

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in line with The Local Authorities & Police & Crime Panels (Coronavirus) (Flexibility of Local Authority & Police & Crime Panel Meetings) (England & Wales) Regulations 2020, on Thursday, 11 March 2021 at 4.00 pm.

PRESENT

T A Carter (Chairman)
J R Astill (Vice-Chairman)

P A Redgate

M D Seymour

S C Walsh

In Attendance: F Haywood (Internal Audit Manager, Eastern Internal Audit Services), the Strategic Finance and Compliance Manager, the Acting Director, the Head of Finance, the Financial Control Manager, the Senior Change, Innovation and Performance Business Partner, the Democratic Services Manager and the Democratic Services Team Leader.

34. DECLARATION OF INTERESTS

There were no declarations of interest.

35. MINUTES

Members commented that, during discussion of the Follow Up Report on Internal Audit Recommendations at the meeting on 14 January 2021, it had been noted that Recommendation 3 within Audit Area SH2015 (Disaster Recovery) was outstanding. The recommendation was that 'The Council would work with PSPSL to identify potential opportunities for the relocation of the network cabinet that is located within the cleaners' storeroom'. At the meeting, members had questioned why the network cabinet had to be moved when it would be easier to instead move the cleaners' storeroom – this comment had not been included within the minutes and it was requested that this be added, prior to the minutes being signed by the Chairman.

AGREED:

That the minutes of the meeting of the Governance and Audit Committee held on 14 January 2021 be signed by the Chairman as a correct record, following the addition of the following wording at minute number 30:

- With regard to item SH2015 (recommendation 3) on page 89 of the agenda, members commented that rather than moving the network cabinet from the cleaners' storeroom, it would be

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easier instead to move the cleaners' storeroom to a different location. It was requested that this suggestion be taken forward with officers.

36. Q3 STRATEGIC RISK REPORT

Consideration was given to the report of the Executive Manager for Growth, which provided an update to the Committee on the progress of the Council's identified strategic risks.

The Senior Change, Innovation and Performance Business Partner provided the Committee with the following updates:

- Overall the majority of the risk movements in the report related to the current Covid-19 pandemic in areas such as vulnerability and leisure compliance.
- A new risk had been added covering the separation of the SHDC and Breckland Council partnership, highlighting any impact that this might have on the current shared working model and the services of the shared management team. This would continue to be monitored closely over the coming months to mitigate against any service impact during the separation.
- The likelihood score around cyber security risk had also increased. Whilst there were no internal concerns currently, there had been a national increase in cyber threats, and it was therefore considered prudent to increase the likelihood of the risk at this stage.
- The risk around Parkwood Leisure Provision had increased due to the closure of facilities caused by the Covid-19 pandemic, but it was felt that this risk would reduce once lockdown easing started.
- There was also a risk around failing to meet regulatory compliance which had increased in likelihood largely due to the understanding that elections were to go ahead in May. This would place a strain on the Governance and Democratic Teams who had to ensure that the whole process would be Covid-safe, which, in itself, would bring added complications and risks.
- Finally, the risk around the failure of the Council to deal with more than one significant incident simultaneously had been reduced. The rationale for this was that during Quarter 3, a number of incidents had been dealt with in parallel, such as the problems caused by bad weather, whilst dealing with the ongoing pandemic, and it had therefore been decided that the risk be reduced.

Following consideration of the report, and the information

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provided by the officer, the following issues were raised:

- Members asked if there was anything further to report with regard to the local economy, in addition to the information included within the report.
 - The Executive Manager for Growth confirmed that officers continued to remain in close contact with employers and businesses at this time. To date, £6 million in grants had been given to businesses, and it was understood that more grants would soon be available.
- Members questioned why, following the recent issue with emails, the technology infrastructure failure scores of 'Impact' 5, 'Likelihood' 2 remained the same as within the previous quarterly report. Depending on when the incident had occurred, it was felt that this risk should have risen.
 - The Senior Change, Innovation and Performance Business Partner suggested that there was a possibility that an interim assessment had taken place. He would clarify when the incident had taken place and the resulting potential impact, and report back to all members.

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AGREED:

That the content of the report be noted.

37. FINANCIAL STATEMENTS 2020/21 ACCOUNTING POLICIES

Consideration was given to the report of the Executive Director Commercialisation (S151) which asked the Committee to review and agree the Accounting Policies for inclusion in the Financial Statements 2020/21.

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The Deputy Head of Financial Services informed the Committee that the accounting policies applied to all material balances and transactions within the Financial Statements. The policies remained the same as in the 2019/20 statements which had recently been authorised. The external treasury advisors (Link Asset Services) reviewed the Code of Practice each year and made suggestions for the production of the statements. Any such suggestions would be considered, and any relevant changes made before bringing the draft Financial Statements to the next meeting of the Committee for consideration.

The Strategic Finance and Compliance Manager informed the Committee that the 2019/2020 Year End Audit had been

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completed. Ernst and Young had provided a Final Audit Results Report which showed three unadjusted differences.

1. Overstatement of short-term creditors – this had been included within the November report and was an extrapolation of a data set. The accounts had not been adjusted as it was felt that this was not a true reflection of what adjustment would be required;
2. Understatement of pension liability (McCloud & Goodwin) – this related to an ongoing legal case regarding inequality for age discrimination. Following an updated pensions liability report issued in Autumn 2020 it had been agreed not to adjust the accounts on the basis of immateriality, and it was only an estimate and as such the amount may not be a true reflection of the adjustment required. There was no overall impact on Council's reserves as a result of undertaking or not undertaking the adjustment;
3. Misclassification between Property, Plant and Equipment and Investment Property – this referred to industrial units in the Council's portfolio, built as starter units for economic regeneration purposes, not for investment property purposes. It had been agreed that a revision of that valuation would take place in the 2021 audit and accounts process but there would be no impact in the Council's balance sheet, as it would be a transfer of assets from one category to another;
4. Understatement of Valuation of Property, Plant and Equipment – this referred to a site that was not easily accessible and there had therefore been an issue in detailing exactly what the site contained. It had been agreed with the auditors in the 2021 process to undertake a thorough review of that site and clarify what the asset was.

AGREED:

That the Accounting Policies for 2020/21, included at Appendix A of the report, be agreed.

38. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

Consideration was given to the report of the Head of Internal Audit, which examined the progress made between 5 January 2021 and 2 March 2021, in relation to the completion of the revised Annual Internal Audit Plan for 2020/21.

The Internal Audit Manager provided the Committee with the following updates:

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- A summary of the number of days which had been able to be delivered as part of the programmed work was 100 days, equating to 69% of the revised plan. This was a much better position than had been reported in January.
- Two final reports had concluded in this period. The first report was 'Accounts Receivable' which had achieved a 'reasonable' assurance grading with three 'important' recommendations being raised, and two 'needs attention' recommendations. The second report was 'Corporate Governance' which had received a 'substantial assurance' grading with two 'needs attention' recommendations.
- The Procurement and Contract Management Position Statement had been completed and would be brought to the Committee at the next meeting.
- Regarding the executive summaries of the reports finalised during the period there were three important recommendations:
 - In relation to transfers between accounts this would be subject to independent scrutiny;
 - In addition to the urgent recommendations of the 18/19 Review of Financial Services, it had been established that the system was capable of enforcing those controls but until those systems were put in place, additional risk mitigation would be needed;
 - An audit trail was to be retained by the officer preparing write-offs.
- The Assurance Review of Corporate Governance Arrangements had received a 'substantial' assurance. Guidance had been issued for Local Authorities on how to respond to the pandemic - South Holland District Council had followed these well, and within the positive findings of the report it had been noted that virtual meetings had been very successful. Two 'needs attention' points had been raised - firstly, it was recommended that the lessons that had been learned over the last year during the pandemic be fed into the Business Continuity Plan moving forward, and secondly, that an annual reminder be sent out to all members to update their register and disclose pecuniary interests - it was noted that this action had already been undertaken.
- Information on the Assurance Mapping Exercise had been provided to members in full, in order to provide detail on how the Council had responded at the outset of the pandemic – this piece of work had been used to illustrate how Internal Audit coverage was used in the current year, and how this would feed into planning for 2021/22.

Following consideration of the report, and the information provided by the officer, the following issues were raised:

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- One of the issues to be addressed (at page 64 of the agenda), related to the new Finance system, and mitigations that were in place – was progress on this being made?
 - The Internal Audit Manager responded that one of the recommendations to be completed by March related to reminders that were sent out, and evidence being retained to show that the authorisation matrix was being reviewed each time purchase orders and accounts received invoices were raised. This was a key control, and the item was being progressed.
- Members commented that, with regard to annual reminders being sent out to all members to update their register and disclosure of pecuniary interest, it was encouraging to note that this had been addressed.
- Members commented that it was good to note how well virtual meetings had been undertaken at the Authority.

AGREED:

That the progress of the Internal Audit Plan of work for 2020/21 be noted.

39. 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 2 March 2021

The Internal Audit Manager advised that, since the January meeting, many of the recommendations had moved forward to the completion stage, thanks to the hard work and quick response of officers providing the necessary evidence. A risk mitigation column had been added to some of the recommendations so that it was clear what was happening with them.

Following consideration of the report, and the information provided by the Internal Audit Manager, the following issues were raised:

- The Chairman thanked officers for the effort that had been put into the addition of the risk mitigation section, and the thorough content within it.

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- Attention was drawn to the outstanding action around Data Protection, and completion of Information Asset Registers. How could the Committee assist?
 - Officers advised that the Information Governance Officer was liaising with Data Champions to assist in moving this action along.
- The Chairman responded that she would discuss the situation with the Internal Audit Manager, with either Data Champions being asked to attend the next meeting or discussions to take place mid-way between this and the next meeting of the Committee.
- Members questioned what the Council's plans were for the separation of SHDC and Breckland from an IT perspective, specifically regarding backups, and the data held by SHDC regarding Breckland and vice versa.
 - The Strategic, Finance and Compliance Manger confirmed that there was a large piece of work being undertaken with regard to the separation of the two authorities, of which separation of IT was one of the areas being addressed. A comprehensive piece of work was underway to ensure that all linked systems across both authorities were separated correctly.
- Members again questioned the issue of the removal of the network cabinet from the cleaners' storeroom, and whether this suggestion had been passed forward since being raised at the January meeting.
 - The Internal Audit Manager agreed that it was a pragmatic suggestion which had been passed on. She agreed to pursue this and obtain feedback for the next meeting.
- The Chairman questioned item SH2010 on page 91 of the agenda (Procurement and Contract Management) which stated, under Risk Mitigation, that it had been proven that the annual review of spend had bought up less 'maverick' spend every year for the last few years. Clarification was asked for as to what happened when this type of spend occurred, and some context around the issue was requested.
 - The Internal Audit Manager was not able to provide context but would discuss the situation with officers and report back to the Committee.
- The Internal Audit Manager stated that a number the new financial system recommendations at Appendix 1 had moved

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forward to completion as the system was now capable of the controls required. She had researched the progress of the system, and the Head of Financial Services at PSPS, who was the Project Sponsor, had been invited to the meeting to provide an update.

A presentation was given by the Head of Financial Services (PSPS) on the FinVis20 Project, and the following update was provided:

- The current financial system (AX) had reached the end of its contract term and was to be replaced with the Unit 4 Business World (U4BW) system. PSPS had engaged Embridge Consulting to support the implementation. The project was to be delivered via a joint PSPS/Embridge Project Team and overseen jointly between PSPS, SHDC and East Lindsey District Council (ELDC) via the Project Board. The new system would be implemented across PSPS, ELDC and SHDC, as well as Welland Homes and South Holland Homes.
- The project had 4 stages – Evaluate; Adapt; Test; and Deploy. Since the project began, two events had occurred which had delayed the live date. The first was that the initial testing of the system identified issues with the initial build design. The initial build centred around a single client database. Testing found that the controls were unsatisfactory and the Project Board approved a re-build changing the emphasis to a multi-client data base option. The build phase and IST (Integrated System Testing) phase were therefore repeated and the project deadline extended to a new 'go live' date of 31 October. The second event was the Covid pandemic. It had been necessary to provide extra support to the Council during this time and it was not possible to set aside the resources needed for the project. The Project Board approved deferral to April 2021.
- During the User Acceptance Testing phase, to date, 2011 tests (99% of the total) had been completed – of these, 255 defects had been found but this level of defects was not unusual, and was to be expected. 18 defects were still being worked on, and these were split into 4 categories: Critical (may have an impact on "go-live") – 2 defects; Major (do not impact on "go-live" but would impact the day to day use of the system) – 9 defects; Minor (may have some impact on the effectiveness of the system) – 4 defects; and Cosmetic (have no impact on the functionality but focus on the look and feel of the system) – 3 defects.
- The original Project Scope identified 18 interfaces. 4 were de-scoped and 2 added, therefore 16 interfaces now formed part

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of the project. Testing of the interfaces was ongoing.

- The final pre-go live phase was now underway. Over 200 specific tasks still had to be completed, more frequent meetings were taking place, and a final decision on whether to go live would be made at board level. The Launch would take place between 1 April and 28 May. That time would be used to finalise any defects, fix issues, complete training etc.

Following the presentation provided by the Head of Financial Services, the following issues were raised:

- The Chairman questioned whether there was sufficient mitigation in place to avoid any issues with regard to the raising of invoices, purchase orders etc, when the new system went live.
 - Officers advised that all users had been advised to process as many payments as possible prior to closure of the old system. It was confirmed that a process would be in place to capture all invoices to ensure that payments could be made via Chaps and BACS, to make sure that all payments could be made.
- The Chairman commented that a list of 40 enhancements had been raised – were all of the outstanding issues detailed within the audit report being dealt with as part of this?
 - Officer responded that the vast majority were. The main issue (which was not a system enhancement) was the 'No Purchase Order/No Pay' issue – it was essential that where a service/payment was required, a Purchase Order was produced. It was important that this requirement was incorporated into processes in order to have proper controls in place – although it may take some time to embed this, it was being addressed.

AGREED:

That the contents of the report be noted.

40. INTERNAL AUDIT PLAN UPDATE 2021/22

Consideration was given to the report of the Head of Internal Audit which provided the Committee with an update on Internal Audit planning for 2021/22 and outlined the approach taken to provide adequate assurance coverage.

The Internal Audit Manager advised that the results of 2021 would be brought back to the next meeting in June with a plan of work for

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the next year. Where risks had been identified these would be incorporated into the plan, which would also look back at assurances provided over the past year. The approach for the forthcoming year would be pragmatic, in view of the difficulties presented over the past year as a result of the Covid-19 pandemic.

The Chairman highlighted that suggested areas for review were detailed at section 2.7 of the report, and that if members had any further suggestions for areas to review, that they contact the Internal Audit Manager or the Democratic Services team.

AGREED:

That the approach to Internal Audit planning for 2021/22 be noted.

41. WHISTLEBLOWING POLICY

Consideration was given to the report of the Head of Internal Audit which introduced the recently reviewed Whistleblowing Policy at South Holland District Council.

The Internal Audit Manager advised that the Policy had been revised and updated to include Officers' titles and telephone numbers. Little overall change was needed to what had been a robust policy, agreed by the Committee three years ago.

Since publication of the agenda, officers had been advised of the following additional changes – 1) to include the Chief Executive of PSPSL on the summary table at Appendix 1; and 2) that Safeguarding Policy and procedures should be reflected, and a paragraph added to this effect.

It was noted that, when the new staffing structure was in place, following the separation from Breckland Council, that the information within the report would have to be updated.

AGREED:

That the Policy be noted, and the updates approved.

42. 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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The schedule of meetings for 2021/22 was now available, and dates for future Governance and Audit Committee meetings had been added to the Work Programme. Regular items had been transferred from the 2020/21 municipal year to the appropriate meeting dates for the new municipal year. Contributors were requested to confirm that the reports, and the meeting dates on which they were to be reported, were correct.

AGREED:

That the report be noted.

43. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT.

There were no urgent items.

(The meeting ended at 5.10 pm)

(End of minutes)