

Minutes of a meeting of the **GOVERNANCE AND AUDIT** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 25 September 2014 at 6.30 pm.

PRESENT

G R Aley (Chairman)
R M Rudkin (Vice-Chairman)

F Biggadike
C J T H Brewis

P E Coupland
A Harrison

A M Newton

No apologies for absence were received.

In Attendance: H Brookes (Audit Manager, KPMG), L Pledge (Head of Audit and Risk Management, Audit Lincolnshire), J Scott (Audit Manager, Audit Lincolnshire), the Executive Director (Place), the Finance Manager (Section 151) and the National Management Trainee.

13. **MINUTES**

The minutes of the Governance and Audit Committee meeting held on 26 June 2014 were signed by the Chairman as a correct record.

With regard to minute 11, the Chairman advised that he had liaised with the Portfolio Holder for Waste Management, Green Spaces and Operational Planning concerning the lack of green recycling bags and was advised that the situation had now been resolved.

14. **INTERNAL AUDIT UPDATE REPORT**

Consideration was given to the report of the Head of Audit and Risk Management (Audit Lincolnshire) and the Finance Manager (S151), which updated the Committee on progress with the Audit Plan for the period May 2014 to August 2014.

The purpose of the report was to:

- Advise of progress being made with the 2014/15 Audit Plan;
- Provide details of the audit work during the period;
- Provide details of the current position with agreed management actions in respect of previously issued reports;
- Update the committee on any changes to the 2014/15 Audit Plan and any other matters that may be relevant to the Governance and Audit Committee role.

Actual progress to date was less than expected however, the majority of audits were planned towards the latter half of the year

Action By

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and more progress would be seen then.

The assurance levels provided for 2014/15 had been amended in response to the introduction of other UK Public Sector Internal Audit Standards and were based on the Institute of Internal Auditors professional practice. The changes helped auditors focus on the significance and importance of the activity in their opinions and recognised that auditors could not give absolute (Full) assurance. The new levels of assurance were:

- Effective
- Some improvement needed
- Major improvement needed
- Inadequate

Three final reports had been issued since the last Committee:

- Recruitment and Retention received 'Some Improvement Needed' Assurance
- 2013/14 Business Continuity Audit received Limited Assurance ('major improvement needed' under the new criteria)
- 2013/14 Accounts Payable received Substantial Assurance ('some improvement needed' under the new criteria)

For the Business Continuity Audit, the key messages were:

- Completion of all Business Continuity Plans required
- Promotion and embedding of processes with greater emphasis placed on Business Continuity Management at senior management level
- Regular exercising of the Business Continuity Plans
- Training on Business Continuity for all staff

Progress with the implementation of agreed management action on recommendations for previous audits resulting in 'No' or 'Limited' assurance (and now 'Major Improvement Needed' or 'Inadequate') was followed up and reported in Appendix 3 to the report. A more robust follow up was undertaken for audits with Limited Assurance or Major Improvement Needed.

In the audits given 'Some improvement needed' or 'Effective' Assurance, it had been confirmed that the Council had sound processes in place for the Recruitment and Retention Internal Audit, the Welfare Reform Follow up and the Accounts Payable Internal Audit. More information on the outcomes of these audits were detailed within the report.

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It was confirmed that 2014/15 audits in progress were Housing Benefit Subsidy, CPBS Corporate Governance and ICT. There was one remaining 2013/14 audit at draft report stage, Payroll, which was provisionally Substantial Assurance.

Finally, a number of other matters were detailed:

- CIPFA Better Governance Forum – Audit Committee Update Issue 14 – helping audit committees to be effective. Members were provided with a copy of this latest update.
- County-Wide bid for Government Counter Fraud funding – Audit Lincolnshire was working with the Finance Directors of all the Lincolnshire Districts to submit a joint bid to the Government for additional one-off counter fraud funding. The bid deadline was early September and an update would be provided when the results were known. Members were advised that a response should be received by the end of October.
- Effective Audit Committee Workshop (7 November 2014). Members had received an invitation to this training, and five of the Committee confirmed that they would attend.

Members considered the information and the following issues arose:

- Recruitment and Retention – How could applicants be encouraged to the South Holland area to work for the Authority, when it was not perceived as attractive in comparison to other areas?
 - The Head of Audit and Risk Management responded that the audit was not looking into attracting talent into the area, it was an audit of the recruitment process in general. The Executive Director (Place) added that audit's role concerned the framework around recruitment and that Scrutiny would be the appropriate committee to look into the issues around attracting individuals into the area for employment.
- Why was progress on the current year's audit behind schedule?
 - The Head of Audit and Risk Management responded that it was not unusual for progress to be at this level at this point. Progress at around 29% would be expected and she had therefore allocated more resources to this work. She was in regular contact with the Finance Manager (S151).

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- What process was being used to address issues around Business Continuity?
 - The Executive Director (Place) advised that a test of the Emergency Plan was being undertaken in October, and activity was currently taking place. The revised completion date for recommendations, as agreed by Audit and the Community Development and Health Manager, was December. Business Continuity was high on the agenda for the Director and for other officers.

- IT shutdown was an issue relating to Business Continuity.
 - The Council's requirement for technology had to relate to resilience, security of data and a contingency plan that enabled systems to be recovered in the event of an emergency.

AGREED:

That the report be noted.

15. ISO260 REPORT 2013/14

Consideration was given to KPMG's report to those charged with governance (ISA260) for 2013/14. It summarised the key findings arising from their audit of South Holland District Council's 2013/14 financial statements and their work to support their 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources (VFM conclusion).

The headline messages detailed within the report were as follows:

- Proposed audit opinion – KMPG anticipated issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2014. They would also report that the wording of SHDC's Annual Governance Statement accorded with their understanding.
- Audit adjustments – KPMG reported that their audit of SHDC's financial statements did not identify any material adjustments. The Authority made a small number of non-trivial adjustments, most of which were of a presentational nature. There was no impact on the General Fund. KPMG raised one recommendation arising from their work, that in the future, the Authority needed to ensure that componentisation of property, plant and equipment was

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undertaken.

- Key financial statements and other audit risks – KPMG reviewed risks to the financial statements on an ongoing basis. They had worked with Officers throughout the year to discuss the specific risk areas for this year's audit. The Authority addressed the issues appropriately.
- Accounts production and audit process – The Authority had good processes in place for the production of the accounts and excellent quality supporting working papers. Officers dealt efficiently with audit queries and the audit process had been completed within the planned timescales.
- Control environment – The Authority's organisational control environment was effective overall, and no significant weaknesses in controls over key financial systems had been identified.
- Completion – At the date of the report, KPMG's audit of the financial statements was complete. Before they could issue their opinion, they required a signed management representation letter. KPMG confirmed that they had complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.
- VFM conclusion and risk areas – KPMG had concluded that the Authority had made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. They therefore anticipated issuing an unqualified VFM conclusion by 30 September 2014.

In KPMG's External Audit Plan 2013/14, presented to the Committee in February 2014, key risks and other audit issues affecting the 2013/14 financial statements were identified. Subsequent to this, an additional risk had been identified around the accounting for the business rate retention scheme. Testing in these areas was now complete and evaluation set following the substantive work:

- LGPS Triennial Valuation – As part of the audit, it was confirmed: that the Authority had obtained an independent actuarial valuation; that the underlying data submitted to the actuary for this purpose was complete and accurate; that the assumptions underpinning the actuarial valuations had been reviewed by management and found to be reasonable; and that the IAS19 figures in the accounts agreed to the information provided by the actuary.
- Business rate retention scheme – KPMG had reviewed the Authority's accounting treatment for business rates and confirmed that it was in line with the CIPFA guidance.

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The Executive Director (Place) commented that the results of the auditors' report were very good, and that great credit should be given to the Senior Finance Analyst and his team of officers, and to the Finance Manager (S151).

MF
CW

AGREED:

That the ISA260 report for 2013/14 be noted.

MF

16. APPROVAL OF FINANCIAL STATEMENTS 2013/14

Consideration was given to the report of the Shared Finance Manager which sought approval for the annual governance statement for inclusion within the Council's published financial statements, and the approval of the audited 2013-14 financial statements for publication.

The draft 2013-14 financial statements were presented to the Committee on 26 June 2014, prior to audit. Since that time, KPMG had been working to establish the correctness of the accounts, checking them against the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14, and the Council's own accounting policies.

The report updated the Committee on the progress of the audit, and asked members to formally approve the statements for publication, having considered the issues raised by the auditor under the previous agenda item.

A small number of presentational adjustments were required to ensure compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013-14. No amendments were required to be made to the primary statements.

The ISA 260 report included one recommendation relating to the componentisation of property, plant and equipment. A management response had been provided and this issue would be addressed as part of the 2014/15 accounts process.

At the same meeting, the Committee considered and commented on the draft Annual Governance Statement. Appendix B reflected minor changes to the draft version, these arising from improvements to Governance arrangements outlined in the Internal Annual Audit Report, and deletion of the section regarding legal proceedings relating to a planning complaint.

The Annual Governance Statement was required to be signed by the Leader of the Council and the Chief Executive. The

MF

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committee was requested to approve the statement to allow it to be published with the financial statements.

AGREED:

- a) That the 2013-14 Financial Statements be approved; MF
- b) That the 2013-14 Annual Governance Statement be approved; MF
and
- c) That the Letter of Representation be approved. MF

17. RISK MANAGEMENT

Consideration was given to the report of the Executive Director (Commissioning and Governance) which updated the Governance and Audit Committee on Risk Management.

The updated strategic risk register included 9 strategic risks. In the past, the report had been by exception, but as there were just 9 in total, all low, medium and high risks were included and available within the report. These covered the over-arching risks that may affect the strategic direction of the council, rather than risks linked to business continuity or those that affected discreet service areas.

Risks were grouped into two categories:

- Strategic – these were risks that affected the whole and long term plan of the council. These risks could fundamentally impact upon the Authority's reputation, the organisation that it was, and the dependable, accountable delivery of public services.
- Operational – These risks concerned the day to day activities in the delivery of functions and services.

Risks were rated using a 3x3 matrix through a numerical number that combined the impact score of the risk occurring, with the likelihood score of it happening. Risks were then classed as High, Medium or Low risks dependant on their rating.

The risk summary covered two areas; a) The risk summary table showed the total number of risks by category and the percentage of high, medium and low risks within each category; and b) The exceptions report, a detailed report to provide focus on high level risks.

Two Risk Summary Tables was detailed within the report,

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showing the risk position at 31 March 2014 (Quarter 4, 2013/14) and 30 June 2014 (Quarter 1, 2014/15). The tables detailed 9 Strategic risks and 66 Operational risks, and 9 Strategic risks and 64 Operational risks respectively. This information informed that:

- Strategic risks were predominantly medium;
- Operational risks were predominantly medium to low level;
- 1 strategic risk had decreased from a high to a medium rating;
- 2 operational risks had closed from Community Development; and
- 2 operational risks had decreased from a medium to a low rating from within Communications, Community Development and Environmental Health.

Therefore:

- Strategic Risk Overview: Overall rating was Medium
- Operational Risk Overview: Overall rating was Medium

The Exceptions Report was attached at Appendix B to the report.

Members considered the report and commented that levels of medium and high risks were still high. The Executive Director (Place) acknowledged this but commented that progress was being made in the right direction.

AGREED:

That the report be noted.

**18. GOVERNANCE AND AUDIT COMMITTEE WORK
PROGRAMME**

Consideration was given to the report of the Democratic Services and Legal Manager which presented the work programme of the Governance and Audit Committee, as set out in Appendix A within the report.

AGREED:

That the report be noted.

(The meeting ended at 7.45 p.m.)

(End of minutes)