

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 15 September 2016 at 6.30 pm.

PRESENT

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

C J T H Brewis

T A Carter

A Harrison

Apologies for absence were received from John Cornett (KPMG).

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

21. DECLARATION OF INTERESTS

There were none.

22. MINUTES

The minutes of the Governance and Audit Committee meeting held on 28 July 2016 were signed by the Chairman as a correct record.

23. DEVOLUTION

At its meeting on 26 May 2016, the Governance and Audit Committee had requested that the Council's lead officer for devolution be invited to attend to provide a presentation on the subject, highlighting the potential starting points for governance arrangements and potential risks for the authority. The Interim Manager for Devolution attended the meeting. He began by outlining the devolution process and its advantages and disadvantages. He explained the decision-making process relating to the devolution deal with government that had yet to be ratified by each of Greater Lincolnshire's ten local authorities.

With regard to governance, the Committee was advised that if all of the ten Greater Lincolnshire authorities approved the proposed devolution deal, a new Combined Authority would be established. This would comprise the ten local authorities and the Greater Lincolnshire LEP (its chair sitting on the Cabinet but in a non-voting capacity). Each authority would have one vote. No organisation would have a casting vote. A new elected mayor would chair the Cabinet of the Combined Authority.

Action By

**GOVERNANCE AND AUDIT - 15 September
2016**

There were a number of questions regarding the elected mayor – there would be questions regarding salary locally; it would appear to the public that an extra layer of bureaucracy had been added; were the public aware of what the mayor's role was (the Interim Manager for Devolution clarified that the role would be different to the traditional view of a mayor and that every attempt had been made to clarify this fact during public consultation).

The Committee was advised that work was currently underway to develop the details of governance and management arrangements – including a combined authority constitution. A Strategic Infrastructure Delivery Plan was being developed to ensure that it was clear where any future monies for infrastructure and housing were to go.

The Interim Manager for Devolution proposed that the Committee request a more detailed briefing on governance and risk in the event that the ten Greater Lincolnshire local authorities approved the proposal (meetings in September and October).

AGREED:

- a) That the Interim Manager for Devolution be thanked for providing the Committee with the requested information; and
- b) That a further, more detailed report be provided in the event that the ten Greater Lincolnshire local authorities approved the proposal to create a Greater Lincolnshire Combined Authority.

CM

24. ISA 260 REPORT 15/16

Consideration was given to KPMG's report to those charged with governance (ISA260) for 2015/16. It summarised the key findings arising from their audit of South Holland District Council's 2015/16 financial statements and their work to support their 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources.

The headline messages detailed within the report were as follows:

- Proposed audit opinion – KPMG anticipated issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. They would also report that SHDC's Annual Governance Statement complied with guidance issued by CIPFA/SOLACE in June 2007.
- Audit adjustments – KPMG reported that their audit of SHDC's financial statements had not identified any material

**GOVERNANCE AND AUDIT - 15 September
2016**

adjustments and there were no uncorrected misstatements. They had agreed a number of minor presentational changes to the accounts with the finance team. Overall, the quality of the financial statements was very good, and KPMG wished to thank the finance team for their hard work in producing the accounts.

- Key financial statements audit risks – KPMG had identified one key financial statements audit risk relating to the provision for business rate appeals in their 2015/16 External Audit Plan issued in March 2016. They had worked with officers throughout the year to discuss that risk, and their detailed findings were reported in section 3 of the report. There were no matters of any significance arising as a result of KPMG’s work in this key risk area.
- Accounts production and audit process – KPMG received complete draft accounts by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures were in line with the requirements of the Code. The Authority had very good processes in place for the production of the accounts and very good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process had been completed within the planned timescales. As in previous years, KPMG would debrief with the finance team to share views on the final accounts audit, and hopefully this would lead to further efficiencies in the 2016/17 audit process. KPMG wished to thank the Authority’s officers who were available throughout the audit visit to answer their queries.
- VFM conclusion and risk areas – KPMG had identified ‘financial resilience’ as a VFM risk as part of their VFM risk assessment. They had worked with officers throughout the year to discuss this VFM risk, and their detailed findings were reported in section 4 of the report. There were no matters of any significance arising as a result of KPMG’s audit work on this VFM risk area. 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 2016.

KPMG highlighted that the production of the accounts would need to be brought forward with a view to producing them by 31 May for 2017/18. This would need to be done whilst ensuring that the quality of the accounts was not diminished. It was reported that the Authority and KPMG were already working together to consider how this could be done, and would be bringing deadlines forwards for 2016/17 to test the new deadlines prior to them formally coming into effect for 2017/18.

**GOVERNANCE AND AUDIT - 15 September
2016**

The Interim S151 Chief Finance Officer commented that the findings within the report were excellent and she was pleased to see such good results achieved by all those concerned. The Committee echoed these sentiments and requested that their thanks and appreciation be conveyed to all officers involved.

AGREED:

- a) That the ISA260 report for 2015/16 be noted;
- b) That KPMG and SHDC work together to test deadlines for the production of accounts, in readiness for the new deadline of 31 May, effective for the 2017/18 accounts; and
- c) That the views of the S151 Chief Finance Officer, and the thanks and appreciation of the Governance and Audit Committee be conveyed to all officers whose work had contributed towards the positive outcome of KPMG's audit.

ES, KT

KT

25. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

Consideration was given to the report of the Internal Audit Consortium Manager which examined progress made between 19 July and 15 September 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 the period.

The Governance and Audit Committee received updates on progress made against the annual internal audit plan. 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 Committee was advised that the current position in

**GOVERNANCE AND AUDIT - 15 September
2016**

completing audits to date within the financial year was detailed within Appendix 1 to the report, and that progress to date was in line with expectations. In summary:

- 38 days of programmed work had been completed by Eastern Internal Audit Services;
- 15 days of programmed work had been completed by East Lindsey District Council;
- The overall position with the internal audit plan for 2016/17 was that 53 days had been delivered to date, equating to 33% of the revised internal audit plan for 2016/17

During the period 19 July to 5 September 2016, the following final reports were issued:

- Strategic Housing – The audit concluded with a ‘Reasonable’ assurance, and five recommendations were agreed with management – three ‘Important’ and two ‘Needs Attention’.
- Cybersecurity – The audit concluded with a ‘Limited’ assurance, raising seventeen recommendations which had been agreed with management. Eight of the recommendations were rated ‘Important’ with the remaining nine rated as ‘Needs Attention’. It was noted that the report did set out a number of areas whereby there were sound controls in place, which were operating consistently.

AGREED:

That the report be noted.

26. APPOINTMENT OF EXTERNAL AUDITORS

Consideration was given to the report of the Interim S151 Chief Finance Officer. It asked the Governance and Audit Committee to consider the report relating to the appointment of External Auditors, to note the recommendations to Council, and to submit relevant comments, where appropriate, prior to consideration of the report at the meeting of Council on 26 October 2016.

The Local Audit and Accountability Act 2015 introduced the necessity for Local Authorities to establish an auditor panel and manage their own procurement. Therefore, all local authorities needed to decide how their auditors would be appointed in the future, whether they made the appointment themselves, in conjunction with other bodies, or join a national collective scheme.

The current audit contracts were administered by Public Sector Audit Appointments limited (PSAA), which was a not-for-profit

**GOVERNANCE AND AUDIT - 15 September
2016**

company established by the Local Government Association (LGA). These powers were time limited and would cease when contracts with audit firms expired with the completion of the 2017/18 audits for local government bodies. Thereafter, the Council would need to have exercised a choice about whether to opt in to the authorised national scheme, or whether to make other arrangements to appoint their own auditors.

The LGA had played a leadership role in anticipating the changes and influencing the range of options available to local bodies. In particular, it had lobbied to ensure that, irrespective of size, scale, responsibility or locations, local government bodies could, if they wished, subscribe to a specifically authorised national scheme which would take full responsibility for local auditor appointments which offered a high quality professional service and value for money.

PSAA was leading the development of this national option and ideally were looking for principal bodies to give firm commitment to join the scheme during Autumn 2016.

The Committee considered the report and agreed with the recommendations to be presented to the full Council on 26 October 2016.

AGREED:

- a) That the report of the Interim S151 Chief Finance Officer be noted; and
- b) That the following recommendations be presented to full Council on 26 October 2016:
 - i. That the Council agrees to join a national collective scheme, led by the Public Sector Audit Appointments (PSAA);
 - ii. That delegated authority be given to the Section 151 Officer (or deputy in their absence) to communicate the willingness of the Council to join the scheme, led by PSAA and to enter into the scheme after a satisfactory examination/negotiation of the proposed terms and conditions is concluded.

CM

27. APPROVAL OF FINANCIAL STATEMENTS 2015/16

Consideration was given to the report of the Interim S151 Chief Finance Officer, which sought approval for the annual governance statement for inclusion with the Council's published financial

**GOVERNANCE AND AUDIT - 15 September
2016**

statements and approval of the audited 2015-16 financial statements for publication.

The draft Annual Governance Statement and the core statements from the un-audited 2015-16 Financial Statements had been presented to the Committee on 26 May 2016. A verbal update had been provided to the Committee on 28 July 2016, and this had highlighted that the draft un-audited accounts were available on the Council's website for members to review.

Since that time, KPMG had been working to establish the accuracy of the accounts, checking them against the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16, 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 Financial Statements for publication, having considered the issues raised by the auditor in their report to those charged with governance (ISA 260 report, considered earlier in the meeting).

A small number of presentational adjustments were required to ensure compliance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16. No amendments were required to be made to the primary Financial Statements, and the level of resources available to the Council remained the same. However, as accounting policy changes were introduced in respect of the Housing Revenue Account, data for 2014-15 had been restated for comparison purposes.

At the same meeting, the Committee considered and commented on the 2015-16 Financial Statements. The approved statement had been presented to the Committee on 28 July 2016. Since that time, there had been some minor presentational issues agreed with the external auditors.

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 final statement to allow it to be published with the financial statements.

The Chief Accountant advised that this year, for the first time a narrative report had been added to the statements, and that this tied into reports seen throughout the year.

The Committee was advised that the information included within the Collection Fund Statement, in relation to Council Tax and Business Rates, would become more relevant in the future and

**GOVERNANCE AND AUDIT - 15 September
2016**

training on this would be added to the Committee's training timetable.

AGREED:

- a) That the 2015-16 Financial Statements be approved;
- b) That the 2015-16 Annual Governance Statement be approved;
- c) That the Letter of Representation to KPMG be approved.

KT

**28. TREASURY MANAGEMENT ACTIVITY AUGUST/SEPTEMBER
2016**

At its meeting on 27 July 2016, the Council had received a report by the Portfolio Holder for Finance and Executive Director – Commercialisation (S151) setting out a proposed interim Treasury Management Policy which reflected changing liquidity requirements of the Council as part of amendment to the Medium Term Financial Plan.

Members had agreed that in order to ensure liquidity within these potential cash flow requirements, an interim change to the Treasury Management Policy was required. As funds were returned from counter parties in the next 3 months no new medium (6 month) or long (12 month) term investments would be actioned and the policy would be reviewed after this initial period of change and amended as necessary with regular actions and reviews taking place until 31 March 2017. Regular updates would be issued to the Governance and Audit Committee to ensure that all members were fully informed on status and progress. The Governance and Audit Committee would review the situation at each meeting and report status to the Council until 31 March 2017 when this policy will be superseded by the 2017/18 Treasury Management Policy.

The report provided the following information:

- It summarised the cash flow movements since the change in policy and highlighted cash balances as at the date of the report
- The counter party limits had been reviewed and an increase in the CCLA (Churches, Charities and Local Government) money market maximum investment to £10million had been authorised by the S151 Officer
- No other changes to limits had been actioned in the period however, due to a sharp reduction in investment return, the majority of the funds lodged with Svenska Handelsbanken was

**GOVERNANCE AND AUDIT - 15 September
2016**

withdrawn and placed in the money market

AGREED:

That the content of the update be noted and status be reported to the Council on 26 October 2016.

KT

29. DEBT MANAGEMENT

Consideration was given to the report of the Interim S151 Chief Finance Officer which informed the Committee of recent developments in debt management, including a collectability review and potential invest to save targets.

All debt within the Council were being examined, and improved collection methods introduced wherever possible. Levels of debt outstanding at 31 March 2015 and 2016 were as analysed within the 2015/16 annual statement of accounts.

Debt levels by major customers were listed within the reports and included Business Rates; Council Tax; HRA Rent; Short Term Debtors (Costs); Sundry Debtors; and Housing Benefit Overpayments.

The report was discussed and the following points were raised:

- Councillors had a lot of collective knowledge between them – this should be used to assist in debt management
- Trends had to be identified with regard to debts of individuals
- The trend needed to be reversed and bad debt provisioning decreased
- A lot of work was currently being undertaken on this issue.
- Policies needed to be reviewed and adherence to them ensured
- The Policy Development Panel would be involved at a later date with regard to debt management policy.

AGREED:

a) That the content of the report be noted; and

b) That the Policy Development Panel be involved in the future with regard to a debt management policy.

CM, KT

30. LOCAL COUNCIL TAX SUPPORT SCHEME 2017/18

Consideration was given to the report of the Interim Section 151 Chief Finance Officer which asked the Committee to review

GOVERNANCE AND AUDIT - 15 September
2016

specific discounts within the Local Council Tax Support Scheme.

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 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. Options for adjustments to local discretionary discounts were presented to the Committee on 28 July 2016, and provisional results of that discussion were included within the report.

The core principles of South Holland's local Council Tax Support Scheme were:

- Protection for people over pension age, all War Disablement Pensioners and War Widowers
- Support for people with children, disabilities or caring responsibilities
- Support for incentives to work

The Council had no discretion in terms of the expenditure associated with the support for the elderly category. Any savings could only be achieved through working age claimants.

A number of options for South Holland's 2017/18 Council Tax Support scheme were detailed within Appendix A to the report. Recommendations were as follows:

- Abolish second adult rebate – Recommendation: Rebate to be abolished
- Introduce a minimum weekly amount of CTS – Recommendation: Minimum weekly amount of £5 to be introduced
- Change non-dependent deduction rates – Recommendation: Decrease the rebate
- Restrict Council Tax to a particular band – Recommendation: Limit Council Tax support at Band C for properties in that band or above
- Review capital limits – Recommendation: lower the capital limit to £8,000
- Change the lower capital threshold – Recommendation: Lower the capital threshold to £3,000
- Limit Backdating – Recommendation: Limit backdating of award to 1 month

**GOVERNANCE AND AUDIT - 15 September
2016**

- Remove family premium for new CTS applications – Recommendation: Remove family premium for new applications from 1 April 2017
- Reduce the maximum amount of CTS – Recommendation: Introduce a graded system with limits of 50% to 70% for all claimants
- No change – Not recommended

The Committee considered the information within the report and supported that the suggestions made within Appendix A be consulted upon over the next six to eight weeks, and that the results of this consultation be presented to the next meeting of the Governance and Audit Committee for information.

AGREED:

- a) That the report be noted: and
- b) That the Committee support the recommendations detailed within Appendix A to the report, and recommend to Cabinet that they be consulted upon, and that the results of the consultation be presented to the next meeting of the Governance and Audit Committee for information.

CM, KT

31. GOVERNANCE AND AUDIT COMMITTEE SELF ASSESSMENT

Consideration was given to the report of the Interim S151 Chief Finance 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 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

**GOVERNANCE AND AUDIT - 15 September
2016**

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. This issue had been discussed at the last meeting with suggestions for the report's content. The Governance and Audit Committee's draft Annual Report had been compiled and was attached for discussion and comment as the next agenda item.

AGREED:

That the completed checklist at Appendix A be noted.

32. GOVERNANCE AND AUDIT COMMITTEE 2015-16 ANNUAL REPORT

At its last meeting, consideration had been given to the Governance and Audit Committee's Annual Report. The Democratic Services Officer had provided a copy of the report that had been submitted the previous year. The Committee had agreed that the current format was good and had provided suggestions to be incorporated into the current and future years' report.

A draft report for the 2015-16 period was appended to the agenda and the Committee was requested to consider the content, prior to its presentation to Council on 26 October 2016. A small section was incomplete as information from the ISA260 report had not been available at the time of printing however this would be added prior to the report's presentation to Council.

The Committee considered the draft report and agreed the content, subject to the inclusion of the information from the ISA 260 report.

AGREED:

That the draft Annual Report of the Governance and Audit Committee 2015/16 be agreed and presented to the Council on 26 October 2016, subject to the addition of information from the ISA 260 report.

33. 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

CM

**GOVERNANCE AND AUDIT - 15 September
2016**

the report.

The Internal Audit Consortium Manager advised of the following changes to be made to the Work Programme:

- Strategic and Annual Internal Audit Plan 2017/18 and Internal Audit Plan (plan for year ahead), listed on the Work Programme for consideration on 23 February 2017, were the same thing. The items should be combined to reflect this.
- External Quality Assessment – this was potentially due for consideration at the December meeting. This was to be confirmed shortly.

AGREED:

- a) That the report and content of the Work Programme be noted;
and
- b) That the following amendments be made to the Work Programme:
 - i. Strategic and Annual Internal Audit Plan 2017/18 and Internal Audit Plan to be combined as one item on the Work Programme
 - ii. If confirmed, External Quality Assessment to be added to the Work Programme for consideration at the meeting on 15 December 2016

CM

(The meeting ended at 8.28 pm)

(End of minutes)