

**GOVERNANCE & AUDIT COMMITTEE
6 NOVEMBER 2012
7.30 - 9.00 PM**



Bracknell Forest Borough Council:

Councillors Ward (Chairman), Allen, Ms Brown, Heydon, McCracken, Worrall, Blatchford (Substitute) and Leake (Substitute)

Independent Members:

Gordon Anderson

Apologies for absence were received from:

Councillors Thompson and Wade

21. Substitute Members

The Committee noted the attendance of the following Substitute Members:

Councillor Blatchford for Councillor Thompson
Councillor Leake for Councillor Wade

22. Declarations of Interest

There were no declarations of interest.

23. Minutes of Previous Meeting

RESOLVED that the minutes of the meeting held on 25 September 2012 be approved as a correct record and signed by the Chairman.

24. Annual Audit Letter 2011/12

Helen Thompson, District Auditor, presented the Audit Commission's Annual Audit Letter 2011/12 to the Committee. The Annual Audit Letter focused on the Council's financial statements and its arrangements to secure economy, efficiency and effectiveness in the use of resources.

The Annual Audit Letter contained three recommendations which would be implemented before the 2012/13 audit:

- Keep up improvements in valuation of property, plant and equipment by ensuring evidence to support valuations is timely, reviewed and consistent
- Continue to improve processes for recording related party transactions
- Strengthen controls over the authorisation of journals

The District Auditor confirmed that the 2011/12 Audit was now complete and thanked Members and officers for their support and co-operation throughout the audit process.

Members took the opportunity to ask the District Auditor about the new external audit arrangements which had now come into effect. It was noted that there had been no changes in personnel.

RESOLVED that the Annual Audit Letter 2011/12, at Appendix A of the report, be noted.

25. **Treasury Management Strategy Statement and Annual Investment Strategy - Mid-Year Review Report 2012/13**

The Chief Technical Accountant presented the Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review Report 2012/13. The mid-year report had been prepared in compliance with CIPFA's Code of Practice and included an economic update for the first six months of 2012/13, a review of the Treasury Management Strategy Statement and Annual Investment Strategy, the Council's capital expenditure (prudential indicators), a review of the Council's investment portfolio for 2012/13 and a review of compliance with Treasury and Prudential Limits for 2012/13.

There were initial signs that economic growth may have returned after three quarters of recession but, worldwide, there remained huge uncertainties in economic forecasts.

It was reported that there were no policy changes to the Treasury Management Strategy Statement. The approved limits within the Annual Investment Strategy were not breached during the first six months of 2012/13 and no changes to these limits were proposed.

The report detailed the Council's current investment counterparty selection criteria, the key criteria being the credit ratings supplied by the three main credit ratings agencies. However, the financial crisis following the Lehman's collapse and the recent sovereign credit-worthiness difficulties, almost all financial institutions had experienced a substantial cut in their credit-ratings, often to a level that would render most counterpart criteria unsuitable for practical purposes. In addition, it was widely acknowledged that credit-ratings, on their own, were not sufficient in capturing and evaluating the relative levels of risk attached to a counterparty. Accordingly, the Council's Treasury Management advisers had developed a more sophisticated model utilising credit ratings supplemented with overlays of credit watches and outlooks in a weighted scoring system which was combined with Credit Default Swap (CDS) spreads. An annex to the report outlined how the existing Counterparty List might look under the proposed changes.

In response to Members' questions, the Chief Technical Accountant reported that:

- The new model had been in operation for about three years.
- CDS data was updated daily
- The financial markets were still volatile. The new model suggested the maximum duration of three months for investments with the exception of those UK part-Nationalised Banks where investments of up to 364 days would be permissible.

It was agreed that a key be added to the annex to explain what the various ratings meant. It was also agreed that the next Treasury Management report should provide details of where the Council's £41.7m portfolio was invested.

The Committee requested that its appreciation of the work of the Council's Treasury Management team be recorded.

RESOLVED that

- I. the Mid-Year Review Report be shared with members of the Full Council.
- II. Officers note the Committee's comments on the proposed approach to the future selection of investment counterparties.

26. **The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012**

The Borough Solicitor presented a report outlining the requirements of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 issued in September.

The Regulations were not subject to any consultation with local authorities and, whilst Council procedures could be revised to meet the new requirements regarding Key Decisions and Notice of Meetings to be held in private, concerns had been expressed throughout local government about the new requirements for the Recording of Decisions by Officers.

The previous Regulations contained provisions which required individual Members, when making any decision and officers when making Key Decisions to make a record of the decision. However the new Regulations extend the requirement to make a record to all "Executive Decisions" made by officers and to publish those decisions on the Councils web-site. The Borough Solicitor reported that if the Council had to publish a record of all "operational decisions" for Executive functions, it would entail publishing details of many hundreds of routine decisions each month Accordingly he recommended that the Corporate Management Team formulate for approval by the Chairman of the Committee criteria as to when officer non-Key Decisions should be recorded and published.

Whilst recognising the practical difficulties that the new Regulations had caused, Members expressed the view that a balance needed to be struck between practicality of implementation and the desire to secure transparency Accordingly it was agreed that the proposed provisions relating to the recording of decisions taken by officers be submitted to the Committee for approval.

RECOMMENDED to Council that the Borough Solicitor be authorised to amend the Council's Constitution to reflect the Regulations save that provisions relating to the recording of decisions taken by officers be submitted to the Governance and Audit Committee for approval.

27. **Internal Audit Assurance Report April - September 2012**

The Head of Audit & Risk Management presented the Internal Audit report which provided a summary of Internal Audit activity during the period April to September 2012.

The report stated that, during this period, 8 full reports with an opinion had been finalised, 15 had been issued in draft awaiting management responses and, in 10 cases, audit work was in progress. However, since the publication of the report, 6 of the 15 draft reports had been finalised. Of the reports issued, limited assurance opinions had been given for 4 audits.

Further to the weaknesses identified by the External Auditors on the 2009/10 Housing Benefit and Council Tax Subsidy grant claim, the report detailed results of unannounced spot check visits during 2011/12 and 2012/13. In response to Members' questions the District Auditor reported that significant progress had been made in reducing systemic errors since the weaknesses had been identified. Given the complexity of some of the calculation it was inevitable that some errors would occur.

The Committee noted that three of the limited assurance conclusions related to schools and expressed concern that the weaknesses identified appeared to be regarding basic matters that should not have given rise to difficulties. It was acknowledged that school governing bodies were responsible for financial management.

RESOLVED that the Internal Audit Assurance Report, April – October 2011 be noted.

28. **Date of Next Meeting**

29 January 2013.

CHAIRMAN