

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in the Marquee Suite, Springfields Events & Conference Centre, Camelgate, Spalding, PE12 6ET, on Thursday, 29 July 2021 at 4.00 pm.

PRESENT

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

F Biggadike

C J T H Brewis

S C Walsh

Apologies for absence were received from or on behalf of Councillors M D Seymour

In Attendance: Councillor P E Coupland and F Haywood (Internal Audit Manager, Eastern Internal Audit Services), the Assistant Director Finance, the Head of Finance, the Finance Manager Treasury, the Senior Change and Performance Business Partner and the Democratic Services Team Leader.

1. DECLARATION OF INTERESTS

There were no declarations of interest,

2. MINUTES

Consideration was given to the meeting of the Governance and Audit Committee held on 11 March 2021, and the following points were raised:

Councillor Brewis requested that his apologies for the meeting be noted as they were not included.

- In relation to minute 36, final bullet point, members commented that no feedback had been received with regard to the recent IT failure.
 - Officers responded that an interim assessment had recently taken place, and that the results would be shared with committee members.
- Members asked if there was any further progress in relation to minute 39 and the outstanding action around Data Protection.
 - The Internal Audit Manager advised that all Asset Registers had now been completed, and that this item was now closed.
- In relation to minute 39, members commented that they had not had clarification on the 'maverick' spend comment.
 - The Internal Audit Manager advised that an explanation had been offered, and that it referred to any spend which was non-compliant with contract regulations and compliance rules. In order to

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mitigate this risk, in depth training would be undertaken with the responsible budget holders.

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AGREED:

That the minutes of the Governance and Audit Committee meeting held on 11 March 2021 be agreed, subject to the addition of Councillor Brewis's apologies.

3. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

Consideration was given to the report of the Head of Internal Audit, which examined the progress made between 2 March 2021 and 20 July 2021 in relation to the completion of the revised Annual Internal Audit Plan for 2020/21.

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

During the period covered by the report, Internal Audit had issued two reports, one of those was in draft and was awaiting management responses – Asset Management (Draft) (Reasonable Assurance); and Remote Access (Reasonable Assurance).

The information within the report was considered, and the following issues were raised:

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- The Internal Audit Manager presented the findings raised from the remote access audit and confirmed that two important priority findings had been raised, one relating to policies and procedures and one in relation to remote access monitoring. Members raised concerns over timeframes in relation to completion of the second monitoring recommendation due to a deadline of 2022 being given and felt that this was an important issue and should be dealt with sooner.
 - The Internal Audit Manager could not comment on the project or when this would happen. However, the risk was being clearly articulated and needed to be considered for the Strategic Risk Register.
- Members responded that there were real risks and that the matter had to be dealt with more urgently.
 - The Internal Audit Manager agreed on the urgency of the issue, which had been added into a Cyber Security internal audit, currently planned for Quarter 4, but which could be brought forward.
- The Chairman requested that the IT Manager be requested to attend the next meeting to discuss the issue.

- As part of the Asset Management Arrangements audit, it was stated that a planned maintenance programme be developed for relevant assets and that this be subjected to regular review, to reduce the risk of health and safety issues and asset deterioration – members supported this action.

- The Asset Management Arrangements audit stated that the asset register had been updated in accordance with the 31 March 2020 asset valuation report however, evidence of subsequent/ongoing valuations were not provided. Members asked if there was any newer information following the 2020 report.
 - The Internal Audit Manager advised that a report was currently in a draft state, that responses were still awaited, and that there would be a further update at the next meeting.

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AGREED:

That the information detailed within the report be noted; and

- a) That the IT Manager be requested to attend the next meeting to provide the Committee with an update on the Remote Access Recommendations.

4. FOLLOW UP REPORT ON INTERNAL AUDIT RECOMMENDATIONS

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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 31 March 2021.

The Internal Audit Manager advised that, since the March meeting, a number of actions had been completed, and good progress was being made. With regard to the issue of the network cabinet, raised at the last 2 meetings, members were advised that this had now been resolved, and that the network cabinet was in the final stages of being moved into the old cleaners' cupboard, as suggested

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

- The Chairman re-iterated the good progress being made with the outstanding 2020/21 recommendations, as detailed in paragraph 3.7 of the report.
- SH2010 – Procurement and Contract Management. Members raised the issue stated within the notes that officers did not yet have access to the Finance System. Access was to be provided over the next few months but members asked if this could be resolved more quickly.
 - The Internal Audit Manager confirmed that the recommendation itself asked for aggregated spend analysis and this was a key control asked for across the whole consortium and auditors therefore required this to be in place before signing it off. Until access was available, this item would remain open.
 - The Head of Finance advised that options around read only access for procurement colleagues were currently being explored. Another issue that had to be resolved was how they, as Breckland staff, could gain access to the SHDC system. Potential solutions were being looked into including whether the system could be added directly to their laptop or be accessed via a SHDC laptop. There was currently no timescale however, this was a recent enquiry and feedback from officers dealing with the issue was expected.
- Members noted that section 3.4 of the covering report was missing, and it was presumed that these would have been the

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figures for 18/19.

- The Internal Audit Manager commented that this was missing however, there were no longer any outstanding actions for that time frame.
- With regard to outstanding items, some had been so for a number of years. Were further delays anticipated due to the Authority's potential alliance with neighbouring Councils?
 - The Audit Manager responded that the historic Asset Management items were problematic and had been outstanding for some time. However, good responses had been provided in the most recent update. Current difficulties would always produce delays but if any were urgent, they would be raised as significant risks. Good progress had been made but the Committee could always call officers to future meetings regarding further delays should this be required.
- SH2008 – Markets. Members asked when the situation regarding markets as a whole would improve.
 - It was suggested that the Environmental Services Manager be invited to attend the next meeting to provide an update on progress.

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AGREED:

- a) That the contents of the report be noted; and
- b) That the Environmental Services Manager be invited to the next meeting of the Committee to provide a progress update on the situation around markets.

5. ANNUAL REPORT AND OPINION 2020/21

Consideration was given to the report of the Head of Internal Audit which provided an Annual Report and Opinion for 2020/21, drawing upon the outcomes of Internal Audit work performed over the course of the year, and concluded on the Effectiveness of Internal Audit.

In line with the Public Sector Internal Audit Standards, which came into force from 1 April 2013, an annual opinion should be generated which concluded on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control:

- A summary of the work which supported the opinion should be

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submitted;

- Reliance placed on other assurance providers should be recognised;
- Any qualifications to that opinion, together with the reason for qualification must be provided;
- There should be disclosure of any impairments or restriction to the scope of the opinion;
- There should be a comparison of actual audit work undertaken with planned work;
- The performance of internal audit against its performance measures and targets should be summarised; and
- Any other issues considered relevant to the Annual Governance Statement should be recorded.

The report also contained conclusions on the Review of the Effectiveness of Internal Audit, which included:

- The degree of conformance with the PSIAS and the results of any quality assurance and improvement programme;
- The outcomes of the performance indicators; and
- The degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit.

The Head of Internal Audit raised the following main points:

- The opinion itself was detailed at section 2.2 of the report – the overall opinion in relation to the framework of governance, risk management and control at South Holland District Council was Reasonable – this conclusion was reached by considering a number of points which were detailed within the report.
- Section 3.4 of the report outlined issues for inclusion within the Annual Governance Statement. Management would need to advise on how these issues would be taken forward.
- The grading was positive and the framework overall was considered stable. It was important to note that the Covid-19 pandemic had been a considerable challenge over the past year, and the Council's core services had not been significantly impacted.

Consideration was given to the report, and the following points were raised:

- Members commented that rather than waiting for information on the results of audits as part of the Internal Audit report to the Committee, that members be provided with this information as soon as it was available.

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- With regard to External Assessment (section 5.1.2 of the report), it stated that in relation to the Attribute standards it was recognised that to achieve full conformance, an external assessment was needed. This was required to be completed every five years, with the first review having been completed in January 2017. Was this scheduled for next year?
 - The Internal Audit Manager confirmed that this was being considered. A procurement exercise was to be undertaken in the autumn following which the new contract would require some time to establish itself. The external assessment would therefore take place later in 2022.

- Members commented that at section 5.2.3 of the report, it stated that 'performance had not been in line within the boundaries of our agreed targets in some areas during 2020/21.....' but that results in the table stated performance as 'Adequate'. This information seemed contradictory
 - The Internal Audit Manager responded by advising that the contract was measured over a number of indicators, and that 3 and 4 had not been met. With regard to quality, the Governance and Audit Committee Chairman had been asked for feedback and had provided this, and there were a number of improvement actions to take forward. Performance was adequate overall but not Excellent, which was where it should be in the future. The main points where boundaries had not been met were around timeliness.

AGREED:

- a) That the contents of the Annual Report and Opinion of the Head of Internal Audit be received and approved;

- b) That it be noted that a Reasonable audit opinion had been given in relation to governance, risk management and control for the year ended 31 March 2021;

- c) That it be noted that the opinions expressed together with significant matters arising from internal audit work and contained within the report should be given due consideration, when developing and reviewing the Council's Annual Governance Statement for 2020/21; and

- d) That the conclusions of the Review of the Effectiveness of Internal Audit be noted.

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6. ANNUAL TREASURY MANAGEMENT REVIEW 2020/21

Consideration was given to the report of the Executive Director Strategy and Resources (S151) which considered the Annual Treasury Management Review 2020/21 prior to it being submitted to Council for approval.

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 2020/21. 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).

During 2020/21, the following reports had been submitted:

- An annual treasury strategy in advance of the year (Council 26 February 2020);
- A mid year (minimum) treasury update report (Council 20 January 2021);
- An annual review following the end of the year, describing the activity compared to the strategy (the report under consideration)

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 approved by members.

The Council confirmed that it had complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee. Member training on treasury management was last provided on 14 November 2019, in order to support the members' scrutiny role.

The Treasury Management function was administered by Public Sector Partnership Services Ltd, on behalf of the Council.

The Council was currently in the process of producing its financial statements for the 2020/21 financial year, and these would be subject to external audit. The figures in the report were therefore subject to change, and any such changes would be reflected in the report submitted to Council.

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The report summarised the following:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council had borrowed in relation to its indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Borrowing and investment outturn positions;
- Economy and interest rates.

Consideration was given to the report, and the following points were raised:

- With regard to monies borrowed by the Authority in 2012 to retain its housing stock some years ago, members commented that pressure should be put on the Government through the LGA to take forward the matter of the PWLB interest rate paid in relation to the current low interest rates, particularly at a time when funds were already stretched.
 - Officers confirmed that the Authority did have this borrowing on its books, and if interest rates changed and rose above the 3.48%, it would have the opportunity to repay the money early, and potentially receive a discount on the amount borrowed. However, there was currently no economic benefit to repaying the debt early – the Assistant Director Finance agreed to continue to monitor.

AGREED:

That the report be noted.

7. STRATEGIC AND ANNUAL INTERNAL AUDIT PLANS 2021/22

Consideration was given to the report of the Head of Internal Audit which provided an overview of the stages followed prior to the formulation of the Strategic Internal Audit Plan for 2021/22 to 2024/25 and the Annual Internal Audit Plan for 2021/22.

The Internal Audit Plan provided the basis for the Annual Audit Opinion on the overall adequacy and effectiveness of South Holland District Council's framework of governance, risk management and control.

The Strategic and Annual Internal Audit Plan 2021/22 was

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attached as an appendix to the report.

Members considered the report and the following issues were raised:

- Members asked for clarification on choices within the programming of review. Areas raised were regarding the Contact Centre, Strategic Housing, and Planning, all of which had been deferred.
 - The Internal Audit Manager advised that this was a 3 year plan, and was subject to change. The Planning review was due for 2024/25 – no significant risks had been raised but the officer believed this should be brought forward. With regard to the Contact Centre and Strategic Housing, members were advised that Housing was due for review next year, but that there were currently no real concerns with regard to Strategic Housing and the Contact Centre. However, should issues arise, the programme would be evaluated again in January 2022. The Internal Audit Manager also advised that as part of the discussion of this report at a number of authorities, it was felt that providing more context within the Strategic Plan would be helpful to understand why some reviews were included and others were not.
- Members commented that at Appendix 4, under the notes for Operational Fleet Review, the impression was given that no monitoring had previously taken place.
 - The Internal Audit Manager advised that the review had been at a request from management as it was an area that had not been reviewed before and had therefore been identified as a risk.
- With regard to ICT Audits, detailed within the Strategic Audit Plan at Appendix 3, members requested that if any significant issues arose in this area in the future, that they also be raised with the Committee as soon as possible.
- Members asked whether, with the pending alliance between SHDC, Boston Borough Council and East Lindsey District Council, there were any areas of audit that needed to be brought forward in order that they were in place for the authority and its future partners.
 - The Internal Audit Manager advised they had not been requested to undertake any due diligence work at this stage, and that the plan had been drawn

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together before any partnership decisions had been made. However, the Internal Audit function needed to be responsive to the needs of the council – the risk register would continue to be reviewed, and conversations would take place with senior management, and if any areas of concern were highlighted for review, they would be brought to the Committee for consideration and addition to the plan.

- Members commented that the audit of the Office 365 project had been deferred again.
 - The Internal Audit Manager confirmed that this had been deferred a number of times, as it was still not in a position for auditors to consider. Auditors were continuing to liaise with the IT project team to gauge the situation. It was confirmed that there was nothing within the risk register currently that raised concerns.
- Members requested that should there be any changes to the Plan, that the Governance and Audit Committee be advised.

AGREED:

That the following be noted and approved:

- a) The Internal Audit Charter
- b) The Internal Audit Strategy for 2021/22;
- c) The Strategic Internal Audit Plans 2021/22 to 2024/25; and
- d) The Annual Internal Audit Plan 2021/22

8. Q4 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:

- The risk of the Council failing to meet regulatory compliances had reduced in likelihood. The risk had been raised in Q3 due to the upcoming election and the challenges faced as a result of Covid, and reduced resources. It was noted that the election had been delivered successfully and in a Covid-safe manner.
- In the build-up and subsequent separation from Breckland

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Council, a key function of external policy and horizon-scanning work had moved across to Breckland (this function had been managed under the previous role of Senior Policy Advisor within the Shared Management Team). These changes to the structure increased the likelihood of the organisation breaching regulatory compliance. This area of work would now be undertaken by the Senior Change, Innovation and Performance Business Partner, and key intelligence was circulated to all senior staff for awareness, thus reducing this risk.

- There had been an increased risk around the breakdown of internal communications. It was clarified that this was not regarding a breakdown of internal communications, rather that there was an increased need for the Authority's internal communications plans to be frequent, useful and informative for staff. The need for this was crucial due to current key events such as the end of the strategic partnership with Breckland Council, changes with regard to returning to the office to work and the easing of lockdown, and information on new strategic partnerships.

AGREED:

That the content of the report be noted.

9. Q1 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:

- Since the Q4 iteration of the register, there had been an increase in risk levels around the delivery of the housing service and waste collections.
 - Housing Service – The Housing Team were facing significant resource challenges, and whilst these staff shortages were being seen, the risk level had been raised to reflect this.
 - Delays as a result of resource challenges – The Housing team had seen some delays with full housing assessments being booked. However, additional appointments were being created utilising temporary staffing resources. This was being balanced against demand created through emergency presentations. The Housing Team Leader was

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- moving resources to respond to demand and, where possible, delayed appointments would be brought forward.
 - Additional mitigations – Three temporary Housing Options Advisors had been appointed to ensure that the team had sufficient capacity to remain operational. Other resources from within the Housing Department were being utilised to provide additional support in areas such as the management and booking of temporary accommodation, assistance with visiting, and collection of information from people in temporary accommodation.
 - Project delivery timeframes for MyOptions – The scheduled go-live date for MyOptions online was still 4 October 2021, work was underway to achieve the transition, and there were currently no anticipated delays. It was clarified that this was the homeless self-triage tool element, and that the housing register element was already live and operational. As an interim measure to allow customers to self-refer, the Jigsaw Portal had been opened and the webpages and Customer Contact updated. Telephone messages and the Council's webpages had all been updated to enable customers to self-help where possible.
 - Trends within the Housing service arising from exit interviews or additional intelligence – A presentation would be given to the HR People Board to ensure oversight from the Executive Management Team and PSPS colleagues. A recent recruitment campaign by a neighbouring authority had had a material impact through the number of vacancies on offer. Actions were being followed up to ensure that the Council was doing all it could to retain staff, and this information would be brought forward to the next meeting, or shared sooner if possible.
- Waste Collections
 - A similar trend was being seen in this area, with a shortage in the number of HGV drivers available through agencies. Presently, there were no major service delivery issues to highlight however, the HGV driver shortage that the service was facing reflected the national situation seen across several other authorities and private businesses. Recruitment agencies were experiencing skills shortages, and it was a difficult market for specific candidate attraction. Due to the competitive nature of the market, candidate retention was also extremely difficult.
 - With regard to work being undertaken by the Environmental Services team around working with and learning from partners, members were advised that employment terms were being reviewed to ensure that they were competitive within the industry, utilising learning from

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other partners, and drawing from their experience where possible.

- A further key change was the risk of Council/service delivery as a result of new strategic partnership arrangements. Members were advised that there had been no negative impacts to service delivery directly identified or seen in the period, and that the risk review had been a proactive one as there would naturally be a period of change for the Authority which would need appropriate focus and management to ensure a smooth transition. For these reasons, the risk profile associated with changes to the Council's strategic partnership status, and the need for these changes to be successfully embedded, had been increased.
- Cyber Security – whilst there had been no significant change within the quarter, members were provided with clarification around the wording within the report. The risk quoted that the email security software (MimeCast) blocked 20-30% of spam which seemed a low figure. However, clarification had been received that in fact the system actually blocked nearly all spam, and that the figure of 20-30% was actually the percentage of spam emails coming into the Council. The IT Manager was comfortable that the risk score was adequate as there were a number of mitigations in place such as an internal awareness programme currently in development with the first iteration of communications being released in early August, and the training of the Management Team on cyber security and best practice, with this information to be cascaded further.

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

- Members commented that, following the cyber incident some months ago, it was strange that the impact and likelihood scores had not changed from Q4 to Q1. In addition, following the situation in November where access to email had been lost, there was insufficient detail explaining what had happened. In the same way, there needed to be further expansion on the issue of data and application storage.
 - Officers advised that they would obtain information on the circumstances around the loss of email in November, and would circulate this information to members. In addition, the IT Manager would be requested to attend the next meeting of the Committee to provide a more expansive explanation to the issues raised.

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- Members suggested that a report on the various issues be prepared in the first instance, and that this be circulated to Committee members outside of the meeting. They would then decide if it was still necessary for the IT Manager to attend the next meeting.
- Members asked that further information be provided around housing delays, and the true impact that this was having on members of the public affected. It was requested that this information be circulated to members of the Committee.

AGREED:

That the content of the report be noted.

10. COUNTER-FRAUD AND CORRUPTION POLICY

Consideration was given to the report of the Head of Internal Audit which requested that members review and comment on the suggested enhancements to the Counter Fraud and Corruption Policy.

The Counter Fraud and Corruption policy was required to be reviewed and approved by the Governance and Audit Committee every three years. The policy was last approved by the Committee in December 2017 and an update was therefore due. This had been delayed to allow for an assessment of the current arrangements to be undertaken in comparison with the latest strategy from CIFAS (Fighting Fraud and Corruption Locally).

A first draft of the updated policy was provided to the Committee for review prior to approval. It was recommended that the policy, once reviewed by the Committee, be endorsed for approval by management, and stakeholders be consulted on changes, before it was presented to the Committee for approval in September 2021.

The Internal Audit Manager highlighted the areas of change within the Policy:

- Economic Crime had been added to the list within the Introduction of the various types of fraud risks;
- References to CPBS had been replaced with PSPS;
- Section 2 – Within the table giving definitions of the types of Fraud, Corruption and Bribery, the list had been expanded to include examples of fraud in each of these areas;
- Section 3 – The Audit Approach. Two new pillars had been included here:

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- Govern (Tone at the top) – Proposal that the Governance and Audit Committee have a greater involvement in reviewing and approving policies for Counter Fraud and Corruption; that the Committee receive annually the fighting fraud and corruption locally strategy checklist and the risk assessment associated with this; and that the relevant portfolio holder be made aware of fraud risks and mitigations..
- Protect (Protecting the Council and its Residents) – The aim of this was that fraud and corruption cases be publicised and endorsed by the Council's communications team to highlight awareness in the local community; and that cyber crime controls be regularly reviewed to ensure they remained adequate to new and increasingly sophisticated techniques from fraudsters.
- Contacts for Whistleblowing – this section needed updating.

Members considered the document, and the following points were raised:

- Members questioned whether the continuation of home working was a risk to the fraud policy or not.
 - The Internal Audit Manager did not believe that there was a greater risk from home working. She also commented that there needed to be more work and assurance undertaken with regard to cyber security.

AGREED:

That the suggested enhancements to the Counter Fraud and Corruption Policy be noted.

11. 20/21 FINANCIAL STATEMENTS

The Head of Finance provided the Committee with the following verbal update on the 20/21 Financial Statements.

The Accounts and Audit Amendments Regulations 2021 required authorities to publish financial statements for public inspection 30 days from 1 August 2021. As part of this wider assurance, it was good practice for the Governance and Audit Committee to review those draft statements prior to publication to provide the opportunity to review the year's statements. This was scheduled for this meeting however, due to a delay in completing the financial statements by PSPS, both the S151 Officer and the Deputy S151 Officer had not had sufficient time to review the draft statements ahead of the deadline for submission of the

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documents to the meeting.

A conversation had taken place between the Deputy S151 Officer and the Committee Chairman to provide an opportunity at a later date to review the statements and PSPS would provide support for whenever this was arranged.

Members were advised that the accounts were very nearly complete, an initial review had been undertaken by the Deputy S51 Officer earlier in the day, and amendments resulting from this review were being made. A final check would be undertaken the next day and once the Deputy S151 Officer was satisfied with the content, and provided the S151 Officer with her assurance, the accounts would be published by the deadline tomorrow.

Members were advised that there were numerous reasons for the delay – Impact of the Covid pandemic and subsequent grant support, implementation of a new Finance system and loss of key staff. The Head of Finance accepted full responsibility for the resulting delay, and he assured the Committee that proactive steps had been taken to ensure that the same situation did not take place next year which included the recent appointment of additional full-time members of staff to provide greater resilience. The new Finance system would also assist in improving the process from next year.

The following issues were raised:

- Members understood that the Authority had lent a substantial amount of money to Lancashire County Council – was this correct?
 - The Treasury and Investment Manager responded that did not have these details, but would provide a response directly to members. He did however confirm that before any loan was made, the credit ratings and financial standings of any institution being lent to were thoroughly checked and with all local authorities, they were very secure and if for any reason they had financial difficulties, central government would honour the debt.
- The Chairman commented that once the accounts were published, the Deputy S151 Officer would send an email link and a printed copy to all Committee members, and a special session would be held in September review and scrutinise them.

AGREED:

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That the update be noted, and a special session be held in September to consider the published financial statements.

12. 2019-20 ANNUAL AUDIT LETTER

Consideration was given to the 2019-20 Annual Audit Letter, produced by EY.

EY had advised that they were currently only attending hybrid meetings and as this was not possible at this meeting, the Audit Letter was presented by the Assistant Director Finance.

Members were reminded that in March 2021, the 2019/20 Statement of Accounts were audited and signed off, and this document was a summary of the key items from that audit, written in a more public facing way for the Council's website.

There were no new messages within it, and the key matters were all reported to the Committee via the Audit Results Report. It formally set out the dates that EY issued within the audit opinion and certificate, and thereby closed the 2019/20 audit year.

Members considered the information, and the following issues were raised:

- Members commented that there had been a large increase in fees from 2018/19 to 2019/20, and the fees for 2020/21 were not yet known. Why had the fee increase been so large?
 - Officers responded that there was an ongoing dialogue between the Authority and EY. 2019/20 was an exceptional year with work around Covid and additional testing requirements, and a breakdown of this additional testing had been received. The Authority had agreed on areas of work around Covid-compliance, with other areas of work still under discussion.

AGREED:

That the 2019-20 Annual Audit Letter be noted.

13. 2020/21 EXTERNAL AUDIT PLAN

Consideration was given to the 2020/21 External Audit Plan, produced by EY.

The Assistant Director Finance introduced the report and confirmed that the Plan set out the intended approach by EY for

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the 20/21 audit of the Statement of Accounts.

In a year of such change and turbulence, there were some key messages which would provide assurance to the Committee about consistency in EY's approach to the prior year.

- Materiality – The same basis (gross expenditure) had been used as in the prior year, so there was a consistent level at which EY could both identify material errors and report any audit differences to the Committee at the Conclusion of the audit. It was currently based on the expected Gross Expenditure (last set of accounts), but would now be updated for the draft financial statements provided for audit.
- Audit Risks – Members could take great comfort from the consistency in the risks from the previous years, as illustrated by the yellow highlights within the report. This reflected a normal audit year. There were a number of new risks, highlighted red, which reflected the impact of Covid 19 on financial reporting and hence auditing, in respect of:
 - a) Government Grant received;
 - b) Bad Debt provision – an increase in Debtor Balances was expected;
 - c) NNDR appeals provision – a higher level of appeals, and hence provision was expected;
 - d) Collection Fund accounting – in respect of Council Tax collection rates and impact of three year smoothing impact within Government proposals
- There was also one new risk for the introduction of the new payroll system, given the material nature of the transactions which passed through it.
- Section 2 gave further details against each of these risks.
- VFM – The NAO had that year updated the Code requirements. The impact was three-fold:
 - a) Risk Assessment – the criteria of what was a significant risk had been amended;
 - b) A positive conclusion (i.e. arrangements were adequate) was no longer provided with the Audit Report. EY would only report by exception if arrangements were not adequate.
 - c) A commentary in a new Annual Auditors Report (which replaced the Annual Audit Letter) had to be provided, on EY's view of the Council's arrangements against the criteria, and how they arrived at their conclusion (exceptions or no exceptions).
- A Risk Assessment had not yet been completed, and would be reported at a future Committee.

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- Audit Fees – EY had reported on the same premise as in 2019/20 what they believe was the fair fee to complete the audit of South Holland’s size and complexity. The Scale fee was set formally by PSAA and then the additional level of fee that EY believe was necessary to perform a quality compliant audit to the Code requirements. This additional element was with PSAA for determination in respect of both 2019/20 and 2020/21.

Members considered the Audit Plan, and the following issues were raised:

- Members asked whether there was a ‘random’ element to the scoping of the group audit – auditing some areas unexpectedly would increase robustness across the Authority.
 - The Assistant Director Finance advised that she would obtain a response to this question from EY.
- Members commented that they strongly supported the new inherent risks detailed within the Overview of the 2020/21 audit strategy.
- It was important for the Committee to confirm that it had a full understanding of agreement to materiality and reporting levels.
- With regard to Fees detailed within the report, members understood that it was difficult to know ahead of time what work was required, but the fees had jumped greatly. The potential for each year’s fees was left too open.
 - The Assistant Director Finance advised that she took on board these comments however, the Authority was bound by the National Procurement Exercise which was undertaken and agreed 4 years ago for appointment of external auditors. She was mindful that this was an ongoing concern of the Committee and would take this forward.

AGREED:

- a) That the 2020/21 External Audit Plan be noted; and
- b) The Committee confirmed its understanding of agreement to the materiality and reporting levels.

14. GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

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

AGREED:

- a) That the report and content of the Work Programme be noted; and
- b) That should an additional meeting be required to consider any of the information requested earlier in the meeting, that this be arranged.

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

There were none.

(The meeting ended at 5.26 pm)

(End of minutes)