

Minutes of a Special meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in the Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 18 July 2024 at 6.30 pm.

PRESENT

A C Beal (Chairman)

C J T H Brewis

M Geaney

I Sheard

Apologies for absence were received from or on behalf of Councillors N Chapman, M Le Sage and S-A Slade

In Attendance: The Deputy Chief Executive - Corporate Development (S151), the Interim Treasury and Investment Manager (PSPS), the Deputy Chief Finance Officer – Corporate (PSPS), the Finance Manager - Corporate (PSPS), the External Audit Director (KPMG) and the Democratic Services Officer.

13. DECLARATION OF INTERESTS

Councillor Brewis declared his status as a Director of PSPS.

14. ANNUAL TREASURY REPORT 2023/24

Consideration was given to the report of the Deputy Chief Executive – Corporate Development (S151) which provided members with a review of Treasury Management performance and activity during 2023/24 to ensure best practice was maintained.

The Interim Treasury and Investment Manager (PSPS) introduced the report by stating that the figures were based on the draft statements of accounts which awaited audit and were therefore subject to change.

The Annual Treasury Management Review at Appendix A included the following information:

- Introduction to the report;
- Council's Capital Expenditure and Financing 2023/24;
- Council's overall borrowing need;
- Treasury position as at 31 March 2024;
- The Strategy for 2023/24;
- Borrowing outturn;
- Investment outturn 2023/24;
- The economy and interest rates – commentary provided by Link Group; and
- Other issues, which included: International Financial Reporting Standards 9 fair value of investments; non

Action By

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treasury investments; and changes in risk appetite.

Appendix A1 included the following:

- The 2023/24 Capital Programme and Q4 outturn;
- The General Fund Capital Financing;
- Housing Revenue Account (HRA) Capital Programme;
- HRA Capital Financing.

Members considered the report and made the following comments:

- Members thanked officers for the report and comprehensive statements. The increase in respect of earned interest was particularly well-received.
 - The Deputy Chief Executive – Corporate Development (S151) responded that the council had increased investments with local authorities which had provided a good return.
- Members referred to the introduction of Appendix A in respect of member training on treasury management and suggested that further training with Link Group take place as a partnership session.
- Members referred to the zero outturn items on Appendix A1, such as the Spalding Gateway Public Realm Project, and asked if this had resulted from a non-requirement of funds for such projects and/or whether the funds had been carried forward for use as required.
 - The Deputy Chief Executive – Corporate Development (S151) confirmed that the budget for such items had been carried forward and was to be used.
- Members stated that whilst ‘risk appetite’ had not changed, there was a belief that a greater degree of risk control had occurred.

AGREED:

Following consideration of the Annual Treasury Report 2023/24 at Appendix A, that the comments of the Governance and Audit Committee be noted for consideration when the document be presented to Council for approval on 31 July 2024.

15. UNAUDITED FINANCIAL STATEMENTS 2022/23 INCLUDING NARRATIVE REPORT AND ANNUAL GOVERNANCE STATEMENT

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Consideration was given to the report of the Deputy Chief Executive – Corporate Development (S151) which presented the unaudited Financial Statements, including Narrative Report and Annual Governance Statement, to be reviewed by the Committee in line with best practice.

The Deputy Chief Finance Officer – Corporate (PSPS) and the Finance Manager – Corporate (PSPS) attended for this item.

The report was introduced by the Deputy Chief Finance Officer – Corporate (PSPS).

- The Unaudited Financial Statements 2022/23 at Appendix A comprised:
 - Narrative Report;
 - Statement of Responsibilities;
 - Core Financial Statements:
 - Comprehensive Income and Expenditure Statement;
 - Movement in Reserves Statement;
 - Balance Sheet; and
 - Cash Flow Statement.
 - Supplementary Financial Statements:
 - Housing Revenue Account Income and Expenditure Statement;
 - Movement on the Housing Revenue Account Statement;
 - Notes to the Housing Revenue Account Statement;
 - Collection Fund Statement;
 - Notes to the Collection Fund Statement; and
 - Group Accounts.
 - Glossary of Terms; and
 - Annual Governance Statement.
- Key changes to the balance sheet were discussed, as outlined at point 2.6 of the covering report, and detailed within Appendix A.
- Regarding the timeline of the statements:
 - Accounts audit regulations required that unaudited accounts be produced by 31 May each year and audited financial statements published by 31 July each year, whilst these deadlines had not been met, an action plan was in place to ensure deadlines would be met in future years;
 - After consideration of the accounts by the Governance and Audit Committee at the current meeting, and following approval from the Section 151 Officer, the accounts would be released on 19 July 2024 for a six-week public consultation period;

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- Guidance was awaited regarding the national audit backlog of historical local authority financial statements. Whilst the previous backstop proposal had been put on hold, there was the possibility that the audit of the 2022/23 accounts would not be undertaken with a potential disclaimer opinion being issued instead.

Members considered the report and made the following comments:

- Members referred to the six-week consultation period and queried whether members of the public had previously requested sight of Councils' accounts.
 - The Deputy Chief Executive – Corporate Development (S151) confirmed this to be the case for previous authorities she had worked for.
- Members referred to the Notes to the Accounts, item 26 at page 35 of Appendix A, and queried the circumstances under which VAT would not be recoverable.
 - The Deputy Chief Executive – Corporate Development (S151) responded that non-recoverable VAT would only occur where the local authority had breached its 'de minimis' limit (a rule that allowed VAT relating to exempt supplies to be recovered up to a specified limit). In such cases, a local authority would be unable to recover the VAT and the amount would be shown as a cost and charged to revenue. It was to be noted that this would be an extreme event as normally all VAT was recoverable and that circumstances were managed to mitigate this risk as far as possible.
- Members welcomed the reduction in pension liability however it was noted that KPMG had highlighted pensions as an issue. Were pension values no longer fixed?
 - The Deputy Chief Executive – Corporate Development (S151) responded that much work was underway regarding pension funds and valuations. It was stated that pension valuation opinions from three different actuaries, such as those representing the Council, Audit and a third in the capacity of Advisor, could differ, and any such issues would need to be navigated.
- Members acknowledged the nationally applied caveat in respect of 2022/2023 accounts but were concerned that

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the closing balance of 2022/2023 matched the opening balance for 2023/2024.

- The Deputy Chief Executive – Corporate Development (S151) responded that the brought forward balances would be subject to much diligence by auditors.

AGREED:

That after consideration by the Governance and Audit Committee, the Unaudited Financial Statements 2022/23 including the Annual Governance Statement (Appendix A), be noted.

16. UNAUDITED FINANCIAL STATEMENTS 2023/24 INCLUDING NARRATIVE REPORT AND ANNUAL GOVERNANCE STATEMENT

Consideration was given to the report of the Deputy Chief Executive – Corporate Development (S151) which presented the unaudited Financial Statements, including Narrative Report and Annual Governance Statement to be reviewed by the Committee in line with best practice.

The Deputy Chief Finance Officer – Corporate (PSPS) and the Finance Manager – Corporate (PSPS) attended for this item.

The report was introduced by the Deputy Chief Finance Officer – Corporate (PSPS). The Unaudited Financial Statements 2023/24 at Appendix A followed the same structure and layout as outlined at agenda item 4 above, with information relevant to the period concerned. The following points were made:

- Key changes to the balance sheet were discussed, as outlined at point 2.5 of the covering report, and detailed within Appendix A;
- Members were referred to page 19 of Appendix A regarding movements from 2022/2023 to 2023/2024 and were advised that where transfer of services across directorates had occurred, the 2022/2023 comparators had been restated;
- Although the accounts were not published in line with the deadlines, they had been published earlier than previous accounts, and the following actions were in place to ensure that the 31 May deadline would be met for the 2024/25 accounts:
 - The valuation date had been brought forward to 31 December 2024 and discussions were underway with KPMG regarding the council's assurance that the valuation of its assets be 'materially correct' as at 31 March 2025;

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- System reports were being developed to extract required information rather than using a manual process;
- Reappropriation of tasks, earlier training and preparation within the whole finance team;
 - The Deputy Chief Executive – Corporate Development (S151) added that the team had been encouraged to undertake training across all relevant area of responsibility, such as year-end transactions, treasury and capital. This approach promoted the checking and scrutiny of work throughout the year and therefore offered a potential seamless completion at year-end.
- The accounts would be published on the SHDC website on 19 July 2024 which marked the commencement of the six-week public consultation process;
- KPMG's audit of the accounts would commence in September 2024 and discussions had commenced with KPMG to ensure that the audit could be completed as quickly as possible; the 'audited accounts' would then be considered by the Governance and Audit Committee.

Members considered the report and made the following comments:

- Members welcomed the reported position.
- Members queried whether any movement to 31 May and 31 July deadlines were anticipated.
 - The Deputy Chief Finance Officer – Corporate (PSPS) was not aware of any such movement.
- Following the appointment of the current Portfolio Holder for Finance, members welcomed the instigation of new guidelines and procedures which had aligned information requirements from SHDC and PSPS. Nonetheless, in this regard members required a distinction be drawn between 'adjustments' and 'errors', with the latter requiring an explanatory narrative.
 - The Deputy Chief Executive – Corporate Development (S151) responded that:
 - Where management accounting challenges were evident: training needs were identified, support training implemented, and procedure reference notes produced and updated for

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- ongoing use; and
 - A holistic approach to all aspects of finance was being developed/nurtured within services. Quarterly financial reporting had enabled issues to be identified and addressed during the year.
- Members were pleased that the PSPS Finance Team was fully staffed at a senior level.
 - The Deputy Chief Executive – Corporate Development confirmed that two vacancies were to be filled in August 2024 and that experienced interim cover had been provided.
- Members referred to expenditure which had resulted from an ‘uninsured event’ and queried if this related to an event that should have been insured and whether funding was reserved for such eventualities.
 - The Deputy Chief Executive – Corporate Development (S151) confirmed that the spend related to flooding at the swimming pool which was uninsurable however an insured element was recovered. A reserve provision for such eventualities was to be explored.
- Members queried whether Key Person insurance applied to named individuals in the hierarchy of the council.
 - The Deputy Chief Executive – Corporate Development (S151) responded that professional indemnity insurance was held for certain roles across the partnership, and that the council’s insurance risk advisers would be asked to provide commentary on the matter.

AGREED:

That after consideration by the Governance and Audit Committee, the Unaudited Financial Statements 2023/24 including the Annual Governance Statement (Appendix A), be noted.

17. INDICATIVE EXTERNAL AUDIT PLAN AND STRATEGY MEMORANDUM FOR THE YEAR ENDING 31 MARCH 2024

Consideration was given to the report of the External Audit Director – KPMG which asked the Governance and Audit Committee to consider the indicative External Audit Plan and Strategy Memorandum for SHDC for the year ending 31 March 2024.

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The External Audit Director – KPMG introduced the report which highlighted the nature, scope and timing of key audit activities of the draft financial statements 2023/2024, presented at agenda item 5 of the current meeting.

The report was 'indicative' for the following reasons:

- A revised audit standard 'ISA 315' had been released which focussed on planning and risk assessment. A small number of procedures were incomplete when the report was drafted, primarily in connection with the finalisation of the Value For Money risk assessment. Through upcoming discussions between the PSPS Finance Team and KPMG, it was anticipated that the matter would be resolved and that a timeline for the audit would be agreed, with a completion target of 31 December 2024; and
- Legislation to reset the local government accounts process, previously expected to be finalised by early summer 2024, had been put on hold due to the general election. The timing of any disclaimer opinion for the 2022/2023 accounts, and therefore finalisation of the audit plan and commencement of the 2023/2024 audit, awaited the relevant Parliamentary process to take place.

The report included the following main areas:

- Overview of planned scope including materiality;
- Significant risks and other audit risks including audit approach;
- Mandatory communications;
- Mandatory communications – additional reporting;
- Value for money risk assessment, including summary, arrangements, recommendations raised and followed up;
- Audit Team;
- Audit cycle and timetable;
- Fees;
- Confirmation of Independence;
- KPMG's audit quality framework;
- ISA (UK) 315 Revised: Overview
- ISA (UK) 240 Revised: Summary of key changes;
- Financial Reporting Council's (FRC) areas of focus.

Members considered the report and made the following comments:

- Members were pleased with the contents and clarity of the report.

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- The Chairman had discussed a number of issues with the External Audit Director – KPMG prior to the meeting, and the following summary was given to the Committee:
 - The meaning of ‘materiality’ had been clarified, the value of which depended upon the size of organisation being audited in order to give a reasonable possibility that all material misstatements were detected;
 - Where additional information had been requested from SHDC / PSPS, target response dates had been adhered to;
 - The valuation of land was difficult to assess as this depended on market forces however the appropriateness of the whole process utilised to arrive at valuations was considered by the auditors;
 - No new risks had been identified in respect of Management Override;
 - Clarification was given that the Value For Money discussions included representatives of KPMG, PSPS and SHDC; and
 - Whilst the report stated ‘*there is no evidence of reporting Group performance within the minutes for the meetings we have reviewed throughout the period to date (G&A, Cabinet and the Council)*’ this was not considered an issue due to the open nature of such information.

- Members asked whether audit teams reacted to issues encountered with other local authorities in order to avoid replications.
 - The Director – KPMG responded that where issues had been identified that could be replicated, confidential discussions with managers ensued to determine the issue in order to provide national assurance. In practice, the audit leadership group discussed common issues on a weekly basis.

AGREED:

That the Indicative External Audit Plan and Strategy Memorandum for the year ending 31 March 2024 be noted.

(The meeting ended at 7.30 pm)

(End of minutes)