

Minutes of a meeting of the **GOVERNANCE AND AUDIT COMMITTEE** held in Meeting Room 1, Council Offices, Priory Road, Spalding, on Thursday, 25 June 2015 at 6.30 pm.

PRESENT

G R Aley (Chairman)
A Harrison (Vice-Chairman)

C J T H Brewis
T A Carter

P C Foyster
C N Johnson

M J Pullen

In Attendance: John Cornett (Director, KPMG), Lucy Pledge (Head of Audit and Risk Management, Audit Lincolnshire), John Scott (Audit Manager, Audit Lincolnshire), the Finance Manager (Deputy Section 151 Officer), the Senior Finance Analyst (CPBS), the Finance Manager, Treasury (CPBS), the Finance Assistant (CPBS) and the Democratic Services Officer.

3. MINUTES

The minutes of the Governance and Audit Committee meetings held on 10 March 2015 and 20 May 2015 were signed by the Chairman as a correct record.

4. DECLARATION OF INTERESTS

There were none.

5. FRAUD REPORT 2014-15

Consideration was given to the Fraud Report of the Finance Manager (Deputy S151 Officer), the purpose of which was to raise awareness of fraudulent activity detected during 2014/15.

Since the abolition of the Fraud Commission in 2014, the former Counter Fraud Team of the Commission were undertaking the survey of fraud activity measured by authorities on behalf of the European Institute for Combating Corruption and fraud. The report summarised South Holland District Council's submission for the year end 31 March 2015, and a table within the report showed the number of cases recorded for the annual term. There were also a number of cases of householders claiming single person occupancy (in order to gain a council tax discount) where circumstances had changed, and the discount was dis-applied. The numbers of these had not been recorded.

The table had comparative figures relating to the previous year for cases relating to the Local Council Tax Reduction Scheme, which commenced in 2013-14. None of the cases involved officers or

Action By

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members of the Council.

In 2014-15, seven of the cases were taken to court and ended in successful prosecutions. This compared with five cases in the previous year. The figures related to the period to 1 September 2014. As part of the welfare reforms programme, the Department for Work and Pensions (DWP) had taken over responsibilities for benefit fraud investigation from local authorities after that date. There were no figures from the DWP to cover the second half of the year although these would be reported to the committee once they were received.

The survey also covered a number of other areas, but these were no recorded fraud cases. These areas included housing tenancy, national non-domestic rates, procurement, insurance and economic/third sector, debt and investment, payroll and expenses, and abuse of position fraud.

AGREED:

- a) That the report of the Finance Manager (Deputy Section 151 Officer) be noted; and
- b) That figures from the Department for Work and Pensions, relating to identified fraud cases, for the second half of the year from 2 September 2014, be reported to the committee once they were available.

6. ANNUAL INTERNAL AUDIT REPORT

Consideration was given to the joint report of the Audit and Risk Manager (Audit Lincolnshire) and the Finance Manager, which sought consideration of the Internal Audit Annual Report 2014/15. A copy of the Audit Report was attached at Appendix 1.

Members noted that the purpose of the Internal Audit Annual Report was to provide a summary of Internal Audit work undertaken during 2014/15, timed to support the Annual Governance Statement by providing an opinion of the organisations' governance, risk management and internal control environment.

For the twelve months ending 31 March 2015, based on work undertaken and information from other sources of governance, the Auditor's opinion on the adequacy and effectiveness of South Holland's arrangements for governance, risk management and control showed a mixture of green and amber assurance, which indicated performing adequately with some improvements required. The Council had continued to maintain its momentum in

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strengthening its governance, risk and control framework. Good assurance arrangements were in place and working well.

Risk and Internal Control

Some areas were identified where the Auditor's assurance opinion on the activity identified some concerns on service delivery arrangements, management of risks, and operation of controls. These were: Housing Revenue Account; Housing Benefits (Draft Report); Accounts Payable (draft report); Information Governance (follow up audit); and ICT Mobile Devices (draft report). It was suggested that Housing Benefit be considered for inclusion within the Annual Governance Statement as a potential significant governance issue/high risk that was being addressed. Overall, internal control environment was assessed as amber (performing adequately).

Risk Management

Risk Management was assessed as green (performing well).

Financial Control

The Council had good financial management processes in place, that generally worked well. Audit's work did identify some areas of improvement around internal control, in particular housing benefits and accounts payable. Financial control was assessed as amber (performing adequately). This was a lower assurance level than last year as it reflected the significant impact of the error rate in the Housing Benefit Payment on the Council. The Council had included this issue/risk in the Annual Governance Statement.

There were no areas of inadequate assurance during 2014/15.

With regard to delivery of the internal audit plan 2014/15, Internal Audit had delivered 95% of the revised plan by the end of the year. Internal Audit's performance was measured against a range of indicators, and there had been a good level of achievement against targets, with the exception of one area of improvement around contemporary report (timescales). Actions had been put in place to address this through Audit's planning process. There had been some improvement but this had been varied. The Auditors advised that a more formal protocol should be put into place with the Authority and that more rigour in the performance process would be helpful. Councillors asked how confident Auditors were that improvements could be made. They were advised that a new performance management system had been set up which would provide managers with a direct link to actions

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that they were required to undertake.

The Committee was advised that Internal Audit Induction Training was available. It was agreed that the Director of Place and the Finance Manager would consider arranging a training workshop for Committee members.

AGREED:

- a) That the Annual Internal Audit Plan be noted; and
- b) That the Director of Place and the Finance Manager consider arranging a training workshop and that Internal Audit be liaised with in order to provide this.

7. INTERNAL AUDIT UPDATE REPORT

Consideration was given to the joint report of the Head of Audit and Risk Management (Audit Lincolnshire) and the Finance Manager, which updated the Committee on progress with the Audit Plan January 2015 to May 2015.

Members noted that the purpose of the report was to:

- Advise of progress being made with the 2014/15 and 2015/16 Audit Plan;
- Provide details of the audit work during the period;
- Provide details of the current position with agreed management actions in respect of previously issued reports;
- Update the committee on any changes to the 2015/16 Audit Plan and any other matters that may be relevant to the Governance and Audit Committee role

Work was progressing on the remaining audits from the 2014/15 plan. The annual report summarised the status of audits at draft or final report stage. The following three audits were currently being finalised, were scheduled to be completed by the end of June 2015, and would be reported together with the 2015/16 planned work in future: ICT Strategy and projects; ICT Software; and ICT Disaster Recovery follow up.

The following audit work had been completed and a final report issued:

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Some improvement needed

- Health and Safety
- Housing in Multiple Occupation
- Gas Safety Management
- Key Controls testing – Accounts Receivable
- Voids Management Payroll
- CPBS Governance and Performance
- Budget Preparation and MTFs
- Bank Reconciliation

Major improvement needed

- HRA Business Plan follow up
- Information Governance follow up

The following 2015/16 audits were currently in progress:

- ICT Strategy and project (2014/15 brought forward)
- ICT Software (2014/15 brought forward)
- ICT Disaster Recovery follow up (2014/15 brought forward)
- Housing benefit subsidy testing

Audits at Draft Report Stage:

- ICT Mobile working (with SHDC management)
- ICT Security (with CPBS management)
- Partnerships (with SHDC management)
- Plant, Property and Equipment (with management/officers)
- Housing Benefits (final clearance with CPBS and SHDC officers)
- Accounts Payable (awaiting final management response)
- Council Tax (awaiting final management response)
- NNDR (awaiting final management response)

The following issues were raised:

- Appendix 2, HRA Business Plan follow up – ‘As part of revised governance arrangements, the Governance and Audit Committee were tasked with undertaking a review of the draft HRA Estimates and Business Plan. However, whilst an improvement, this is not a dedicated HRA group who would be able to provide regular and more detailed scrutiny’ – Had this task been undertaken?
 - This task had been deferred , but was currently being considered by the Corporate Management Team.
- Appendix 2, HRA Business Plan follow-up – ‘Strategic and

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operational risks were to be updated following a recommendation in the previous review of the HRA Business Plan. This was to ensure the risks around the delivery of the business plan were recorded and regularly reviewed. This was reported as implemented within the audit recommendations tracker but this review found that risks relating to the HRA business plan are not included in the operational risk register. This was highlighted to the Housing Landlord Manager who said that this was an oversight and is currently addressing this. However, we did find that risks and sensitivities are included in an appendix which forms part of the HRA estimates presented to Members annually' – had this been undertaken?

- Internal Audit advised that clarification would be provided and members updated.

AGREED:

- a) That the report be noted; and
- b) That responses be provided to committee members on the issues raised.

8. DRAFT ANNUAL GOVERNANCE STATEMENT 2014/15

Consideration was given to the report of the Executive Director, Place, which sought approval of the Annual Governance Statement, prior to submission to audit. A copy of the draft Annual Governance Statement 2014/15 was attached to the report at Appendix A.

Earlier on the agenda, the Committee received the Internal Audit Annual Report, which commented on the effectiveness of the Council's arrangements for governance, risk management and control arrangements. Councillors were advised that the draft Annual Governance Statement would need to be re-drafted to reflect the opinion of Internal Audit.

Once the Draft Annual Governance Statement was approved by the Committee, the statement would be presented to the Leader and Chief Executive for formal sign off and submission to external audit, along with the Statement of Accounts.

AGREED:

That the draft Annual Governance Statement be approved.

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9. PRE-AUDIT 2014/15 FINANCIAL STATEMENTS

Consideration was given to the report of the Executive Director, Place, which presented the pre-audit 2014/15 Financial Statements to the Committee for review and consideration, prior to the 30 June deadline for the formal approval of the Accounts by the Section 151 Officer, before audit.

The Accounts and Audit regulations 2011 required that:

- The Responsible Financial Officer signed the un-audited statement of accounts no later than 30 June each year; and
- The statement of accounts be considered and approved by a committee of the Council no later than 30 September each year

The Financial Statements production process was almost complete, and shown at Appendix A was the pre-audit version of the 2014/15 Statements (this included the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, Cash Flow Statement and Balance Sheet as at 31 March 2015).

Overall, the disclosure requirements in the accounting Code of practice for the year were very similar to the previous year. However, a small number of significant items, detailed below, were brought to members' attention:

- Change in Accounting Policy – International Financial Reporting Standard (IFRS 11) – Joint Arrangements
- Significant Provisions at the Balance Sheet Date
- Pension liabilities and assets

With regard to changes in accounting policy from 2014/15, councillors questioned how much extra this would cost. They were advised that the change in the code didn't alter how the Authority operated, it only changed how operations were disclosed in accounts. Fundamentally, there was no cost to the Authority, the aim was to provide more clarity.

AGREED:

That the Pre-Audit 2014/15 Financial Statements be approved for approval by the Section 151 Officer.

10. ANNUAL TREASURY MANAGEMENT REVIEW 2014/15

Consideration was given to the report of the Executive Director, Place, which sought pre-decision scrutiny to the Annual Treasury

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Management Review 2014/15.

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 2014/15. 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).

The regulatory environment placed responsibility on members for the review and scrutiny of treasury management policies 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.

AGREED:

That the Annual Treasury Management Review 2014/15 be approved by full Council.

11. GOVERNANCE AND AUDIT COMMITTEE WORK PROGRAMME

Consideration was given to the report of the Democratic Services and Legal Manager which presented the work programme of the Governance and Audit Committee, as set out in Appendix A within the report.

The External Auditor, KPMG advised of the following:

- KPMG would provide progress reports to the Governance and Audit Committee meetings on 3 December 2015 and 3 March 2016. A progress report would not be required at the meeting on 24 September 2015 as progress on the Audit would be self-evident through the ISA260 (Annual Governance Report), and the approval of the accounts process;
- Councillors may wish to read the Audit Plan (that was considered at the Governance and Audit meeting of 10 March 2015), prior to the next meeting on 24 September 2015, in order to better understand the context of the ISA 260 report, due for consideration at that meeting.

AGREED:

- a) That the report be noted;
- b) That progress reports from KPMG be added to the

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Committee's Work Programme on 3 December 2015 and 3 March 2016; and

- c) That a copy of the Audit Plan considered by the Committee at its meeting on 10 March 2015 be sent to all members of the Governance and Audit Committee, in order to better understand the context of the ISA 260 report being considered on 24 September 2015.

(The meeting ended at 7.53 p.m.)

(End of minutes)