve reports had been finalised since the last meeting. One report was a follow up review and good progress had been made. Of the remaining eleven, seven resulted in substantial assurance, two with adequate assurance and two received limited assurance (these were debtors and arts fees and charges).
- Substantial assurance had been given in relation to the Procurement – Shared Services review. There had been one significant recommendation, relating to awareness training, and three recommendations that merited attention. All had been accepted by management and were due to have been implemented by February 2010.
- Substantial assurance had been provided in relation to Cash and Banking. One significant recommendation was made relating to market testing, and one recommendation meriting attention was also made. Both recommendations were accepted by management. The recommendation relating to market testing was due for implementation by the end of June 2010.
- Limited assurance had been provided with regard to the review of Debtors. Four significant recommendations had been made relating to:
 1. the setting of a more challenging annual debt recovery rate
 2. the raising of invoices in a timely manner
 3. reducing the number of reminder letters and accelerating the

recovery process

4. referrals of debts to collection agents.

Two recommendations that merited attention were also made. All recommendations had been accepted and were due to be implemented by April 2010. The recommendations were regarded as a high priority although the Council had needed to wait for software to be updated. The Internal Auditor agreed that there would be follow up reviews to confirm that the recommendations were implemented.

- There had been a follow review of the Housing Revenue Account Financial Management Arrangements and it was reported that good progress was being made. All seven previous recommendations had either been implemented or were being implemented. It was noted by the Committee that the officers concerned should be congratulated for their work. Two further significant recommendations had been made, one relating to the need to apply appropriate resources to raising invoices for rechargeable works and one relating to the processes for advance payment of rechargeable repairs. Both recommendations had been accepted and were due to be implemented by the end of March 2010.
- The Members Allowances and Expenses review had resulted in substantial assurance. Three recommendations had been made that merited attention, which had all been agreed by management. These were due to be implemented by the end of March 2010.
- Substantial assurance had been provided in relation to the Housing Strategy review. There were two recommendations that merited attention and two significant recommendations. The significant recommendations related to the Housing Strategy evidence base and a review and update of the Housing Partnership Agreements. The Committee expressed its concern that part of the recommendation relating to the Housing Strategy evidence base was not due to be implemented until the end of March 2012. It was felt that this was a long way off and Members stated that they wished to see evidence of work being done.
- Adequate assurance was given to Absence Management. There had been four recommendations which merited attention and these had all been agreed to be implemented by the end of March 2010.
- Limited assurance had been provided following the review of Fees and Charges at the Arts Centres and Bourne Corn Exchange. There were four significant recommendations and one that merited attention, which had been agreed to be implemented. The significant recommendations related to:
 1. the introduction of a charging policy
 2. the raising of invoices in a timely manner
 3. fees and charges levied need to be in accordance with the fees and charges approved by Council
 4. segregation of duties between the booking of rooms and facilities, raising invoices and authorising discounts.

There was a fundamental recommendation that hire rates needed to be published and displayed and that procedures and criteria needed to be

in place before discounts could be applied. This recommendation was agreed in principle as it was hoped flexibility of charges could be maintained in order to maximise utilization of the sites. Members expressed some concern that flexibility could hinder the budgeting process and that any published charges could be misleading. It was noted that this remained under review and that it was hoped to establish a framework of charges. The Committee requested that the Resources PDG look in to the matter.

- Substantial assurance was given in relation to Payroll. There were four recommendations which merited attention which were due to be implemented by April 2010.
- Substantial assurance was provided following the review of Housing Benefit. No recommendations were made which the Committee noted was very good news.
- Substantial assurance was given in relation to Budgetary Control and Budget Setting. There was one recommendation which merited attention, which had already been implemented.
- Adequate assurance was given with regard to Performance Indicators. There were five recommendations which merited attention, which were all due to be implemented by July 2010.

RECOMMENDATION:

- 1) ***That Cabinet and management provide assurance that progress is being made in relation to the recommendations made by Internal Audit with regard to the Housing Strategy evidence base.***
- 2) ***That the Resources PDG look into the issue of fees and charges at the Arts Centres and Bourne Corn Exchange.***

62. FOLLOW UP OF 2008/09 INTERNAL AUDIT RECOMMENDATIONS

Chris Harris from RSM Tenon, the Council's Internal Auditors, introduced a report which followed up progress against previous Internal Audit recommendations.

- There had been good progress against previous Internal Audit recommendations. Over 80% of the recommendations had been implemented.
- It was confirmed that where the recommendation had not been fully implemented there would be a further follow up.
- Members queried why there was no progress on the pool car, hire car or personal car usage policy. There was uncertainty between two departments as to which one was responsible for producing the policy.
- There had been two high risk and one medium risk recommendation relating to Human Resources. It was confirmed that Internal Audit were happy that these recommendations had been completely implemented.
- Members noted the report and thanked Chris Harris for his presentation

of the reports.

63. INTERNAL AUDIT - 3 YEAR STRATEGY AND PLAN FOR 2010/11

The Committee considered the Internal Auditor's Strategy for Internal Audit for 2010/11 to 2012/13.

- It was noted that point 3.2 stated that a new management structure was in place, but this was not yet the case.
- The plan was a flexible document and changes could be made to accommodate reviews as and when they were required. The Committee would be told if any changes were made. The plan showed how many days each year were given over to each particular review.
- Members noted that page 26 stated that the Council allocated £1m per year to town centre projects. Members requested that this be clarified as it was incorrect.
- Members noted that the review of Section 106 agreements ought to be expanded to cover monitoring and the enforcement of Section 106 agreements. The Internal Auditor agreed that this should be included and would comment in the next report.
- The Committee accepted the strategy.

64. ANNUAL AUDIT LETTER AND ORGANISATIONAL ASSESSMENT

Simon Lacey introduced the Audit Commission's Annual Audit Letter 2008/09 to the Committee.

- The Annual Audit Letter was a summary of the 2008/09 audit. It was a formal document that concluded the 2008/09 audit.
- The Council's overall performance was adequate. The District Auditor noted that this was not a bad score and that most councils would receive a similar assessment, but that there was room for improvement. Members were of the opinion that they would like to see the Council progress to receive more level three performance scores over the course of the year and that Cabinet be asked to attempt to achieve a better overall score for the 2009/10 assessment.
- It was noted that the outcome was now the key indicator. The District Auditor wanted to see how policies had affected the outcome rather than noting that policies were in place.
- It was noted that there had been significant improvements over the course of the year, particularly in relation to processing benefits claims and the time taken to complete housing repairs.
- The Council's carbon footprint was the highest of all Lincolnshire districts. It was agreed to ask Cabinet to attempt to gain a better carbon footprint rating for 2009/10. Members questioned if allowance was given for the fact that the district was rural and therefore the Council used more fuel. It was confirmed that this was taken into account and it was

noted that the Council needed to do what it could to reduce its carbon footprint.

- Members noted that the public needed to be made more aware of the customer access points that had been set up in Bourne and Stamford.
- The survey that had been used by the Audit Commission was a MORI poll of around 2,000 residents. The polls were seen as reliable statistically. The Council's own surveys were also taken in to account.
- An action plan to improve performance was in place and there would be indicative feedback in June or July 2010.
- It was confirmed that Tony Crawley had been appointed as South Kesteven's District Auditor. The Committee agreed to send a letter to the previous District Auditor to wish him a speedy recovery.

DECISION:

That management update the Committee on what the Council had done to address the issues raised within the Use of Resources 2009 – Auditor Feedback report that had been issued in October 2009.

The Committee went into recess between 2:43 and 2:52 pm.

65. ASSURANCE STATEMENTS

The Chairman welcomed and introduced Malcolm Gorringe who was attending his first Governance and Audit Committee meeting. The Committee considered the Assurance Statements which were introduced by Malcolm Gorringe.

- The report now asked service managers to report any concerns they had, which was a change from previous reports. This would help to identify where concerns were cross cutting across the organisation.
- It was noted that one service manager failed to respond until after the deadline. The Committee were very disappointed that not all service managers had responded and noted that it was expected that in future all service managers would comply.
- Where service managers had expressed concerns these issues were being addressed. Members noted that there were three areas that seemed to attract concern, two of which were risk management and governance training. The Committee questioned if enough was being done about this and were informed that training had previously been provided to senior management and the Council was looking at providing this training for service managers.

66. INTERNATIONAL FINANCIAL REPORTING STANDARDS UPDATE

The Committee were updated on the Council's transition to International Financial Reporting Standards (IFRS) by Nicola Lovely, the Financial Accountant Team Leader.

- Members noted that considering the amount of work that officers had been required to undertake, the changes to the balance sheet were not that great.
- Non Current Assets had decreased largely due to the removal of a number of leases from the calculation, whilst Current Assets had increased. It was noted that assets held for sale were now regarded as Current Assets if they were not expected to be sold within twelve months, which not many could be in the current economic climate.
- Current Liabilities had increased due to a requirement to include an accrual for holiday pay. This was a notional figure. Members questioned why staff had holiday years based on the anniversary of their start date rather than all using a fixed date. This had been changed a number of years ago, and while it meant the accrual had to be calculated, it also worked to prevent “bunching” of staff holidays at the end of the year.
- Long Term Liabilities had decreased mainly due to grants no longer being included on the balance sheet, but now being treated as income.
- Within the Councils accounting policies it was noted that property that had previously been regarded as surplus property was now considered to be investment property. Changes to the accounting policies were generally just changes to how items were treated.
- The Committee noted that the additional work required by the implementation of IFRS had resulted in the Council employing part time temporary support for a six week period.
- It was confirmed to Members that all previous problems with the District Valuer had now been resolved.

DECISION:

- 1) ***To approve the accounting policies used to produce financial statements in accordance with International Financial Reporting Standards (IFRS).***
- 2) ***To note the restated Balance Sheet under IFRS as at 31 March 2009.***

67. UNDERLYING ASSUMPTIONS TO BE USED IN THE FRS17 PENSION CALCULATIONS FOR THE 2009/10 STATEMENT OF ACCOUNTS

The Committee considered the report by Nicola Lovely, the Financial Accountant Team Leader, into the underlying assumptions to be used in the FRS17 pension calculations.

- It had been a new requirement last year to bring the calculations before the Governance & Audit Committee. Some of the assumptions that had been made were not final as they were based on figures from December 2009. It had been confirmed that it would be acceptable for these changes to be made as long as the figures provided to the County Council were not too dissimilar.

- Inflation calculations were based on RPI, but were set slightly higher to reflect the long term nature of the scheme's liabilities.
- The salary increase rate was to be set at a level higher than inflation due to expectations such as career progression.
- The discount rate had been reduced to 5.7% from the 6.9% set in 2009.
- The pensioner mortality rate had not been made available, but was expected to increase the funds liabilities based on new tables being used to measure life expectancy. The commutation rate was not expected to change.
- It was expected that the Council would face increased pension contributions in future and that this could be a significant increase. Some consideration was being given to making stepped increases over a number of years.
- It was expected that the financial impact on the Council would be that the 2008/09 charge of £1.422m would increase, possibly to over £2m. The Committee requested to know what the impact was when final figures were available. It was confirmed that these would be available by the next meeting.

DECISION:

To approve the FRS17 (Financial Reporting Standard 17) assumptions to be used in the production of the 2009/10 Statement of Accounts.

68. TREASURY MANAGEMENT UPDATE

The Finance Support Service Manager, David Scott, introduced the Treasury Management Activity mid year review.

- Long term borrowing stood at £2.5m of £4m loans from the PWLB. The average rate of interest was over 10% and the Council was constantly looking at ways to refinance this, although no options had been found that would save the Council money at this stage.
- £1.5m of the loans from the PWLB was short term borrowing due to it being repayable within twelve months. A loan taken out in March 2009 for £1m had been repaid on 1 April 2009.
- The Council's investments over the period stood at an average of £27.129m. This was reducing due to the capital programme.
- Long term investments were £1m. This was well within the 25% limit for long term investments which had been set as Council policy.
- The Council now had £10m invested in managed cash funds, which had realised returns of over 2% for the first three quarters of the year.
- The Council expected that the Bank of England base rate would remain at 0.5% for the foreseeable future.
- The Council had missed one of the Treasury Management Prudential Code Indicators due to a £1m loan from the PWLB becoming repayable

within twelve months, which had exceeded the percentage limit of borrowing which was due to mature within twelve months. It was noted that the Council would ensure that sufficient funds were available to repay the loans on maturity.

- It was expected that the Council would exceed the investment projections for the year. Members noted the need to maximise returns on investments without exposing the Council to significant risk.
- Members noted the report.

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

There was no other business.

MEETING CLOSE

The meeting closed at 3:35 pm.