

GOVERNANCE COMMITTEE

25 JUNE 2013

Present :- Councillor Ray Gamble (Chairman)
Councillors Cyril Liddy, Sue Lissimore, Nigel Offen,
Peter Sheane and Laura Sykes

3. Apologies

Councillor Arnold gave his apology for not attending the meeting.

4. Minutes

The minutes of the meeting held on 22 May 2013 were confirmed as a correct record.

5. Work Programme

Mr. Robert Judd, Democratic Services Officer, presented the Work Programme for 2013-14.

RESOLVED that the Committee noted the 2013-14 Work Programme.

6. Annual Report and Governance Statement - Colchester Borough Homes

Councillors Offen, L. Sykes and Gamble (in respect of being Members of the Board of Colchester Borough Homes) all declared a non-pecuniary interest in the following item pursuant to the provisions of Meetings General Procedure Rule 7(5);

Councillor Nigel Chapman, Member of Colchester Borough Homes and Chairman of the Finance and Audit Sub Committee and Mr. David Lincoln, Director of Resources, Colchester Borough Homes, attended the meeting for this item.

Councillor Chapman thanked the Chairman for inviting representatives from Colchester Borough Homes to present the 2012-13 Annual Report and Governance Statement for Colchester Borough Homes.

Councillor Chapman said like Colchester Borough Council, Deloitte are the internal auditors for Colchester Borough Homes and produced the Internal Audit Annual Report 2012-13 which he commended to the Committee for approval.

Councillor Chapman explained that the Finance and Audit Sub Committee of Colchester Borough Homes take the following actions to assure itself that the Company has proper and secure arrangements in place, and these include: i) Agreeing each year

to an audit plan for a three year period on a risk based approach; ii) Receiving regular updates on the progress against this plan throughout the year from Internal Audit; iii) Carrying out an annual self assessment of how it is functioning based on CIPFA guidelines; iv) Considering and recommending the Annual Governance Statement to the Board; v) Monitoring the actions coming out of the Annual Governance Statement, and vi) Producing the Risk Management Strategy and monitors the key strategic risks of the Company.

Councillor Chapman said there is a formally binding contract between the Council and Colchester Borough Homes, in place until August 2013 that clearly sets out the governance arrangements that applies between the two parties and complies with national best practice. He added that the Governance Framework will enable Colchester Borough Homes to pursue its vision effectively and enable the Finance and Audit Sub Committee to undertake strong scrutiny with procedures rigorously reviewed on a regular basis.

In response to Councillor L. Sykes, Mr. Lincoln said there is a joint audit for both the Council and Colchester Borough Homes in respect of Creditors systems and processes. The procedures for adding new suppliers to the creditors system is within the control of the Council, although the cross-over working arrangements have been improved.

In respect of Housing Rent, Mr. Lincoln explained to Councillor L. Sykes that the collection rate of 97.73% was at November 2012 and this improved to 98.94% by the end of March 2013.

Mr. Lincoln confirmed to Councillor L. Sykes that the General Ledger issues continue to be a high risk area but are continuously monitored, with the Council and Colchester Borough Homes working in partnership where aspects of work overlap, e.g. Council Tax Benefit.

Mr. Lincoln said Colchester Borough Council continue to work in close partnership with the Council to minimise the effects of changes to Council Tax Benefit and benefit reform in general. There will be between 60-80 people down sizing their accommodation due to the changes. Regular discussions are taking place concerning this work and the resources needed to be able to pro-actively react to the changes.

Mr. Alan Woodhead, Deloitte, said the assurance level awarded in the internal audit report meets CIPFA guidelines. These are a new set of internal audit standards for the public sector that have been recently published. The 'Public Sector Internal Audit Standards' take effect from 1 April 2013, are mandatory for all local authorities and are subject to the Accounts and Audit England Regulations 2011.

RESOLVED that the Committee considered and commented on the Internal Audit Annual Report and Governance Assurance Statement of Colchester Borough Homes and accepted the assurance provided by Colchester Borough Homes regarding its governance arrangements throughout 2012-13.

7. 2012/13 Internal Audit Report

Ms. Elfreda Walker, Finance Manager, and Mr. Alan Woodhead, Deloitte, attended the meeting for this item and Ms. Walker presented the 2012-13 Internal Audit Report.

Ms. Walker said the Committee is being asked to note and comment on the Council's performance relating to the Internal audit activity for the period 1 October 2012 – 31 March 2013, executing the internal audit work programme for 2012/13, the performance of internal audit by reference to national best practice benchmarks, and to note the introduction of the Public Sector Internal Audit Standards.

Ms. Walker reiterated the Key Messages within the report, that the Council continued to provide an effective internal audit service during the second half of the 2012/13 financial year, there were no recommendations raised in relation to either the audit of VAT or the regularity audit of Debtors, that the assurance ratings for the Homelessness and the Managing the Risk of Fraud audits have improved from 'Limited' to 'Substantial', that there were 10 priority 1, 71 priority 2 and 14 priority 3 recommendations made and all have been accepted by management, and there continues to be good progress made in implementing and verifying outstanding recommendations.

Ms. Walker confirmed that during the period 1 October 2012 to 31 March 2013 a total of 19 audits had been finalised and of these the assurance rating improved in 9% of the systems audits carried out, remained the same in 73% and declined in 18%. She added that during 2012-13 a total of 32 audits had been finalised with the assurance rating improving in 9% of the systems audits carried out, remaining the same in 74% and decreasing in 17%.

During the period, Ms. Walker said internal audit had monitored 252 recommendations, of which 105 recommendations (42%) had been implemented and verified, 77 (30%) had been implemented and were awaiting verification from internal audit, 63 (25%) were not due, and seven (3%) were overdue. She confirmed that progress in implementing overdue recommendations will continue to be closely monitored with priority being given to the recommendations awarded a higher priority rating and / or those that have been outstanding the longest.

Ms. Walker concluded by saying the key performance indicators show that the internal audit provider is exceeding the standards set and an internal assessment of the Council's compliance with the 'Public Sector Internal Audit Standards' is currently in progress, the outcomes of which will be reported to Members in the Interim Internal Audit Monitor report in November.

Councillor Offen was surprised that such basic issues as *'the Service Level Agreement with Braintree District Council relating to the Essex Procurement Hub should be signed by both parties as soon as possible'* and *'Management should ensure that a tender evaluation report is completed on each occasion to confirm details of the tenders received'* are not already undertaken and was amazed these type of comments have to be made, adding he would like assurances these have been immediately rectified. Ms. Walker said the recommendations for audit 702 'Contract

Management' are forming part of the Corporate and Financial Management Fundamental Service Review process and this is well under way.

In response to Councillor Liddy and the criteria for selecting goods and services, Ms. Walker said the criteria depend on the value of the goods or services procured. Procuring below £50k required three quotations, and above this figure required the need for a tender process. Above this figure advice should be sought from Legal Services. Procurements which exceed the financial limit set in the EC Directive, currently £173,394, must be let in accordance with the requirements of the EC Directive. For contracts for services, above £173,394 the Social Value Act requires the Council to consider how the services procured may improve the economic, social and environmental wellbeing of the area. The Council's approach to the Act is to be determined by Cabinet on 10 July 2013.

Councillor Liddy said he would like to see this policy extended to include ethical factors.

Mr. Ian Vipond, Strategic Director, said when considering new procurement contracts there is a need to evaluate the monetary value and the quality value. In most cases the process provides a mechanism to allow tenders whose assessment is based on many such criteria.

Councillor Offen, whilst pleased with the outcomes from audit 729 – Fuel Usage, requested a year-end comparative report of progress on the key outcomes and fuel usage.

RESOLVED that the Committee;

- i) Noted the Council's performance relating to the Internal audit activity for the period 1 October 2012 – 31 March 2013, the execution of the internal audit work programme for 2012/13, the performance of internal audit by reference to national best practice benchmarks, and the introduction of the Public Sector Internal Audit Standards.
- ii) Requested a year-end comparative report of progress on the key outcomes and fuel usage in respect of audit 729 'Fuel Usage'.

8. 2012/13 Annual Governance Statement and Framework

Ms. Hayley McGrath, Risk and Resilience Manager, attended the meeting and presented the report 'Review of the Governance Framework and Draft Annual Governance Statement'.

Ms. McGrath said the Governance Framework and Annual Governance Statement formed part of the overall process of compiling the draft Annual Statement of Accounts. She added that the Committee is required to review the Council's

compliance with the six principles of good governance, including the effectiveness of the internal control arrangements, as described in paragraph 4.2 of the report.

Ms. McGrath reiterated that the Council had reviewed the control issues from which an Action Plan was drafted, focusing on areas where management had raised concerns, but officers are now of the opinion that this does not reflect a reduction in the overall quality of the control environment.

Ms. McGrath drew Member's attention to appendix 2 of the report, the 2013-14 Action Plan that listed the significant control issues relating to 2012-13.

In respect of the Leisure World issue, and in response to Councillor Offen, Ms. McGrath said the loss of income from the Events Service was of a five figure sum. The investigation led to a member of staff being dismissed and the issue being reported to the Police. The Police investigation is ongoing, and any outcomes will be reported to the Committee.

Ms. McGrath agreed that there are a significant number of recommendations raised by the Fuel Usage audit the outcomes will be reported back to the Committee.

RESOLVED that the Committee considered and noted the review of the Council's compliance with the six principles of good governance including the review of effectiveness of the internal control arrangements, and approved the Annual Governance Statement for 2012-13.

9. 2012/13 Risk Management Strategy

Ms. Hayley McGrath, Risk and Resilience Manager, presented the 2012-13 Risk Management Strategy.

Ms. McGrath said the Committee was being asked to consider and note the risk management work undertaken during 2012/13, the year end strategic risk register, and the proposed risk management strategy for 2013/14 and endorse the submission of this report to Cabinet.

Ms. McGrath said the key messages within the report are; i) the economy and cuts in public spending continue to have had a significant impact on the key risks during the year. The highest risk on the year end strategic register remains the potential impact of future central government decisions to reduce public funding, including that of the Council's partners; ii) the direct effect on resources, with cuts in public spending influencing non-financial risk areas such as staff motivation, as a result of implementing the changes required to ensure that effective services continue to be provided; and iii) Risk Management principles continue to be reinforced and embedded in the organisation. The 2011/12 Annual Governance Report, issued by the Audit Commission in September 2012, stated that "Good systems, processes and controls are in place, including effective risk management systems". This is demonstrated by the 2012/13 internal audit review which provided a substantial assurance level.

Ms. McGrath said the risk 3e. 'Staff motivation declining with the impact of fundamental service reviews and implementation of other budget efficiencies' remained a significant ongoing risk for the Council.

Ms. McGrath said that during the year there had been a comprehensive review of motor fleet risks. In August 2012 the Council experienced a significant increase in motor vehicle insurance premiums, primarily due to the number of incidents involving Council fleet vehicles, and an Action Plan was drawn up that identified various objectives to improve the situation. The work undertaken so far has already seen a reduction in claim numbers from the previous year and a lower than anticipated insurance premium for 2013/14 of £75k, renegotiated from £90k and considerably lower than the pre-review premium of £150k. In response to Councillor Sheane, Ms. McGrath said these insurance premiums are brokered by the Aon company through Amlin PLC of Chelmsford. Other Council insurance premiums are brokered by Zurich Insurance UK.

Therefore a review has been undertaken and the strategy has been updated for 2013/14, although there are no fundamental changes proposed.

RESOLVED that the Committee considered and noted the risk management work undertaken during 2012/13, the year end strategic risk register and the proposed risk management strategy for 2013/14, and endorsed the submission of the report to Cabinet.

10. Draft Annual Statement of Accounts

Mr. Steve Heath, Finance Manager attended the meeting and presented the Draft Annual Statement of Accounts.

Mr. Steve Heath, Finance Manager, presented the report 'Draft Annual Statement of Accounts 2012-13'. Mr. Heath said the draft accounts had today been certified by the responsible financial officer in accordance with the statutory deadline of 30 June, and in line with good practice will shortly be published on the Council's website, with a link provided to Members.

Mr. Heath confirmed that the accounts will be open for public inspection from Monday 22 July to Friday 16 August to meet the Council's legal duties. The dates will be advertised in the local press by 5 July, two weeks prior to the commencement of the public inspection. He added that the Audited Statement of Accounts will be presented to the Committee on 24 September 2013, with an internal briefing session arranged for the Committee (although open to all Members) on the Thursday preceding the meeting.

RESOLVED that the Committee considered and noted the report relating to the pre-audit Statement of Accounts for 2012/13, agreed the separate internal briefing session for the Committee, and the 30 September 2013 deadline date for approval of the audited accounts.