

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in the Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 14 March 2024 at 6.30 pm.

PRESENT

A C Beal (Chairman)  
S-A Slade (Vice-Chairman)

C J T H Brewis

M Geaney

I Sheard

Apologies for absence were received from or on behalf of Councillors N Chapman and M Le Sage

In Attendance: Waller (Assurance Lincolnshire) and Boyle (KPMG), Chief Finance Officer (PSPS), Interim Treasury Manager, Assistant Director - Housing, Assistant Director - Wellbeing and Community Leadership and Nicole Hayes

**41. DECLARATION OF INTERESTS**

There were none.

**42. MINUTES**

**AGREED:**

That the minutes of the Governance and Audit Committee meeting held on 18 January 2024 be signed by the Chairman as a correct record.

**43. ACTIONS**

Updated responses to actions which arose at the 18 January 2024 Governance and Audit Committee meeting and the tracking of outstanding actions were presented to the committee.

Members considered the update and made the following comments:

- Regarding action 36, members asked for a comparison of the percentage of council tax collected in 2023/2024, with that of the previous year.
  - The Chief Finance Officer (PSPS) responded that 91.72% of council tax was collected in 2022/2023, and 91.45% in 2023/2024.
- Members referred to action 34, and queried when the budget booklet would be available for circulation.

**Action By**

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- The Chief Finance Officer responded that following the recent 2024/2025 budget approval at Council, the Chief Finance Officer (PSPS) would work with the Head of Client Finance to establish a timeline for delivery of the booklet.
- Regarding action 41c, the Head of Internal Audit was working with the Chairman of the Committee in respect of a survey to be presented to the full Committee.

**AGREED:**

That the actions from the Governance and Audit Committee meeting held on 18 January 2024 and the tracking of previous outstanding actions be noted.

**44. PROCUREMENT CARD AUDIT MANAGEMENT RESPONSE**

**AGREED:**

That the discussion relating to agenda items 5 and 6, the 'Procurement Card Audit Management Response' and the 'Internal Audit Progress Report' respectively, be combined and noted at minute item 45.

**45. INTERNAL AUDIT PROGRESS REPORT - MARCH 2024**

Consideration was given to the Internal Audit Progress Report – March 2024, which updated the Governance and Audit Committee on the work of Internal Audit since the last report.

As noted at minute item 44, the Procurement Card Audit Management Response (agenda item 5) was considered alongside this item.

The Head of Internal Audit introduced the report and following main points were highlighted:

- The Performance Dashboard on page 5 of the report detailed the progress of the audit plan to date; all planned audits were underway and would be completed, or be in a draft form, by the end of March 2024;
- An update on internal audit activity on page 6 of the report presented a summary of the progress report, with one 'limited' assurance review and one 'no' assurance review;
- Responses had been received for two overdue high priority management actions;
- Two financial audits had been postponed, which due to cyclical workloads, would be rescheduled appropriately to

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- align with greater capacity within the Finance team;
- An outline of work undertaken and assurance opinions given were shown in a table at page 7 of the report; the majority of findings were positive with two 'substantial' and two 'adequate' opinions; and
- The summaries of work undertaken for each audit were outlined from page 9 of the report.

Members considered the report and made the following comments:

- Members queried the nature and consequences of the account coding issues raised during the Payroll Control Account Reconciliation audit review and asked for examples of when this had occurred and how often.
  - The Chief Finance Officer (PSPS) responded that incorrect code mapping had occurred within components of the monthly payroll file when these were interfaced with the ledger. This generally only applied to new items. Appropriate coding was subsequently identified to rectify the issue; and
  - The Senior Finance Business Partner (PSPS) added that although the issue occurred fairly frequently, the Payroll and Finance teams reviewed any issues on a regular basis.
- The Chief Finance Officer (PSPS) stated that a briefing note would be provided to the Committee which outlined examples of the issue.
- Members asked whether payroll reconciliations were completed on a monthly basis.
  - The Chief Finance Officer (PSPS) responded that payroll reconciliations for PSPS and the three authorities of the partnership were completed on a monthly basis. At the time of the meeting, the payroll reconciliations for January 2024 had been signed off and those for February 2024 were in progress.
- Members referred to the ICT Disaster Recovery audit and noted the comment that, '*a schedule to carry out scenario-based disaster recovery exercises on an agreed periodic basis had not been developed*'. Could further information regarding this matter be provided.
  - The Chief Executive (PSPS) responded that the requested details would be ascertained and reported back to the Committee.
- Members referred to the Procurement Cards audit and

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queried the following:

- How long were procurement cards in operation at SHDC?
- Might non-compliance have occurred over a longer period than had been audited and which therefore necessitated further investigation?
- In respect of the potential loss of VAT reclamation, clarification was requested as to whether this was a result of inadequate or a lack of receipts being submitted.
  - The Chief Finance Officer (PSPS) responded that:
    - The audited sample specifically focussed on fifty transactions where the description of the transaction and the presence of a receipt had been absent.
  - The Assistant Director – Corporate referred to the management response at agenda item 5 and stated that:
    - The context of the audit report had recognised the deficiencies of the procurement card process and the requirement that this area be strengthened;
    - The identified actions were already in hand and a new system had been launched across the partnership with additional controls in place, which included a 'limit review';
    - Whilst the period of procurement card use at SHDC could not be confirmed at the meeting, the Assistant Director – Corporate confirmed that they had been in use at ELDC for around 15 years, and this system was recognised as a quick and efficient mechanism for local government spending;
    - A retrospective review of transactions from April 2022 to February 2024 had been undertaken which had not identified any significant process deficiencies; a couple of issues were to be reviewed in detail however management were confident that no further inappropriate activity had taken place during that period, lessons had been learned and robust processes

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had been implemented.

- Members queried whether the significant un-coded payment card spend which had been allocated to the suspense account had been questioned.
  - The Chief Finance Officer (PSPS) responded that the matter had not been raised during the year.
- Members asked whether the unclaimed VAT value was known.
  - The Chief Finance Officer (PSPS) was unable to comment on the value.
- Members were pleased that staff had received training on the new system and requested that this be shared with the Committee. Both an assurance and an understanding of the operation of the new system was sought, from point of spend and management authorisation through to finance and accounts.
  - The Chief Finance Officer (PSPS) confirmed that training included the terms and conditions of usage of procurement cards, in addition to how transactions were processed. The training would be shared with Committee members
- Members requested that line managers be alerted at an earlier stage in the process where receipts had not been submitted.
  - The Chief Finance Officer (PSPS) responded that the software provider would be contacted to investigate whether this was possible.
- Members queried the regularity of management checks under the newly implemented system.
  - The Chief Finance Officer (PSPS) responded that:
    - The new digital system escalated issues to managers at set timeframes, and if not resolved, issues would be escalated to the S151 Officer;
    - During the initial implementation period, every transaction was being viewed and verified with feedback relayed to officers and managers where appropriate; after this period, a 10% random sample would be verified monthly; and
    - Additional staff resource had been acquired to ensure that the verification of all transactions could take place during the

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implementation period.

- Members queried whether the digital system was able to match the receipt with amount of spend. Concern was expressed if this was not the case.
  - The Chief Finance Officer (PSPS) responded that whilst the system could not match spend to the receipt, in order to verify the spend, procurement card users were required to provide a description and purpose of the purchased item, a VAT receipt and a ledger cost code.
- The Head of Internal Audit stated that both the Payroll and Procurement Card audits would be followed-up by the Internal Audit team, and findings reported back to the Committee as soon as possible.

**AGREED:**

That after consideration by the Governance and Audit Committee, the Internal Audit Progress Report and the Procurement Card Audit Management Response be noted.

*The following officers left the meeting on completion of this item: the Assistant Director – Housing, the Assistant Director – Wellbeing and Community Leadership, the Assistant Director – Regulatory and the Chief Executive (PSPS).*

**46. INTERNAL AUDIT PLAN 2024/2025**

Consideration was given to the report of the Head of Internal Audit which set out the annual plan for internal audit activity for 2024/2025.

The Head of Internal Audit introduced the report which outlined the following areas:

- The purpose of the Internal Audit Plan and conformance with Public Sector Internal Auditing Standards (PSIAS);
- Conflicts of Interests;
- Sub Regional Strategy priorities;
- Development of the Internal Audit Plan 2024/2025; and
- The Internal Audit Plan 2024/2025 activity and schedule; the plan covered a wide range of key issues across the council which aligned with strategic risks and corporate priorities, and which would inform the Internal Audit annual opinion at the end of the 2024/2025 year.

Members considered the report and made the following

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comments:

- Members requested that agenda items be considered and that highly technical items be spaced out across different meetings where possible.
- Members noted that the plan had been shared with Assistant Directors and Portfolio Holders and asked whether any comments had been forthcoming regarding the scheduled audits.
  - The Head of Internal Audit responded that the Internal Audit Plan 2024/2025 had been welcomed. Positive relationships/engagement with management was key in enabling audits to be completed in a timely manner, which therefore remained effective and relevant.

**AGREED:**

That the Internal Audit Plan 2024/2025 be noted.

**47. Q3 TREASURY MANAGEMENT UPDATE 2023/24**

Consideration was given to the report of the Deputy Chief Executive – Corporate Development (S151) which provided members with an update on Treasury Management performance and activity to ensure best practice was maintained.

The Interim Treasury and Investment Manager (PSPS) introduced the report which had been prepared in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) code of practice for Treasury Management, and which recommended that members be updated on treasury management activities at least quarterly.

The Quarter 3 2023/2024 Treasury Management update was detailed at Appendix A and included the following main areas:

- Economic update with commentary provided by Link Group;
- Interest rate forecasts;
- Annual Investment Strategy;
- Borrowing position of the council;
- Debt rescheduling; and
- Compliance with Treasury and Prudential indicators;

Appendix A2 detailed the following:

- General Fund Capital Expenditure 2023/2024;
- Financing of General Fund Capital Expenditure 2023/2024;

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- Housing Revenue Account Capital Expenditure 2023/2024; and
- Financing of Housing Revenue Account Capital Expenditure 2023/2024.

Members considered the report and made the following comments:

- Members expressed hope that the £67.456million debt to central government would be cancelled at some point in the future.
- Members were encouraged that Link Group's economic update commentary referred to the 'mildest of mild recessions'.
- Members were reassured by the financial situation of the council and praised officers for both the level of detail provided within the report and the controls which were in place.

**AGREED:**

That after receipt and review of the report at Appendix A by members of the Governance and Audit Committee, the contents be noted.

**48. FINANCIAL STATEMENTS 2023/24 - ACCOUNTING POLICIES**

Consideration was given to the report of the Deputy Chief Executive – Corporate Development (S151) which asked the Governance and Audit Committee to review and agree the Accounting Policies for inclusion in the Financial Statements 2023/2024.

The Senior Finance Business Partner (PSPS) introduced the report which was presented to the Governance and Audit Committee on an annual basis. The following main points were raised:

- The Accounting Policies detailed specific principles applied by councils in the preparation and presentation of Financial Statements in accordance with CIPFA's Code of Practice on Local Authority Accounting;
- The Accounting Policies for 2023/2024 were detailed at Appendix A, and the following points were highlighted:
  - Financial statements were prepared on an accruals basis, which recognised transactions when they



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occurred rather than when payment was received or made;

- The Local Government Pension Scheme was accounted for as a defined benefits scheme; and
- As a result of previous discussions held with auditors, the 'Infrastructure Assets' outlined on page 163 of the agenda pack, was included for completeness detailing the accounting treatment.

Members considered the report and made the following comments:

- Members were pleased that an accruals method was in use, as any non-compliance could be identified sooner.
- Pensions training was to be arranged for Committee members in due course.

**AGREED:**

That the Accounting Policies for 2023/24 at Appendix A be approved.

**49. RECRUITMENT OF CO-OPTED INDEPENDENT MEMBERS TO THE GOVERNANCE AND AUDIT COMMITTEE**

Consideration was given to the report of the Assistant Director – Governance (Monitoring Officer) which asked members to consider the recruitment of Co-opted Independent Members to the Governance and Audit Committee.

The report was introduced by the Assistant Director – Governance which outlined the following main points:

- Background to the report which included CIPFA's identification that the appointment of Independent Members to audit committees was beneficial;
- That the Governance and Audit Committee had recommended, to Full Council, an amendment to its committee membership to include 2 Non-Voting Co-Opted Independent Members; this recommendation was approved at the Full Council meeting held on 29 February 2024; and
- Following approval at Full Council, the current report outlined the next steps which sought members views on the recruitment pack and requested volunteers from the Committee to join the interview panel.

Members considered the report and made the following

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comments:

- Members stated that the addition of Independent Members would benefit the committee however external expertise needed to be taken on balance with continuous internal training.
- Members asked how the positions would be advertised.
  - The Assistant Director – Governance responded that the positions would be promoted through the council’s usual recruitment channels of website and social media, and through professional bodies/organisations.
  - Members stated that the local press was widely read and should also be utilised.
- The Assistant Director – Governance requested volunteers to join the Chairman (Councillor Beal) on the interview panel.
  - Councillor Brewis and Councillor Geaney volunteered.

**AGREED:**

- a) That after consideration of the draft Co-opted Independent Member Recruitment Pack at Appendix A, the comments of the Committee be noted; and
- b) That the composition of the interview panel to undertake the recruitment exercise be Councillor Brewis, Councillor Geaney and Councillor Beal.

**50. Q3 RISK REPORT 2023/24**

Consideration was given to the report of the Assistant Director – Governance which provided an update on the Council’s current strategic risks.

The report was introduced by the Assistant Director – Governance, on behalf of the Business Intelligence and Change Manager, which ensured that council risks and the management of risks were communicated and detailed.

Attention was drawn to point 2 of the report which gave an overview of the identification of four new risk scores. These risks were detailed within the full Risk Register at Appendix A.

Members considered the report and made the following

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comments:

- Members welcomed the level of detail presented within the Risk Register which provided members with valuable information.
- Members requested that the report be reformatted so that the content was more easily readable when printed.

**AGREED:**

That after consideration of the report and Appendix A by the Governance and Audit Committee, the contents be noted.

**51. GOVERNANCE AND AUDIT WORK PROGRAMME**

Consideration was given to the report of the Democratic Services Manager which set out the Work Programme of the Governance and Audit Committee.

The Democratic Services Officer introduced the report and updated the Committee on the following points:

- In respect of Appendix A, a number of items which had been due to come forward at the current meeting had been postponed and these were noted on 'Pending Items' at page 202 of the agenda pack. On confirmation of the schedule of meetings for 2024/2025, pending items would be rescheduled in liaison with PSPS Finance colleagues; and
- The Training record at Appendix B would be updated when further training had been identified and arranged/completed. A further pension training session would be arranged in due course to include counterpart committee members from across the partnership.

In respect of the postponed reports:

- The Chief Finance Officer (PSPS) responded that:
  - The Financial Statements had been drafted for 2022/2023 which were currently undergoing the due diligence process with the intention that they would be published by the end of March 2024.

Members considered the update and made the following comments:

- Members requested that they be invited to attend any training sessions that were to be arranged following appointment of the Independent Member(s).

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- The Chairman referred to a separate update he had received from the External Audit Director (KPMG) and asked for a further explanation regarding the delay of the external audit report.
  - The External Audit Director (KPMG), who was in attendance virtually, responded that:
    - The initial timeline of 31 March 2024 for the external audit plan and risk assessment work was revised due to competing pressures and priorities at PSPS which had included matters relating to historic audits, preparation of Financial Statements for 2022/2023, the annual budget setting processes and internal audit requests;
    - The deadline for the plan had been rescheduled to the end of April 2024 and progress had been made regarding the plan and risk assessment regarding the Financial Statements;
    - The risk assessment relating to the 'value for money' aspect of KPMG's engagement remained the main outstanding piece of work. In this respect, KPMG awaited the return of the 'Value For Money Self Assessment' which the S151 Officer had given assurance would be prioritised;
    - Assuming that the plan and risk assessment could be finalised by the end of April 2024, the full plan, including value for money risk assessment, could come forward to the next scheduled Governance and Audit Committee meeting; and
    - Weekly engagement meetings with PSPS were taking place to keep the situation on track.
  
- Members asked for clarification of the situation regarding the 2022/2023 Financial Accounts which needed to be signed off by the previous auditors, Ernst Young (EY)
  - External Audit Director (KPMG) responded that:
    - New legislation was currently proceeding through Parliament in respect of a local government audit reset to implement a backstop date for historic incomplete external audits – the date of which was likely to be 30 September 2024. This would enable a disclaimer opinion to be signed by the

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- outgoing external auditors stating that work had not been finalised. Under this scenario, the understanding was that the predecessor auditors would not carry out an external audit on the 2022/2023 Financial Statements; and
- The expected publishing of the 2022/2023 accounts at the end of March 2024 was therefore welcomed, as this enabled the external audit opinion to be published and the progression of KPMG's work for 2023/2024 thereafter.
- Members noted that whilst SHDC had one year of accounts outstanding, some councils had more than one year outstanding. Nonetheless, the Committee required a level of assurance that the opening balances for 2023/2024 were valid.
    - The External Audit Director (KPMG) responded that, in respect of the new legislation, guidance regarding opening balances was awaited, especially where Financial Statements were unaudited. Disclaimers were likely to be included in future reports which highlighted the risk in relation to opening balances where these had not been verified;
    - The reset of the deadline for accounts would ensure that work could remain on schedule in future years. The deadline for completion of Financial Statements 2023/2024 was May 2025 with shorter deadlines being in place until 2027/2028 when it would revert to October; and
    - KPMG planned to have the accounts on track by the end of 2024, and for completion as early as possible after this time. The importance of the submission of information within requested timeframes was necessary to achieve this outcome.

**AGREED:**

That the Work Programme of the Governance and Audit Committee be noted.

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

There were none.

**53. EXCLUSION OF PRESS AND PUBLIC**

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Under section 100A (4) of the Local Government Act 1972, the press and public were excluded from the meeting for the following items of business on the grounds that they involved the likely disclosure of exempt information as defined in Paragraph 7 of Part 1 of Schedule 12A of the Act

**54. REPORT ON A FRAUD CASE**

Consideration was given to the report of the Deputy Chief Executive – Corporate Development (S151) which provided the Committee with an update on a case that had been investigated.

**AGREED:**

That the contents of the report be noted.

(The meeting ended at 7.50 pm)

(End of minutes)