

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 14 November 2019 at 4.00 pm.

PRESENT

E J Sneath (Chairman)  
J L Reynolds (Vice-Chairman)

C J T H Brewis  
A M Newton

P A Redgate  
M D Seymour

S C Walsh

In Attendance: M Hodgson (Ernst & Young), F Haywood (Internal Audit Manager, Eastern Internal Audit Services), the Strategic Finance and Compliance Manager, the Head of Finance, the Finance Manager Treasury, the Housing Landlord Services Manager and Senior Change, Innovation and Performance Business Partner, the Democratic Services Officer and Councillor P E Coupland.

**19. DECLARATION OF INTERESTS**

With regard to agenda item 6, (Follow Up Report on Internal Audit Recommendations), the following Declarations of Interest were received:

- Councillors Coupland and Sneath informed the Committee that they did not have a Disclosable Pecuniary Interest, but in the interest of transparency, they wished to declare that they were Directors of Welland Homes.
- Councillor Newton informed the Committee that she did not have a Disclosable Pecuniary Interest, but in the interest of transparency, she wished to declare that she was a PSPS Board member.

**20. MINUTES**

The minutes of the meeting of the Governance and Audit Committee held on 25 July 2019 were signed by the Chairman as a correct record.

**21. STATEMENT OF ACCOUNTS AND AUDIT REPORT**

The Associate-Partner (Ernst and Young) was in attendance to provide an update on the delay in production of the Council's Statement of Accounts and Audit Report, which had been due at this meeting.

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He advised that there had initially been issues around resourcing. He also advised that there had been a number of points to address within the audit which had resulted in Ernst and Young being unable to finalise the audit in time for this meeting. He apologised that this was the position, but advised that they were working with officers to achieve a completion shortly.

A list of queries was being worked through with officers, and the issues that had arisen that had required further investigation were:

- Property, plant and equipment;
- Additions in line with the CIPFA code;
- The valuation on HRA stock was currently understated and needed to be worked through;
- General Fund balances – there had not been many issues and this area of work was almost complete;
- Work was being undertaken with the auditor on the Lincolnshire Pension Fund;
- Financial instruments – more information was required regarding investments in subsidiaries

Members considered the information, and the following points arose:

- The Portfolio Holder Finance commented that initially, the audit had not started well however, progress was now being made.
- The Associate Partner (Ernst and Young) commented that the audit was progressing as quickly as possible, that the situation was not ideal however, a report would only be provided when all the information was available. The change in auditor had identified issues not addressed previously.
- The Strategic Finance and Compliance Manager commented that there had been a number of queries that had arisen and that a robust audit was therefore expected. The current proposal was that the audit would be presented to the next meeting of the Committee in January 2020.
- Representation had been made to the contract holder by the Authority to ensure that the situation would improve next year.

**AGREED:**

- a) That the information provided be noted; and
- b) That the Statement of Accounts and the Audit Report be available for consideration by the Committee at its next meeting in January 2020.

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(The Associate Partner (Ernst and Young) left the meeting following consideration of the above item).

### **22. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY**

Consideration was given to the report of the Head of Internal Audit, which examined the progress made between 1 April 2019 and 4 November 2019 in relation to the completion of the Annual Internal Audit Plan for 2019/20.

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 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 at South Holland was to each meeting. To comply with the above 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 measures to date

The Committee was advised that details of progress made in delivering the agreed audit work, and the outcomes arising from the auditor's work was detailed within the report.

The following significant changes had been made to the plan:

- Accounts Receivable and Income – This had been delayed to 2020/21 as PSPS was currently undertaking a large piece of work in the form of a finance system upgrade. After this work had been done, substantive testing could be undertaken. In the meantime, there would be an audit of key controls which would provide some assurance.
- Office 365 – This product had not yet been installed. Updates were being received from the Technology Board in relation to implementation, and this audit had therefore been deferred to 2020/21, when the work on installation had been completed.

During the period covered by the report, Internal Audit Services had issued five final reports – Private Sector Housing (No

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Assurance); Section 106 Agreements (Reasonable Assurance); Strategic Housing (Reasonable Assurance); Environmental Protection (Reasonable Assurance); and Leisure (Reasonable Assurance).

With regard to the No Assurance assessment of Private Sector Housing, there were 16 'urgent' recommendations, 6 'important' recommendations and 6 'needs attention' recommendations that had been identified. These were listed in more detail within Appendix 2 to the report.

The Housing Landlord Manager was in attendance to provide an update on work that was being undertaken to address the recommendations within the Private Sector Housing audit. The main points were:

- Caravan licensing – there was now a process in place in conjunction with the Planning department;
- The Northgate system had been purchased, and implementation within Private Sector Housing, which would resolve some of the outstanding issues, was now underway. The design work needed to bring in bespoke information;
- There were a number of policies that were being worked on as part of the review. The Empty Homes Strategy had been presented to the Policy Development Panel in the last month, and work was moving forward with other strategies;
- The Community Housing Renewal Policy needed updating – this was an overarching policy to cover financial assistance;
- It had been possible to overcome a number of issues during the audit. All work that could be completed to date had been, and work would continue.

Members commented that there appeared to have been many problems, and asked if reasons for this had been identified? Was resourcing an issue? The auditor considered that resourcing was not the root cause to the problems encountered. There had been some 'system' problems, and when putting a workflow system in place, it would be ensured that these issues were picked up.

It was noted that the audit team at East Lindsey District Council was merging with the audit team at Lincolnshire County Council. Members were concerned that, due to a proportion of the internal audit plan being delivered by the East Lindsey team currently as part of the various audits, would this be an issue? The Strategic Finance and Compliance Manager advised that she had met with relevant officers to discuss the transition, and had received assurances that this would not be a problem. Once the detail and the timeline was known, all officers would work closely together to

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ensure that the transition was as seamless as possible.

**AGREED:**

That the report be noted.

**23. FOLLOW UP REPORT ON INTERNAL AUDIT RECOMMENDATIONS**

Consideration was given to the report of the Head of Internal Audit, which provided members with the position on the progress made by management in implementing agreed Internal Audit recommendations as at 4 November 2019.

In 2017/18, a total of 85 recommendations were raised by both internal audit providers. Of those, 81 had been implemented by management, 4 were outstanding (1 urgent and 3 important). The management responses in relation to the outstanding urgent and important outstanding recommendations could be seen in Appendix 2 of the report.

In 2018/19, a total of 76 recommendations had been raised by both internal audit providers. Of these, 55 had been completed and 10 (2 urgent, 4 important and 4 needing attention) were overdue. A total of 11 recommendations were not yet due. The management responses in relation to the outstanding important recommendations could be seen in Appendix 3 of the report.

In 2019/20, a total of 38 recommendations had been raised so far. Of these, 8 had been completed and the remaining 30 were not yet due.

Auditors commented that the Committee may wish to consider any areas that had urgent recommendations that had been outstanding for some time, by requesting that relevant managers be invited to the next meeting of the Committee. It was agreed that, unless significant progress had been made by the next meeting, that officers attend to provide information on the following areas:

- Asset Management (Property Services Manager)
- Financial Services Key Controls (2 areas) – Accounts Payable Supervisor and/or Head of Financial Services PSPS

**AGREED:**

a) That the information detailed within the report be noted; and

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- b) That should significant progress be made in the areas of Asset Management and Financial Services Key Controls, that relevant officers attend the next meeting of the Committee to provide an explanation for the delays.

### **24. GOVERNANCE AND AUDIT COMMITTEE SELF ASSESSMENT**

A self assessment of good practice form was attached to the agenda for completion by the Committee.

It was agreed that the Committee consider the form, facilitated by the Internal Audit Manager, after the meeting, and that the results be reported back to the next meeting of the Governance and Audit Committee.

### **25. MID TERM TREASURY REPORT 2019/20**

Consideration was given to the report of the Executive Director Commercialisation (S151 Officer), which provided an update of the treasury management position of the Council as at 30 September 2019.

In December 2017, the Chartered Institute of Public Finance and Accountancy (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities would be required to prepare a Capital Strategy which was intended to provide the following:

- A high-level overview of how capital expenditure, capital financing and treasury management activity contributed to the provision of services;
- An overview of how the associated risk was managed;
- The implications for future financial sustainability.

A report setting out the Authority's Capital Strategy was taken to full Council as part of the budget setting report on 27 February 2019.

The mid year report had been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covered the following:

- An economic update for the 2019/20 financial year to 30 September 2019;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the capital strategy and prudential indicators;

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- A review of the Council's investment portfolio for 2019/20;
- A review of the Council's borrowing strategy for 2019/20;
- A review of any debt rescheduling undertaken during 2019/20;
- A review of compliance with Treasury and Prudential Limits for 2019/20

The following issues were raised:

- The Public Works Loan Board had recently announced an increase of 1% on all new borrowing – was this still an attractive deal?
  - Officers responded that all borrowing rates needed to be assessed. When a capital project was being considered, a full option appraisal should be carried out to ascertain the most cost effective way of financing that expenditure.
- The Portfolio Holder Finance stated that the UK Municipal Bonds Agency, with whom the Authority held a stake for a period of 3 years, were not performing as well as they should. It was agreed that a report be provided to the Committee within the next 5-6 months to provide an update on the situation.

### **AGREED:**

- a) That the report, the treasury activity as detailed in Appendix A and the economic update from Link Asset Services at Appendix B be approved;
- b) That the amendment to the Treasury Management Strategy Statement to add Parish Councils in the table of 'Non-Specified Investments with Maturities in Excess of 1 Year', as detailed in Paragraph 1.6, be approved; and
- c) That an update report be provided to the Panel within the next 6 months providing an update on the performance of the UK Municipal Bonds Agency, with whom the Authority held an equity stake.

## **26. GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME**

Consideration was given to the report of the Executive Manager, Governance (Deputy Monitoring Officer), which set out the Work Programme of the Governance and Audit Committee.

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### **AGREED:**

That the report and content of the Work Programme be noted.

### **27. QUARTER 2 2019-20 RISK REPORT**

Consideration was given to the report of the Executive Director Strategy and Governance, which provided an update to the committee on the progress of the Council's identified strategic risks.

There were 19 strategic risks included within the Q2 Risk Report, three more than at the end of Q1 2019/20. The level of identified risk at Q2 was 3 high risk, 15 medium risk and 1 low risk.

The additional risks added to the Register were – Emerging Government Policy; Temporary Accommodation Spend; and Pay Claim for National Employers. Further information on these was detailed within the report.

All remaining risks, although reviewed, remained static from Quarter 1.

Following consideration of the report, the following issues were raised:

- Member commented that the Business Continuity Plan had been signed off at the last meeting, but that it was not available on the website. Officers stated that the plan was reviewed every two months but that it was not published. Members responded that this needed to be made available.
- Members noted that there had been an overspend on temporary accommodation costs – how could this be contained?
  - The Housing Landlord Manager stated that this was a demand-led service and spikes in demand would therefore occur. There had been a high presentations of families had had been accommodated for long periods, and the Authority was duty bound by legislation to do this. Whilst there was a level playing field in relation to numbers that the Authority was dealing with, it took longer to work on ultimately reducing demand. The situation was being monitored on a weekly basis to ensure that only those people that the Authority had a duty to house were being dealt with.

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- Members asked whether the reduced income experienced in Planning, and how this would affect the Council's budget, should be considered as a risk?
  - Officers responded that this was not yet included as a risk however, the situation was being looked into, and any potential risks identified.
- In response, members asked whether there were any other issues that could create risks in the future
  - Officers replied that there had been a lot of change in the way that the risk report operated and that potential risks would be assessed and added if required.

Appendix 2 to the report was exempt however, this item was not discussed and there was therefore no need for the meeting to go into private session for this item.

**AGREED:**

That the content of the report be noted.

**28. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT.**

There were none.

(The meeting ended at 5.20 pm)

(End of minutes).