

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 28 July 2016 at 6.30 pm.

PRESENT

G R Aley (Chairman)
J R Astill (Vice-Chairman)

C J T H Brewis
T A Carter

P C Foyster

A Harrison

Apologies for absence were received from or on behalf of Councillors M J Pullen and Helen Brookes (Manager, KPMG).

In Attendance: J Cornett (KPMG), E Hodds (Internal Audit Consortium Manager, Eastern Internal Audit Services), the Interim Chief Accountant (Deputy S151 Officer), the Change and Performance Manager, the Finance Accountant and the Democratic Services Officer.

10. DECLARATION OF INTERESTS

There were none.

11. MINUTES

The minutes of the Governance and Audit Committee meeting held on 26 May 2016 were signed by the Chairman as a correct record.

12. EXTERNAL AUDIT PROGRESS REPORT

Consideration was given to a verbal update provided by the external auditor, KPMG.

The Committee was advised that not much additional work had been undertaken since the last report, and that as this and the previous meeting had been held close together, that there would be no technical update to this meeting.

The main audit would start on site on 1 August 2016 and the Compass Point Business Services audit was complete. Value For Money conclusion work was almost complete, and there was nothing further to bring forward.

It had been requested that a special meeting be held on 1 September 2016 in order that the Committee could approve the Annual Governance Statement (for inclusion with the Council's published financial statements) and the audited 15/16 financial

Action By

GOVERNANCE AND AUDIT - 28 July 2016

statements. In order to do this, the auditors would have to complete their audit earlier than originally planned– the Committee was advised that KPMG could not accommodate bringing forward the audit to meet the deadline for the 1 September 2016 meeting. The audits had to be undertaken together in order to keep the fee down. However it was noted that the accounts closure and audit process needed to be brought forward for 2018/19, and KPMG would liaise with the Authority on how this could be achieved.

AGREED:

- a) That the verbal update be noted; and
- b) That KPMG liaise with the Authority on how to bring forward the accounts closure and audit process for 2018/19.

ES, KT CM

13. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

Consideration was given to the report of the Internal Audit Consortium Manager which examined progress made between 1 April 2016 and 18 July 2016 in relation to the completion of the Annual Internal Audit Plan for 2016/17. It included abbreviated executive summaries in respect of the audit reviews which had been finalised in the course of this period.

The Governance and Audit Committee received updates on progress made against the annual internal audit plan, and the report formed part of the overall reporting requirements to assist the Council in discharging its responsibilities in relation to the internal audit activity.

The Public Sector Internal Audit Standards required the Chief Audit Executive (Internal Audit Consortium Manager) to report to the Governance and Audit Committee the performance of internal audit relative to its agreed plan, including any significant risk exposures and control issues. The frequency of reporting was to each meeting. To comply with requirements, the report identified:

- Any significant changes to the approved Audit Plan;
- Progress made in delivering the agreed audits for the year;
- Any significant outcomes arising from those audits; and
- Performance indicator outcomes to date.

The following significant changes to the approved internal audit plan were outlined in the report:

- IT audit coverage would be confirmed following a meeting between the IT Audit Manager and the Shared IT Manager for

GOVERNANCE AND AUDIT - 28 July 2016

the Council. IT audits to be undertaken this year would be: Cybersecurity, due to recent events; and Disaster Recovery, to ensure that there was adequate provision, backup and recovery capabilities, and alignment with business continuity plans. Final details would be brought forward to the next meeting.

- In agreement with the Section 151 Officer and the Chief Accountant, it was agreed to replace an audit of Welland Homes with an audit of Housing Right to Buy. In light of the new housing and planning bill, the Welland Homes audit was postponed until 2017/18 to allow time for its business plan to be developed and embedded at the Council. It was agreed that it would be timely to look at the Housing Right to Buy process to ensure that this was robust, well controlled and efficient and effective for the customer, and it was also important to gain an understanding of the impact of the housing and planning bill in the area, and how the Council would manage this.

The following progress had been made in delivering the agreed audit work:

- Progress to date was in line with expectations, and further detail on the current position was shown in Appendix 1 to the report.
- 23 days of programmed work had been completed, equating to 24% of the revised Internal Audit Plan for 2016/17.
- East Lindsey District Council provided the review of Compass Point Business Services, with the majority of this work due to be undertaken in quarters three and four of the 2016/17 financial year.

During the period 1 April 2016 to 28 July 2016, the following two final reports were issued:

- Corporate Health and Safety – The audit concluded with a 'Reasonable' assurance and raised two Important (priority two) and one Needs Attention (priority three) recommendations.
- Branding – The audit concluded with a Reasonable assurance and five Needs Attention (priority three) recommendations.

At the last meeting, the Committee had requested a further report updating on ICT Strategy and Project Management and ICT Software, following limited assurance opinions being given on both. The Internal Audit Consortium Manager provided the following updates, and advised that she was comfortable with what was being done to address these priorities:

- ICT Strategy and Projects – Five recommendations (four high

GOVERNANCE AND AUDIT - 28 July 2016

priority and one medium priority) were agreed with management on conclusion of the review. The current position was that four had been either actioned by management or superseded, and one high priority was a work in progress, with a revised date of September 2016 provided for implementation.

- ICT Software – Six recommendations (three high priority and three medium priority) were agreed with management on conclusion of the review. The current position was that the three medium priority recommendations had been actioned by management or superseded, and the three high priority recommendations were work in progress, with deadline dates of September 2016 provided for implementation.

AGREED:

- a) That the report be noted; and
- b) That final details be brought forward to the next meeting regarding Disaster Recovery (to ensure that there was adequate provision, backup and recovery capabilities, and alignment with business continuity plans).

CM

14. ANNUAL GOVERNANCE STATEMENT

Consideration was given to the report of the Executive Director Commercialisation (S151 Officer) which presented the approved Annual Governance Statement to the Committee, a copy of which was attached to the report at Appendix A.

The Draft Annual Governance Statement had been presented to the Committee on 26 May 2016 as part of the Un-Audited Accounts report. The Committee had agreed the draft statement and instructed that it be presented to the Executive Management Team (EMT) for final review and approval. EMT provisionally approved the statement in June 2016 with authority given to the Executive Director Commercialisation to finalise the statement as part of the Annual Statement of Accounts. The Un-Audited Accounts were finalised and passed over to the Auditors on 30 June 2016, and the approved Annual Governance Statement formed part of the document. The Financial Statements, including the Annual Governance Statement were added to the Authority's website on 1 July 2016 for a minimum of 20 working days public consultation.

Consideration was given to the significant governance issues listed on the final page of the Annual Governance Statement.

- Delivery of the Transformation Programme – the Chief

GOVERNANCE AND AUDIT - 28 July 2016

Accountant advised that this was being regularly considered by the Performance Monitoring and Policy Development Panels and the Cabinet, therefore additional involvement by the Governance and Audit Committee was not required.

- Strengthening of the Housing Revenue Account – It was within the Committee’s remit (as detailed within the Council’s Constitution) to review the Draft HRA Estimates and Business Plan on an annual basis. Quarterly monitoring was also undertaken by the Council and reports were considered by the Commercialisation and Growth Group. As a result, it was felt that there was no additional work for the Committee to undertake however, it could be provided with further detail if required. Further information could be seen as part of the quarterly financial monitoring.
- Continuing impact of reduced government funding, reductions in housing rents and implications of right to buy and other national housing policies – the Chief Accountant advised that there were a number of issues relating to this point – 1) Continued Right to Buy sales were resulting in a reduction in the amount of housing rents collected by the Authority; 2) Efforts to stimulate the economy by reducing rent levels was also resulting in less income; and c) There was a shortfall as a result of the Authority not being able, in some instances, to increase sewerage charges (non-mains drainage) – it was necessary for rates to be standardised in order that tenants payed the required amount for the size of their property. The Chief Accountant advised that he was looking into this issue, and that a report would be forthcoming to the Committee in the future.
- Devolution – as the devolution process became clearer, the Committee would be involved as the work progressed.

AGREED:

- a) That the report be noted; and
- b) That following consideration of the Significant Governance issues contained within the report, the following actions/reports be undertaken during 2016/17:
 - i. That the Chief Accountant provides a report to the Committee in due course concerning the shortfall in income received for sewerage charges, and how the issue could be resolved; and
 - ii. That as the Devolution process becomes clearer, the Committee be involved as work progressed.

CM, KT

CM, KT

GOVERNANCE AND AUDIT - 28 July 2016

15. UN-AUDITED 2015/16 FINANCIAL STATEMENT STATUS

The Committee received a verbal update from the Chief Accountant on the Un-Audited 2015/16 Financial Statement Status.

The Chief Accountant confirmed that beyond a few small presentational changes, the statement was essentially the same as the version considered by the Committee at its meeting in May. The statement had been available to view on the Council's website since 1 July 2016, and no comments had been received. The statement would be forwarded within the next week to the auditor, KPMG.

AGREED:

That the verbal update provided by the Chief Accountant be noted.

16. LOCAL COUNCIL TAX SUPPORT SCHEME 2017/18

Consideration was given to the report of the Executive Director Commercialisation (S151 Officer) which requested that the Committee review specific discounts within the local Council Tax Support Scheme for 2017/18.

The Local Council Tax Support Scheme replaced the former national Council Tax Benefit scheme from April 2013. The scheme for pensioners continued to be prescribed by government, and allowed up to 100% support against Council Tax liability. In 2014/15, South Holland District Council's Council Tax Support Scheme required all working age households to pay at least 75% of their Council Tax liability. This scheme had been reviewed annually and retained through 2015/16 and 2016/17.

The report recommended:

- That the Committee examine current working claimant discounts and recommend changes and/or amendments to Council for the 2017/18 local Council Tax Support Scheme;
- That officers prepare a savings schedule based on the recommendations and provide this information to the Committee at its September meeting; and
- That future work include a fundamental review of the local Council Tax Support Scheme for potential changes in 2018/19.

Consideration was given by the Committee to options detailed in Appendix A to the report, and the following issues were raised:

GOVERNANCE AND AUDIT - 28 July 2016

- Was the Authority still encouraging members of the public to advise of any persons claiming Single Person Discount when they were not entitled to it?
 - The Chief Accountant responded that this was still the case and he would arrange for a poster to be sent to all members to put up in their wards. He would also arrange for leaflets to be put in the Council's main reception area, and again provide all Councillors with a copy. The Communications Department would add information to the website and social media outlets.

- The Committee raised concerns with regard to fraud in general. The Chief Accountant advised that work was being undertaken with regard to the National Fraud Initiative, and that this was a useful vehicle through which to tackle fraud. He also advised that the Performance Monitoring Panel would shortly be setting up a Task Group to investigate tenancy fraud. The Committee requested that it receive a fraud report in the near future.

- With regard to the first option – abolish second adult rebate – at what level was the income level set?
 - The Chief Accountant did not have this information and commented that it would also depend on the Council Tax level. The report had not gone into such fine detail as the aim at this stage was only for the Committee to identify which areas should be looked into further.

- The Director, KPMG commented that the Council Tax and benefit schemes were not at the same level and that the Council Tax scheme should be brought down so they were more in line. He also commented that the challenge going forward in changing or amending the scheme was for it to be equitable, otherwise it could be challenged.

- Limit backdating – The Committee felt that the option of reducing this from three to one month was preferable as this would bring it more in line with benefits.

- There was discussion around a number of the options (it was generally felt that option 2 (introduce a minimum weekly amount of Council Tax Support), option 4 (restrict Council Tax to a particular band) and option 7 (limit backdating) could be the most appropriate). However, the Committee requested that a more detailed report on the options available be provided to the next Committee meeting.

GOVERNANCE AND AUDIT - 28 July 2016

- The Chief Accountant commented that the Authority had to be careful not to reduce support too far as this could then result in an increase in bad debts. A balance needed to be struck.

AGREED:

- a) That the report be noted;
- b) That the Authority's policy of encouraging the public to advise of any individuals claiming Single Person Discount that they were not entitled to be publicised by:
 - Providing all Councillors with a poster and leaflets;
 - That leaflets be displayed in the Council's reception area; and
 - That the Communications Team add information to the Authority's website and on relevant social media sites.
- c) That a fraud report be presented to the Committee to address issues around fraud and how these were being addressed;
- d) That with regard to the option of limiting backdating, the Committee felt that reducing this from three months to one would be a preferable option;
- e) That a further report, providing more detail on the options available be presented to the next meeting of the Committee.

CM DO

AE, KT

SH, KT

SH, KT

17. ANNUAL TREASURY MANAGEMENT REVIEW 2015/16

Consideration was given to the report of the Executive Director Commercialisation (S151 Officer) which requested that the Committee consider the Annual Treasury Management Review for 2015/16, prior to its presentation to Council.

The Council was required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2015/16. The report met the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The regulatory environment placed responsibility on members for the review and scrutiny of treasury management policy and activities. The report was therefore important in that respect, as it provided details of the outturn position for treasury activities, and highlighted compliance with the Council's policies previously

GOVERNANCE AND AUDIT - 28 July 2016

approved by members.

Appended to the report outlining the Annual Treasury Management review for 2015/16, was a report presented to Council on 27 July 2016 regarding Treasury Management Policy Amendments. The report had recommended the following, which were agreed by the Council:

- That Delegated Authority be given to the Section 151 Officer in consultation with the Portfolio Holder Finance and the Governance and Audit Committee to vary counter party limits for investment and short term deposits;
- That the Governance and Audit Committee review the situation at each meeting of the Committee and report status to the Council until 31 March 2017 when the 2015/16 Treasury Management Policy would be superseded by the 2017/18 Treasury Management Policy.

The Chief Accountant commented that, as the Authority was looking at a range of investments and interest rates were currently very low, it needed to look at better ways of utilising cash balances. Monies held in short term access accounts would increase beyond limits and it was therefore necessary to move monies more quickly, and not tie it up for long periods. As confirmed at the Council meeting on 27 July 2016, a regular update would be presented to the Governance and Audit Committee, showing where money was invested and levels of risk.

AGREED:

- a) That the report be noted; and
- b) That a report be presented to each meeting of the Governance and Audit Committee detailing where monies were invested and levels of risk, and that this status be reported to the Council until 31 March 2017.

LE, SH,
CM, KT

18. GOVERNANCE AND AUDIT COMMITTEE SELF ASSESSMENT

Consideration was given to the report of the Executive Director Commercialisation (S151 Officer) which provided details of the Governance and Audit self assessment.

Members noted that the Chartered Institute of Public Finance and Accountancy (CIPFA) advocated that it was good practice for Audit Committees to undertake regular assessments, which enabled members to gain an appreciation of what afforded best practice, to confirm the level of compliance being achieved, and to

GOVERNANCE AND AUDIT - 28 July 2016

identify any potential areas for enhancements to be made to arrangements.

CIPFA's Audit Committee Self-Assessment Checklist, attached at Appendix A within the report, focussed on 6 fundamental areas, and 66 individual aspects of operations. The key areas were:

- Establishment, Operation and Duties;
- Internal Control;
- Financial Reporting and Regulatory Matters;
- Internal Audit;
- External Audit; and
- Administration

Under 'Establishment, Operation and Duties', section 1.8 asked whether the audit committee made a formal annual report on its work and performance during the year to full council. The Democratic Services Officer provided a copy of the report that had been submitted the previous year. The Committee agreed that the current format was good, and that future reports should:

- Look forward to the forthcoming year as well as backward at the past year;
- State what the Committee would do in relation to risks identified; and
- That for the report following the current year's report, include comparisons of how the Committee had performed (this would tie in with the Annual Governance Statement).

It was agreed that a draft report be completed and agreed at the next Panel meeting in September 2016, prior to its presentation to Council in October 2016.

DECISION:

- a) That the completed checklist at Appendix A be noted; and
- b) That a draft of the Governance and Audit Committee's report to Council be considered at the next meeting of the Governance and Audit Committee on 15 September 2016.

CM, KT

19. QUARTERLY RISK REPORT - QUARTER 1 2016/17

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

The Performance and Change Manager referred members to the strategic risk register that formed Appendix A within the report,

GOVERNANCE AND AUDIT - 28 July 2016

which included 14 strategic risks (an increase of 2 since the last quarter). The two additional items were:

- Failure to deliver financial and non-financial outcomes of the approved Welland Homes Business Plan – The Committee was advised that several controls and mitigations had been put in place or were being progressed, which would reduce the likelihood of the risk. These included – governance; communication; increased capacity; and revised business plan.
- Publication of gender pay gap under transparency legislation – The Committee was advised that this would be looking at whether the percentage of women or men in certain roles was lower than it should be. The Committee felt that the title suggested it would be looking into whether men and women were paid the same for undertaking the same work – it was ambiguous and the Committee therefore requested that the project be retitled.

AGREED:

- a) That the contents of the report be noted; and
- b) That the project on the Risk Report entitled 'Publication of gender pay gap under transparency legislation; be re-titled to reflect the fact that it was detailing whether the percentages of men or women in particular roles was lower than it should be, rather than possible differences in pay between men and women doing the same job.

TR

20. 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.

The Democratic Services Officer advised that the Limited Assurance Areas and ICT and Project Management items, added to the Work Programme for consideration at the meeting on 15 September 2016, had in fact been covered earlier in the meeting as part of the Progress Report on Internal Audit Activity report. They would therefore be removed from the Work Programme.

Members considered the report and the Work Programme, and the following issues were raised:

- The Internal Audit Consortium Manager advised that the

GOVERNANCE AND AUDIT - 28 July 2016

internal auditor's themselves needed to be audited. She would liaise with the Chairman and/or Vice-Chairman of the Committee regarding who should be appointed, and what the scope of the audit should be. It was anticipated that the audit would take place in December, with the outcomes subsequently being reported to the Committee.

- The Internal Audit Consortium Manager advised that a report would be presented to the Committee in September regarding the appointment of the external auditors. The purpose would be to consider and agree a new system for the appointment of the external auditors. After consideration by the Committee, it would be presented to Council in October for final agreement.
- The Internal Audit Consortium Manager that reports would be presented to the Committee in June and December, provided a detailed follow-up of audit recommendations.

DECISION:

- a) That the report and content of the Work Programme be noted;
- b) That the Limited Assurance Areas and ICT and Project Management items be removed from the Work Programme for 15 September 2016;
- c) That the Internal Audit Consortium Manager liaise with the Chairman and/or Vice-Chairman of the Governance and Audit Committee regarding who should be appointed to undertake the audit of the internal auditor, and what the scope should be, and that the outcomes be reported back to the Committee upon completion;
- d) That a report be presented to the Governance and Audit Committee in September and to Council in October regarding the appointment of the external auditors, with the purpose of agreeing a new system for the appointment of the external auditors; and
- e) That that a report be presented to the meetings of the Committee in June and December, providing a detailed follow-up of audit recommendations.

CM

CM

CM

(The meeting ended at 8.32 pm)

(End of minutes)