

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 24 September 2015 at 6.30 pm.

PRESENT

G R Aley (Chairman)

T A Carter

P C Foyster

M J Pullen

Apologies for absence were received from or on behalf of Councillors C J T H Brewis, A Harrison and C N Johnson, Lucy Pledge (Head of Audit and Risk Management, Audit Lincolnshire) and the Shared Executive Director Commercialisation.

In Attendance: John Cornett (Director, KPMG), Helen Brookes (Manager, KPMG), John Scott (Audit Manager, Audit Lincolnshire), the Finance Manager, the Interim Chief Accountant, the Senior Finance Analyst (CPBS), the Corporate Improvement and Performance Team Leader, the Business Intelligence Officer, the Finance Accountant (CPBS), the Finance Assistant (CPBS) and the Democratic Services Officer.

12. DECLARATION OF INTERESTS

There were none.

13. MINUTES

The minutes of the meeting of the Governance and Audit Committee meeting held on 25 June 2015 were signed by the Chairman as a correct record.

14. ISA 260 REPORT 14/15

Consideration was given to KPMG's report to those charged with governance (ISA260) for 2014/15. It summarised the key findings arising from their audit of South Holland District Council's 2014/15 financial statements and their work to support their 2014/15 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 2015. They would also report that SHDC's Annual Governance Statement complied with guidance issued by CIPFA/SOLACE in June 2007.

Action By

**GOVERNANCE AND AUDIT - 24 September
2015**

- 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 adjustments, all of which were of a presentational nature. There was no impact on the General Fund.
- Key financial statements audit risks – KPMG had identified the following key financial statements audit risks in their 2014/15 External Audit Plan, issued in April 2015: 1) Management override of controls; 2) Fraudulent revenue recognition; and 3) Consolidation of joint ventures. They had worked with officers throughout the year to discuss these key risks and their detailed findings were reported in section 3 of the report. There were no matters of any significance arising as a result of their audit work in these key risk areas.
- Accounts production and audit process – The Authority had good processes in place for the production of the accounts and exemplary quality supporting working papers. Officers dealt efficiently with audit queries and the audit process had been completed within the planned timescales.
- 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 2015.

KPMG commented that there were no recommendations arising from work undertaken, which reflected the quality of the work that they had audited. They also wished to express their thanks to the Chief Accountant and the Senior Finance Analyst for all their assistance.

AGREED:

That the ISA260 report for 2014/15 be noted.

15. APPROVAL OF FINANCIAL STATEMENTS 2014-15

Consideration was given to the report of the Shared Executive Director (Commercialisation), which sought approval for the annual governance statement for inclusion within the Council’s published financial statements, and the approval of the audited

**GOVERNANCE AND AUDIT - 24 September
2015**

2014-15 financial statements for publication.

The pre-audit 2014-15 financial statements were presented to the Committee on 25 June 2015. 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 2014-15, 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 2014-15. No amendments were required to be made to the primary Financial Statements, and the level of resources available to the Council remained the same.

At the same meeting, the Committee considered and commented on the draft Annual Governance Statement. Appendix A reflected minor changes to the draft version, these arising from improvements to Governance arrangements outlined in the Internal Annual Audit Report.

The Annual Governance Statement was required to be signed by the Leader of the Council and the Chief Executive. The committee was requested to approve the statement to allow it to be published with the financial statements.

The Finance Manager stated that he wished to thank the Senior Finance Analyst and his team for what had been a very successful exercise in preparing the accounts and supporting the audit. These sentiments were re-iterated by the Chairman of the Committee. The Senior Finance Analyst also thanked his team for their work. KPMG's involvement in the process was also noted by the Finance Manager.

AGREED:

- a) That the 2014-15 Financial Statements be approved;
- b) That the 2014-15 Annual Governance Statement be approved;
and
- c) That the Letter of Representation be approved.

16. INTERNAL AUDIT UPDATE REPORT

Consideration was given to the report of the Audit and Risk Manager (Audit Lincolnshire) and the Finance Manager, which updated the Committee on progress with the Audit Plan for the period May 2015 to August 2015.

The purpose of the report was to:

- Advise of progress being made with the 2015/16 Audit Report;
- 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; and
- Update the committee on any changes to the 2015/16 Audit Plan and any other matters that may be relevant to the Governance and Audit Committee role.

Since the last progress report, 10 audits had been completed, 8 to final report stage and 2 to draft report. Work was progressing with the 2015/16 plan as follows:

- Audits complete 11%
- Audits in progress 12%
- Audits scheduled
 - Quarter 2 13%
 - Quarter 3 24%
 - Quarter 4 27%
- Audits unallocated/contingency 13%

Appendix 3 to the report provided details of audit areas and proposed audit dates.

There were two audits relating to the 2014/15 plan – ICT Strategy and projects; and ICT Software. These were at draft stage. The auditors were working with CPBS to complete these, and they would be reported to the next meeting.

Housing Benefit subsidy detailed audit testing work had been completed, and the results had been passed to KPMG for assessment.

The tracking of audit recommendations would be through the Covalent system in the near future. The auditors were working with management to help update the system with a formal follow up of all outstanding recommendations planned in October/November. The resulting audit report was scheduled to

**GOVERNANCE AND AUDIT - 24 September
2015**

be presented to the Governance and Audit Committee on 3 December 2015.

The following audit work had been completed, and a final report issued. Further information on each of these was detailed in Appendix 2 to the report:

Substantial assurance

- Housing Benefits
- Property Plant and equipment (key controls)
- Council tax (key controls)
- NNDR (key controls)
- Partnerships
- ICT Security (follow up)

Limited assurance

- Accounts payable
- ICT Mobile devices

The following 2015/16 audits were currently in progress:

- Housing benefit subsidy testing – complete and awaiting KPMG review September 2015
- Housing Rents – Rent setting, calculation and billings, as well as income collection and arrears management were to be assessed.
- Housing Planned Maintenance – Audit would review the housing planned maintenance programme to ensure effective management and delivery of housing modernisation projects, which supported the Council's Housing objectives.

Audits for the following were being prepared:

- Contract Management – The effectiveness of current contract management would be examined
- Human Resources – The relationship between the Council and CPBS to assess the effectiveness of Human Resources service delivery by CPBS
- Income – Review of key income areas including Planning fees, South Holland Centre income and Car Park charges.

Finally, a number of other matters were detailed:

- Delivering Good Governance in Local Government: Framework (CIPFA/SOLACE) – The introduction of new

**GOVERNANCE AND AUDIT - 24 September
2015**

responsibilities and the development of new collaborative structures and ways of working provided challenges for ensuring transparency, demonstrating accountability and, in particular, for managing risk. It was crucial therefore that leaders and chief executives kept their governance arrangements up to date and relevant. In response to these challenges, CIPFA and SOLACE were undertaking a fundamental review of the Framework: Delivering Good Governance in Local Government to ensure that it remained 'fit for purpose'. A consultation on the new draft Framework was available on the CIPFA website until 28 September, and a link to this was included within the report.

- Audit shadowing – Discussions were being held with officers around the potential for members to shadow one or two internal audits so that they could get a better understanding of the audit process. This would be taken forward from October onwards.
- Training and Development – Training and Development formed a key part of maintaining the Committee's effectiveness. It was proposed to re-launch the successful networking group – Lincolnshire's Audit Committee Forum – inviting public sector bodies across Lincolnshire. This forum provided Audit Committees with a way to share good practice and receive topical updates and relevant training.

The Committee was advised that relevant training would be provided just after Christmas 2015 and members agreed that they would find this very useful. They commented that they would find shadowing the audit team particularly helpful and that this should be taken forward in small groups. It was agreed that officers liaise with auditors and Committee members to arrange dates for training to be undertaken.

AGREED:

- a) That the report be noted; and
- b) That officers liaise with members of the Governance and Audit Committee and auditors to arrange dates in early 2016 for relevant training and shadowing of auditors to be undertaken.

CM

17. STRATEGIC RISK REPORT

Consideration was given to the Executive Director of Strategy and Governance which updated the Committee on the current status of strategic risks.

The last risk report to the Governance and Audit Committee was

**GOVERNANCE AND AUDIT - 24 September
2015**

in March 2015. Since then, routine performance and risk reporting had been temporarily suspended to allow for the review of performance and risk frameworks and the implementation of a new corporate ICT system to support their delivery. The frameworks had been reviewed and a system (Covalent) had been procured, and was currently being populated to cover all performance indicators, risks and projects as part of phase 1 of its implementation.

The report being considered was the first risk report to be generated using the new system, and contained status updates on strategic risks only for 2015/16 to date. Future quarterly reports would also contain details of high scoring operational risks, which were yet to be fully implemented into the new system, expected by the end of quarter 3.

Strategic risks had been reviewed and updated with responsible members of the Executive Management Team (EMT). The strategic risk register included eight strategic risks (detailed at Appendix A to the report). These covered the over-arching risks that could affect the strategic direction of the Council, rather than risks linked to business continuity or those that affected discreet service areas.

Strategic risks were captured on the Corporate Dashboard, reviewed by EMT quarterly. In addition, risks were reviewed monthly at the officer-led Performance, Risk and Audit Board, chaired by the Executive Director of Strategy and Governance.

Strategic Risks – These typically affected the whole of the organisation and not just one or more parts of it. Strategic risks could potentially involve very high stakes and often affected the ability of the organisation to survive, e.g. impact on the ability of the Council to achieve its corporate plan objectives and purpose. Strategic risks were managed at Board (EMT) level.

Operational risks – These referred to potential impacts and losses arising from the normal operations. They affected the day-to-day running of operations and organisation systems. Operational risks were managed at directorate and/or service level.

The Risk Framework was currently under review, alongside the implementation of the new ICT system. As part of this review, the risk matrix had been changed from a 3 x 3 to a 5 x 5 matrix, based on best practice in comparable organisations. This provided a more comprehensive assessment and understanding of risk likelihood and impact. The matrix resulted in a numerical score which combined the impact of the risk occurring with the

**GOVERNANCE AND AUDIT - 24 September
2015**

likelihood of it happening. Risks fell into High, Medium or Low categories, depending on their rating.

The Committee considered the report and agreed that the report did seem easier to read than previous versions.

AGREED:

That the report be noted.

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

Consideration was given to the report of the Executive Manager Governance 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 7.06 pm)

(End of minutes)